



PROSPECTUS

Date of Prospectus

3 November 2014

Issuer

Pacific Smiles Group Limited
ACN 103 087 449 and
Pacific Smiles SaleCo Limited
ACN 602 506 650

Lead Manager and Underwriter

CommonwealthBank 

Co-Manager

BELL POTTER

Important notices

Offer

The Offer contained in this Prospectus is an invitation for you to apply for fully paid ordinary shares (Shares) in Pacific Smiles Group Limited (ACN 103 087 449) (Pacific Smiles or the Company). This Prospectus is issued by the Company and Pacific Smiles SaleCo Limited ACN 602 506 650 (SaleCo).

Lodgement and Listing

This Prospectus is dated 3 November 2014 and was lodged with ASIC on that date.

Pacific Smiles will apply to the ASX within seven days after the Prospectus Date for admission of the Company to the Official List and quotation of its Shares on the ASX (Listing) with the ASX Code "PSQ". Neither ASIC nor the ASX takes any responsibility for the content of this Prospectus or for the merits of the investment to which this Prospectus relates.

Expiry Date

No Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date, being 13 months after 3 November 2014.

Note to Applicants

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs (including financial and tax issues) of any prospective investor.

It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. In particular, in considering the prospects of the Company, you should consider the risk factors that could affect the performance of the Company. You should carefully consider these risks in light of your investment objectives, financial situation and particular needs (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest in the Shares. Some of the key risk factors that should be considered by prospective investors are set out in Sections 1.5 and 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

You should also consider the best estimate assumptions underlying the Forecast Financial Information set out in Sections 4 and 8 and the risk factors that could affect the Company's business, financial condition and results of operations.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital by the Company or the payment of a return on the Shares.

Exposure Period

The Corporations Act prohibits the Company from processing applications to subscribe for, or acquire, Shares under this Prospectus (Applications) in the seven day period after lodgement of this Prospectus with ASIC

(Exposure Period). This Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

During the Exposure Period, this Prospectus will be made available to Australian residents, without the Application Forms, at the Company's website, www.pacificsmilesgroup.com.au.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in the Prospectus are illustrative only and may not be drawn to scale.

Disclaimer and forward looking statements

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company's or SaleCo's directors or any other person in connection with the Offer. You should rely only on information in this Prospectus. Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

This Prospectus contains forward looking statements which are statements that may be identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward looking statements. These statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 4.9.1).

The Company has no intention to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, other than to the extent required by law.

Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors,

many of which are beyond the control of the Company, SaleCo, the directors of the Company and SaleCo, and Management. Forward looking statements should therefore be read in conjunction with, and are qualified by reference to, Sections 4 and 8, and other information in this Prospectus. The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward looking statements.

This Prospectus, including the industry overview in Section 2, uses market data, industry forecasts and projections. The Company has obtained significant portions of this information from market research prepared by third parties. There is no assurance that any of the forecasts contained in the reports, surveys and research of such third parties that are referred to in this Prospectus will be achieved. The Company has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including the risk factors in Section 5. As set out in Section 7.13, it is expected that the Shares will be quoted on the ASX initially on a deferred settlement basis. The Company, SaleCo, the Share Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement.

Statements of past performance

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial information presentation

All references to FY2012, FY2013, FY2014 and FY2015 appearing in this Prospectus are to the financial years ended or ending 30 June 2012, 30 June 2013, 30 June 2014 and 30 June 2015 respectively, unless otherwise indicated.

All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and sums and components in tables, figures and diagrams contained in this Prospectus are due to rounding.

Section 4 sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is set out in Section 4.

Historical Financial Information, including the Pro Forma Financial Information, has been prepared and presented in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards (as adopted by the Australian Accounting Standards Board (AASB)). The Historical Financial Information also complies with the Australian equivalents to the recognition and measurement principles of



the International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

This Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation for the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited. The Historical Financial Information including the Pro Forma Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and they are qualified by reference to, the information contained in Sections 4 and 8.

Obtaining a copy of this Prospectus

A hard copy of the Prospectus is available free of charge during the Offer Period to any person in Australia by calling the Pacific Smiles Group Information Line on 1300 657 159 (within Australia) or +61 1 300 657 159 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.

This Prospectus is also available in electronic form to Australian residents on the Company's website, www.pacificsmilesgroup.com.au. The Offer constituted by this Prospectus in electronic form is available only to Australian residents accessing the website within Australia. Hard copy and electronic versions of this Prospectus are not available to persons in other jurisdictions, including the United States.

Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. Persons who have received a copy of this Prospectus in its electronic form may, during the Offer Period, obtain a hard copy of the Prospectus by calling the Pacific Smiles Group Information Line on 1300 657 159 (within Australia) or +61 1 300 657 159 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.

Applications for Shares may only be made on the Application Form attached to, or accompanying, this Prospectus in its hard copy form, or in its soft copy form which must be downloaded in its entirety from www.pacificsmilesgroup.com.au, together with an electronic copy of this Prospectus. By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, this Prospectus in its paper copy form or the complete and unaltered electronic version of this Prospectus. Refer to Section 7.12 for further information.

Cooling off rights do not apply to an investment in Shares pursuant to the Offer. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

No offering where illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of the Shares in any jurisdiction outside Australia. The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, securities in the United States. This Prospectus has been prepared for publication in Australia. The Shares to be offered under the Offer have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction in the United States, and may not be offered or sold in the United States, or to, or for the account or benefit of a U.S. Person. The Offer is not being extended to any investor outside Australia.

See Section 7.12 for more detail on selling restrictions that apply to the Offer.

Privacy

By completing an Application Form, you are providing personal information to the Company and SaleCo through the Company's service provider, Link Market Services Limited (Share Registry), which is contracted by the Company to manage Applications. The Company and SaleCo, and the Share Registry on their behalf, may collect, hold and use that personal information to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. If you do not provide the information requested in the Application Form, the Company, SaleCo and the Share Registry may not be able to process or accept your Application.

Once you become a Shareholder, the Corporations Act and Australian taxation legislation require information about you (including your name, address and details of the Shares you hold) to be included on the Share register. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public. The information must continue to be included on the Share register if you cease to be a Shareholder.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the *Privacy Act 1988* (Cth):

- the Share Registry for ongoing administration of the Share register;

- the Lead Manager in order to assess your Application;
- printers and other companies for the purposes of preparation and distribution of documents and for handling mail;
- market research companies for the purpose of analysing the Company's shareholder base; and
- legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

The Company's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

You may request access to your personal information held by or on behalf of the Company and SaleCo. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Share Registry or the Company.

The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Company or the Share Registry if any of the details you have provided change.

Financial Services Guide

The provider of the Investigating Accountant's Report on the Financial Information is required to provide Australian retail clients with a Financial Services Guide in relation to that review under the Corporations Act. The Investigating Accountant's Report and accompanying Financial Services Guide is provided in Section 8.

Company website

Any references to documents included on the Company's website are provided for convenience only, and none of the documents or other information on the Company's website, or any other website referred to in the sources contained in this Prospectus, is incorporated in this Prospectus by reference.

Defined terms and abbreviations

Defined terms and abbreviations used in this Prospectus, unless specified otherwise, have the meaning given in the Glossary in Section 11. Unless otherwise stated or implied, references to times in this Prospectus are to AEST.

Unless otherwise stated or implied, references to dates or years are calendar year references.

Questions

If you have any questions in relation to the Offer, contact the Pacific Smiles Group Information Line on 1300 657 159 (within Australia) or +61 1 300 657 159 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.

This document is important and should be read in its entirety.

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Important information

Key offer dates

Prospectus lodgement date	Monday, 3 November 2014
Broker Firm Offer and Priority Offer period opens (Opening Date)	Tuesday, 11 November 2014
Broker Firm Offer and Priority Offer period closes (Closing Date)	Monday, 17 November 2014
Settlement	Thursday, 20 November 2014
Allotment	Friday, 21 November 2014
Commencement of trading on a deferred settlement basis	Friday, 21 November 2014
Dispatch of holding statements	Monday, 24 November 2014
Commencement of trading on the ASX on a normal settlement basis	Tuesday 25 November 2014

Note: This timetable is indicative only. Unless otherwise indicated, all times given are AEST. The Company, in consultation with the Lead Manager, reserves the right to vary any and all of the above dates and times without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, or to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or Applicants). If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.

Key offer statistics

Offer Price ¹	\$1.30
Total number of New Shares issued under the Offer	15.6 million
Total number of Existing Shares offered under the Offer	16.8 million
Total number of Shares to be offered under the Offer	32.4 million
Total number of Shares on issue at Completion of the Offer	152.0 million
Market capitalisation at the Offer Price	A\$197.6m
Enterprise value at the Offer Price ²	A\$186.3m
Pro Forma Net Cash (as at 30 June 2014)	A\$11.3m
Enterprise value to pro forma forecast FY2015 EBITDA multiple ³	10.7x
Offer Price to pro forma forecast FY2015 NPAT per Share multiple ⁴	22.1x
Estimated forecast FY2015 dividend yield	3.8%
Estimated forecast FY2015 dividend yield, annualised	6.4%

¹ Shares may trade below the Offer Price upon Listing.

² Enterprise value calculated as the market capitalisation at the Offer Price minus pro forma net cash as at 30 June 2014 as set out in Section 4.5.

³ This ratio is commonly referred to as an EV/EBITDA ratio. The EV/EBITDA ratio is calculated as the enterprise value divided by pro forma forecast EBITDA (refer to Section 4.3 for more details).

⁴ This ratio is commonly referred to as a price earnings or PE ratio. The PE ratio is calculated as the Offer Price divided by pro forma forecast NPAT divided by total Shares on issue immediately after Completion of the Offer (refer to Sections 4.3 and 7 for more details).

How to invest

Applications for Shares can only be made by completing and lodging the Application Form attached to or accompanying this Prospectus.

Instructions on how to apply for Shares are set out in Sections 7.3, 7.4 and 7.5 of this Prospectus and on the back of the Application Form.



Chairman's letter

Dear Investor,

On behalf of the Directors of Pacific Smiles, it is my pleasure to invite you to read this Prospectus and to become a shareholder of Pacific Smiles.

Pacific Smiles is a leading Australian branded dental group, currently operating 42 dental centres containing more than 200 active dental chairs. Pacific Smiles provides dentists with fully serviced and equipped facilities including support staff, materials, marketing and administrative services. Pacific Smiles generates its revenue through service fees charged to the dentists by whom it is engaged.

More than 250 dentists, assisted by more than 700 support staff, attend to approximately 400,000 patient appointments at Pacific Smiles centres each year.

The Company's growth model is focused on organic new centre rollout rather than acquisitions. This allows Pacific Smiles to steadily and strategically expand its geographic footprint and provide the benefits of the Pacific Smiles service model to an increasing number of Australia's dentists and patients.

Pacific Smiles' mission is to combine professional ethics and patient care with efficient and effective operating systems and structures to deliver a superior level of service to dentists and patients. The Pacific Smiles service model distinguishes the provision of dentistry from the supporting infrastructure and services, enabling dentists to maximise time treating patients.

The Australian dental sector is an approximately \$8.7 billion market. The industry is characterised by small independent clinics and few large corporate competitors. Market demand for dental services is underpinned by positive long-term demographic, health and social factors. With an aim to open between six and ten additional dental centres each year, the Company believes it has a substantial growth opportunity.

Pacific Smiles' senior management team, led by Managing Director and Chief Executive Officer John Gibbs, has delivered an eleven year track record of strong financial performance and growth. The Company has achieved six year compound annual growth in Patient Fees and EBITDA of 16% and 24% respectively to FY2014. Pacific Smiles benefits from the continued active involvement of its Founders, Dr Alex Abrahams and Dr Alison Hughes, whose philosophy of delivering excellent "patient, dentist, and staff care" remains core to the Company's direction.

An offer of approximately 32.4 million Shares is being made under this Prospectus. New Shareholders will hold approximately 21.3% of the Shares in the Company upon Completion of the Offer. The Senior Management team and Board members will retain an approximate 62% interest in the Company from Completion of the Offer, including the Founders who together will retain an approximate 36% interest in the Company. Pacific Smiles is expected to have a market capitalisation of approximately \$197.6 million upon Listing.

Non-Executive Director Shareholders and Management Shareholders (as well as TDM Asset Management, a major Shareholder in the Company) will be subject to escrow restrictions which will prevent the sale of their Shares until three business days after the release of Pacific Smiles' full year results for the period ending 30 June 2015.

Proceeds from the Offer will be used to further strengthen Pacific Smiles' balance sheet by repaying most of its outstanding bank debt and creating a net cash surplus which will contribute towards the funding of the Company's rollout strategy in the immediate term, in addition to paying a special dividend to Existing Shareholders and the costs of the Offer. Proceeds will also be paid to Selling Shareholders who sell Existing Shares under the Offer.

This Prospectus contains detailed information about the Offer, the industry in which Pacific Smiles operates, Pacific Smiles' business and its historical and forecast financial performance. Pacific Smiles is subject to a range of risks both inside and outside of its control, including changes to key insurer relationships, failure to meet growth objectives or to execute the Company's growth strategy (including a failure to meet the Company's target number of new centre openings in any year), reputational damage, and any movements in demand and supply factors. The risks of investing in Pacific Smiles are fully detailed in Section 5. I encourage you to read Section 5 and the whole Prospectus carefully and in its entirety before making your investment decision.

On behalf of my fellow Directors, I look forward to welcoming you on the Pacific Smiles journey.

Yours sincerely,

A handwritten signature in black ink, appearing to read "R. Cameron".

Robert Cameron AO



one
Investment
overview

1 Investment overview

1.1 Introduction

Topic	Summary	For more information
What is Pacific Smiles Group Limited?	<p>Founded in 2003, Pacific Smiles is a leading Australian branded dental group, currently operating 42 dental centres containing more than 200 active dental chairs.</p> <p>Pacific Smiles operates its dental centres under two brands: Pacific Smiles Dental Centres and nib Dental Care Centres (which is operated under a long term Australia-wide branding and licensing agreement with nib).</p> <p>Dentists contract Pacific Smiles under Service and Facility Agreements. Pacific Smiles provides dentists with fully serviced and equipped dental facilities with supporting staff, marketing and administrative services. Dentists provide a range of general, family and cosmetic dental treatments and a range of specialist services to patients at Pacific Smiles dental centres.</p> <p>With 250 dentists and over 700 support staff, Pacific Smiles centres service approximately 400,000 patient appointments per year.</p> <p>The Company has a strong presence in regional and metropolitan New South Wales and Victoria and growing operations in Queensland and the Australian Capital Territory.</p> <p>For the twelve months ended 30 June 2014, Pacific Smiles generated statutory revenue of \$59.1 million and statutory EBITDA of \$15.1 million.</p> <p>Patient Fees generated by dentists at Pacific Smiles dental centres were \$95.9 million for the same year.</p>	Refer to Section 3 for more details
What is the Offer?	<p>The Offer is an initial public offering of approximately 32.4 million Shares, comprising 15.6 million New Shares to be issued by the Company and approximately 16.8 million Existing Shares to be transferred by Selling Shareholders through SaleCo. The Offer is expected to raise \$42.1 million.</p>	Refer to Section 7 for more details
Why is the Offer being conducted?	<p>The purpose of the Offer is to provide Pacific Smiles with:</p> <ul style="list-style-type: none">• access to capital markets, which it expects will provide added financial flexibility to pursue its growth strategies and initiatives; and• a liquid market for its Shares and an opportunity for others to invest in the Company. <p>The Offer also provides the opportunity for Selling Shareholders to realise their investment in Pacific Smiles.</p>	<p>Refer to Section 7 for more details</p> <p>Refer to Section 3.15 for further details on Pacific Smiles' growth strategies and initiatives</p>

1.2 Key features of the Australian dental industry

Topic	Summary	For more information
What industry does Pacific Smiles operate in?	<p>Pacific Smiles operates in the Australian dental industry which involves preventative care, diagnosis and treatment for patients with a broad range of dental care requirements.</p> <p>The Australian dental industry is comprised of approximately 20,000 registered dental practitioners and total expenditure on dental services in Australia is approximately \$8.7 billion per annum.</p> <p>The industry is highly fragmented, with the majority of dental practices operated by one or a small number of dentists. As a result, competition tends to be localised. There are a small number of large corporate players in the industry, which have grown through acquisitions of existing practices.</p> <p>The Australian dental industry is predominantly privately funded, with 87% of dental expenditure attributable to either patient out-of-pocket expenditure or private health insurer benefits. The industry has a low level of reliance on government funding compared to other segments of the healthcare industry.</p> <p>Demand for dental services is primarily driven by factors such as disposable household income, private health insurance participation rates, and population/health demographics, as well as the accessibility and affordability of treatment.</p> <p>Key trends within the Australian dental workforce include an increasing proportion of female dentists practising and an increase in the overall supply of dentists driven by the opening of dentistry courses at four new universities since 2005 and a higher number of practitioners from overseas moving to Australia to practise.</p>	Refer to Section 2 for more details

1.3 Key features of Pacific Smiles' business model

Topic	Summary	For more information
How does Pacific Smiles generate revenue?	<p>Pacific Smiles primarily generates revenue by invoicing dentists a service fee for the supply of services and facilities at its dental centres. The service fee is based on a percentage of monthly patient receipts, and is structured to incentivise productivity.</p> <p>The Pacific Smiles service model is designed to allow dentists to devote their working days to the practice of clinical dentistry, enabling them to maximise time with patients without the distraction of owning and operating a dental centre.</p>	Refer to Sections 3 and 4 for more details
What are Pacific Smiles' key costs?	<p>Pacific Smiles' major operating expense is employee costs, which comprised approximately 57% of total statutory operating costs in FY2014. Occupancy and consumable supplies are the next largest expenses, comprising approximately 14% and 13% of total statutory operating costs in FY2014 respectively</p>	Refer to Sections 3 and 4 for more details

1 Investment overview (continued)

Topic	Summary	For more information
What services does Pacific Smiles offer to dentists at its centres?	<p>Pacific Smiles provides dentists with the resources necessary to offer dental services to patients, including:</p> <ul style="list-style-type: none"> • strategically located dental centres with high exposure, easy patient access and high quality design and fit-out; • fully equipped and maintained surgeries, sterilisation areas, reception and waiting rooms; • procurement and stocking of consumable supplies; • experienced centre and regional management, front-office reception services and trained clinical support staff; • electronic patient management systems for appointment bookings, recording dental records, treatment planning and invoicing; • co-ordination and negotiation of arrangements with private health insurers on behalf of dentists; • HICAPS (health fund on the spot claiming); • head office support including compliance, human resources, administration; and • IT systems and marketing services. 	<p>Refer to Section 3.4 for more details</p>
What are the benefits of Pacific Smiles' model to dentists?	<p>The Pacific Smiles business model benefits dentists through:</p> <ul style="list-style-type: none"> • enhanced patient flows driven by brand marketing and relationships with private health insurers facilitated by Pacific Smiles; • flexibility to work desired hours with income and service fees directly linked to output; • ability to operate a practice with no up-front investment in premises, equipment or inventory; • support of professional management, administration and full suite of head office functions; and • dentists have the ability to terminate their Service and Facility Agreement upon compliance with a notice period. 	<p>Refer to Section 3.5 for more details</p>
What are the benefits of Pacific Smiles' model to patients?	<p>The Pacific Smiles model benefits patients through:</p> <ul style="list-style-type: none"> • ability to access dental care six or seven days a week, including extended opening hours and the availability of urgent care same-day appointments; • consistent quality patient experience underpinned by the Company's in-house training framework for support staff; • convenient, easy to access locations; • a focus on fee transparency, with Pacific Smiles encouraging written quotation of treatment plan fees by dentists; • the ability to access a broad range of general and specialised services within a geographical cluster of Pacific Smiles' centres; • accessibility to the benefits of preferred provider arrangements with major health funds, such as capped fees and 'no gap' services; and • assurance that Pacific Smiles offers a systematic approach to clinical governance across its dental centre network. 	<p>Refer to Section 3.9 for more details</p>
What relationships does Pacific Smiles have with private health insurers?	<p>Pacific Smiles has developed important strategic relationships with private health insurers. Dentists practising from Pacific Smiles centres typically have Preferred Provider Agreements in place with insurers representing over 75% of the industry by market share.</p> <p>Pacific Smiles has unique collaborative long term agreements in place with nib and Medibank (including ahm) to promote and provide dental services benefits to their members (see section 9.6 for further information on insurer arrangements). Together these insurers account for 37% of the national private health insurer market.</p>	<p>Refer to Section 3.11 for more details</p>

Topic	Summary	For more information
<p>What is Pacific Smiles' growth strategy?</p>	<p>Pacific Smiles' growth strategy is focused on organic growth in both existing and potential new regions and geographic clusters. With a current estimated market share of less than 2% in a large and fragmented industry, the Company believes there is significant opportunity to expand.</p> <p>The key elements of Pacific Smiles' growth strategy include:</p> <p>1. Growth from new centre rollout: Pacific Smiles intends to continue to roll out an identified pipeline of new centres based on demographic, location and competition parameters. Pacific Smiles is targeting six to ten new centre openings each year,¹ and has identified more than 200² potential future trade areas. The Company will assess potential trade areas by applying its new centre assessment process and will determine on a case by case basis whether a particular trade area is suitable for a new centre opening.</p> <p>2. Growth from existing centres: Pacific Smiles intends to drive patient fees growth at existing centres by increasing the number of patient attendances. Growth in patient attendances can be aided by marketing programs, further collaboration with health funds, and an increased range of services and enhanced patient loyalty.</p> <p>Existing centres include the capacity for significant additional dental chairs. The dental chairs can be added to existing centres to meet demand growth with moderate incremental capital investment for the addition of such dental chairs. In addition, Pacific Smiles considers that there is potential for earnings growth at dental centres which have been recently acquired by the Company from Medibank (see section 3.15.3 for further detail).</p> <p>Pacific Smiles may consider the acquisition of established centres where there is a strategic and financially compelling rationale, and where the acquired business is suitable for alignment to Pacific Smiles' consistent branding and operating model.</p>	<p>Refer to Section 3.15 for more details</p>
<p>How does Pacific Smiles expect to fund its activities?</p>	<p>Pacific Smiles expects to fund its ongoing activities through cash flows from operations. In addition, Pacific Smiles has available capacity under its banking facilities (see section 4.5.2 for further detail).</p> <p>Including the impact of the Offer, Pacific Smiles' 30 June 2014 pro forma net cash position is \$11.3 million.</p>	<p>Refer to Section 4 for more details</p>
<p>What is Pacific Smiles' dividend policy?</p>	<p>The payment of a dividend by the Company is at the discretion of the Directors and will be a function of a number of factors including the operating results, cash flows, the Company's financial condition, and any other factors the Directors may consider relevant.</p> <p>The Company's dividend policy is to target a dividend payout ratio in the range of 70% to 100% of NPAT; however, the level of dividend payout ratio may vary between periods depending on the factors noted above.</p> <p>It is the current intention of the Board to pay interim dividends in respect of half years ending 31 December and final dividends in respect of full years ending 30 June each year. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October following the relevant financial period. It is intended that future dividends will be franked to the maximum extent possible.</p>	<p>Refer to Section 4.12 for more details</p>

¹ These figures should not be relied upon as a forecast or indication of the Company's future growth or financial performance. The Company will assess new trade areas on a case by case basis by applying its new centre assessment process to determine whether a particular trade area is suitable for a new centre opening. The number of new centre openings will differ on a year-by-year basis. There is no guarantee that the number of actual new centre openings will fall within this targeted range each year, or the time period for which new centres will continue to be added to Pacific Smiles' portfolio at this target rate. There is a risk that these growth objectives of the Company are not met. See Section 5.2.2 for further detail.

² Geotech Information Services, Trade Area Network Planning Report (2013), p. 17.

1 Investment overview (continued)

Topic	Summary	For more information
What will be the first dividend and when will it be paid?	It is the Board's intention to pay an interim dividend and a final dividend for the financial year ending 30 June 2015. Indicatively and subject to business performance, ordinary dividends for the 30 June 2015 financial year will total 5.0 cents per share, which, based on FY2015 pro forma forecast NPAT, represents a dividend payout ratio of 85%. An interim dividend of approximately 1.67 cents per share will be paid in April 2015. Dividends are expected to be fully franked.	Refer to Section 4.12 for more details

What is Pacific Smiles' historical and forecast financial performance?	Pro forma historical			Pro forma forecast	Refer to Section 4 for more details
	\$ million	FY2012	FY2013	FY2014	
	Revenue	55.6	60.1	59.1	76.1
	EBITDA	9.7	12.4	14.5	17.4
	EBIT	6.4	8.8	10.8	12.9
	NPAT	4.2	5.8	7.4	8.9

	Statutory historical			Statutory forecast	
	\$ million	FY2012	FY2013	FY2014	FY2015
	Revenue	55.6	60.1	59.1	76.1
	NPAT	4.6	6.1	7.8	7.5

1.4 Key strengths and investment highlights

Topic	Summary	For more information
Large market opportunity	<p>The Australian dental sector is an approximately \$8.7 billion market, of which Pacific Smiles currently has a market share of less than 2%.</p> <p>Pacific Smiles considers that the large and fragmented nature of the dental industry presents significant growth opportunities for an established operator such as Pacific Smiles, with a proven track record of new centre rollout and highly selective strategic acquisitions.</p>	Refer to Section 2 for more details
Focus on organic growth	Pacific Smiles has a successful track record of organic centre rollout, with a focus on locating sites exhibiting favourable demographic and competitive characteristics. This model seeks to achieve consistency and efficiency in lay-outs, operations and branding, as well as alignment of dentists and staff to the strong service culture of the Company. Pacific Smiles has commissioned independent research to assist in identifying a pipeline of new dental centre opportunities within existing regions and new geographic zones, and believes significant opportunities exist to grow its network of dental centres through the roll-out of new centre openings utilising its new site assessment process.	Refer to Section 3 for more details
Significant potential for growth from existing centres	<p>Revenue and earnings from existing dental centres are expected to grow as each centre continues to mature and develop within its local market.</p> <p>Existing Pacific Smiles dental centres have significant capacity for additional dental chairs which can be added to meet future growth in patient demand.</p> <p>Pacific Smiles achieved average Same Centre Patient Fees Growth of 9.7% per annum in the six years to 30 June 2014, reflecting the multi-year ramp up of activity within existing centres.</p>	Refer to Section 3 for more details

Topic	Summary	For more information
Strong industry fundamentals with defensive underlying characteristics	<p>The Australian dental industry is supported by strong long term macroeconomic drivers and industry trends:</p> <ul style="list-style-type: none"> • many dental treatments are viewed as non-discretionary; • an ageing population and increasing retention of adult teeth; • increasing tooth decay rates in children; • growth in private health insurance coverage of the Australian population; • growth in dental health awareness; and • growth in demand for cosmetic dental services. 	Refer to Section 2 for more details
Scalable business model	<p>Pacific Smiles' business model has enabled it to continue to grow its market share through focusing on the delivery of:</p> <ul style="list-style-type: none"> • a high quality of service to dentists and patients; • consistent branding, marketing and operations; • template contracts with dentists; • superior site selection, dentist engagement, procurement, and execution in relation to new centre openings; and • operational efficiencies by leveraging centralised functions across an expanding network of dental centres with lower marginal costs. 	Refer to Section 3 for more details
High level of patient satisfaction and strength of brands	<p>Pacific Smiles has an embedded service culture, facilitated through its in-house training framework for support staff which is designed to deliver a consistent high quality patient experience across all dental centres operated by Pacific Smiles. Pacific Smiles regularly conducts post-visit surveys and has consistently achieved a strong Net Promoter Score of greater than 60,³ suggesting excellent customer satisfaction and a high likelihood of referral of Pacific Smiles to other patients.</p>	Refer to Section 3 for more details
Strong financial performance	<p>Pacific Smiles has a strong track record of financial performance including:</p> <ul style="list-style-type: none"> • Patient Fees, revenue and EBITDA compound annual growth of 16%, 10% and 24% respectively for the six years to 30 June 2014. Over the same period operating cash flow has grown at a compound annual growth rate of 31%; • Return On Invested Capital of more than 50% for FY2014; • strong cash conversion, with operating free cash flow to EBITDA being 113% for the 6 years to 30 June 2014;⁴ • a ratio of operating cash flow to capital expenditure on property, plant and equipment of approximately 2 times for the six years to 30 June 2014; • growing dividends each year since Pacific Smiles' foundation in 2003; and • demonstrated resilience in earnings throughout various changes in government funding and market conditions, supported by Pacific Smiles' diversification of locations and services and by its scale. 	Refer to Section 4 for more details
Strong leadership team and track record	<p>Pacific Smiles is led by a highly skilled and experienced management team which has been together for more than seven years. The Founders remain active in the business and, along with other members of the Senior Management team, are significant shareholders. The team has been instrumental in driving growth of the Company and intend to remain active in the business.</p> <p>Since its founding in 2003, Pacific Smiles has cultivated and maintained a strong focus on corporate governance illustrated by the appointment of a Board including independent non-executive directors in 2003.</p>	Refer to Section 6.2 for more details

³ Net Promoter Score (NPS) is a customer loyalty metric based on customers' likelihood of referral. Pacific Smiles is required under the terms of its agreements with nib and Medibank (refer to Section 9.6 for further detail) to periodically calculate its Net Promoter Score, which is determined by applying the standard NPS principles and framework (Satmetrix, <http://www.netpromoter.com/why-net-promoter/know/>).

⁴ Based on statutory audited EBITDA (pre impairment of non-current assets) and operating cash flow (excluding net financing costs and tax paid).

1 Investment overview (continued)

1.5 Key risks

Topic	Summary	For more information
<p>Deterioration or loss of key insurer relationships</p>	<p>Pacific Smiles obtains substantial benefits from the preferred provider arrangements between private health insurers and the dentists who practise from Pacific Smiles dental centres. The preferred provider arrangements typically involve customers of particular private health insurers being able to access dental treatment with participating dentists on differential terms to those available at non-participating dentists.</p> <p>Pacific Smiles has also developed strategic relationships with two of Australia's largest private health insurers, nib and Medibank (including ahm). The long term contractual arrangements underpinning these relationships provide for preferred provider status as well as marketing collaboration (see section 9.6 for further information).</p> <p>These relationships and contractual arrangements contribute significant patient volume at Pacific Smiles and nib branded dental centres. There is a risk that termination or other adverse changes to these arrangements or relationships may have a material adverse impact on patient flow, patient fees and cause a material reduction in the earnings of Pacific Smiles.</p>	<p>Refer to Section 5.2.1 for more details</p>
<p>Failure to achieve growth objectives or meet forecasted returns</p>	<p>Pacific Smiles' future financial performance is dependent on its ability to meet its growth objectives and to develop and execute appropriate strategies and initiatives in relation to those growth objectives, including the growth strategies outlined in Section 3.15 in relation to rollout of new dental centres. If key strategies are ineffective or are achieved later than expected, Pacific Smiles may not meet its growth objectives and its forecasted returns and future financial performance could be adversely affected. With a growing portfolio, there is a risk that service levels and the quality of Pacific Smiles' brands and reputation could be impacted if growth is not appropriately managed.</p> <p>There is a risk that dental centres acquired by Pacific Smiles suffer patient or dentist attrition, which may impact Pacific Smiles through reduced earnings or management distraction. There is a risk that new or acquired centres do not meet forecast.</p> <p>There is also a risk that Pacific Smiles may not be able to appropriately implement its rollout strategy, due to inadequate availability of dentists or suitable geographic locations.</p>	<p>Refer to Section 5.2.2 for more details</p> <p>See Section 3.15 for further details on Pacific Smiles' growth strategies and Section 4 in relation to forecasted returns for FY2015</p>
<p>Reduction in private health insurance coverage or membership rates</p>	<p>Any material reduction in private health insurance coverage or membership rates could significantly impact total expenditure on dental care and the earnings of the dental industry as a whole. This could impact Pacific Smiles' revenues and future financial performance.</p> <p>A worsening economic climate, changes in rebate and tax incentives, or increases in private health insurance premiums may cause reductions in health insurance membership levels, which has the potential to reduce demand for Pacific Smiles' services, put downward pressure on patient fees, and adversely impact its revenues and financial performance.</p>	<p>Refer to Section 5.2.3 for more details</p>
<p>Exposure to reputational or other damage caused to the Company or its brands</p>	<p>The reputation of Pacific Smiles and the value of its brands could be adversely impacted by a number of factors, including actions taken by employees or dentists, such as failure to provide quality services or clinical incidents, or third party actions such as adverse media coverage.</p> <p>Clinical incidents can cause reputational risks, emergence of legal proceedings and potential liability for Pacific Smiles.</p>	<p>Refer to Section 5.2.4 for more details</p>

Topic	Summary	For more information
Termination of Service and Facility Agreements by dentists	<p>Under the standard terms of the Service and Facility Agreements between Pacific Smiles and dentists, dentists may terminate without cause, subject to the provision of one month's notice within the first year of the term and on three months' notice after that time.</p> <p>If a significant number of dentists who contract Pacific Smiles were to terminate their Service and Facility Agreements without other practitioners engaging Pacific Smiles in their place, this could materially adversely impact on Pacific Smiles' services fee revenues, its ability to implement its growth strategies, and its future financial performance. This could be caused by an industry-wide event or events specific to Pacific Smiles - for example, reputational damage or negative public perception of Pacific Smiles' brands.</p>	<p>Refer to Section 5.2.5 for more details</p> <p>See Section 3.6 for further details on Service and Facility Agreements</p>
Changes to Government regulation/policies or declines in Government funding	<p>Government or regulatory policies relevant to Pacific Smiles' business may change, which could have a general impact on the economic environment, general market conditions, the dental health industry, or specifically impact Pacific Smiles' current business model, its compliance costs or capital expenditure requirements. This may adversely impact the operations or future financial performance of Pacific Smiles.</p> <p>If the Government changes the funding it provides for dental services, patients may face higher out-of-pocket expenses and be less likely to obtain dental treatment as regularly or to the same extent. This may cause the dental industry as a whole and Pacific Smiles to experience reduced demand for its services and reduced revenues and profitability.</p>	<p>Refer to Section 5.2.6 for more details</p>
Exposure to reduced demand in the Australian dental industry due to general economic conditions	<p>A downturn in general economic conditions in Australia could adversely impact the demand for dental services given their degree of economic sensitivity, and impact earnings derived by Pacific Smiles from services fees, which are calculated with reference to patient receipts.</p>	<p>Refer to Section 5.2.7 for more details</p>
Loss of key management personnel	<p>Pacific Smiles' future performance depends to a significant degree on its key personnel, and its ability to attract and retain experienced and high performing personnel. The current Senior Management team has extensive experience in, and knowledge of, Pacific Smiles' business and the dental industry.</p> <p>The loss of key management personnel, or any delay in their replacement, may therefore adversely affect Pacific Smiles' ability to develop and implement its business and growth strategies or increase the cost of obtaining suitable personnel.</p>	<p>Refer to Section 5.2.8 for more details</p>
Fee pressures	<p>An increase in the number of qualified dentists relative to population in Australia could lead to increased price-based competition amongst dentists. Such an increase in price-based competition could lead to fee pressures on the dental services industry over time.</p> <p>There is also an emerging trend towards patients seeking lower-cost cosmetic and other medical and dental procedures offshore, which may impact the demand for dental services in Australia, increase fee pressures and adversely impact industry revenues as a whole.</p>	<p>Refer to Section 5.2.9 for more details</p>

1 Investment overview (continued)

1.6 Directors and key management

Topic	Summary	For more information
Who are the Directors of Pacific Smiles?	<ul style="list-style-type: none"> Robert Cameron AO, Independent Non-Executive Chairman John Gibbs, Managing Director and Chief Executive Officer Dr Alex Abrahams, Founder and Executive Director – Strategy and Business Development Simon Rutherford, Independent Non-Executive Director Ben Gisz, Non-Executive Director Grant Bourke, Independent Non-Executive Director 	Refer to Section 6.1 for more details
Who are the key senior management of Pacific Smiles?	<ul style="list-style-type: none"> John Gibbs, Managing Director and Chief Executive Officer Dr Alex Abrahams, Founder and Executive Director – Strategy and Business Development Dr Alison Hughes, Founder and Head of Practitioner Services Jane Coleman, Chief Financial Officer and Company Secretary Paul Robertson, Chief Operating Officer Jennifer Duggan, Human Resources Manager 	Refer to Section 6.2 for more details

1.7 Significant interests of key people and related party transactions

Topic	Summary						For more information
Who are the Existing Shareholders and what will be their interest in Pacific Smiles post Completion of the Offer?		Shares at Prospectus date	% pre-IPO	Shares expected to be issued / acquired / (sold) ⁵	Expected Shares post-IPO ⁶	Expected % post-IPO	Refer to Section 7.1.6 for more details
	Dr Alex Abrahams (Co-Founder and Executive Director)	45,009,501	33.0%	(5,401,140)	39,608,361	26.1%	
	TDM Asset Management ⁷	25,671,291	18.8%	(1,283,565)	24,387,726	16.0%	
	Alison Hughes (Co-Founder and Management Shareholder)	17,622,435	12.9%	(1,762,244)	15,860,192	10.4%	
	John Gibbs (Managing Director and Chief Executive Officer)	8,113,860	5.9%	(1,613,860)	6,500,000	4.3%	
	Non-Executive Director Shareholders ⁸	5,351,325	3.9%	1,270,896 ⁹	6,622,221	4.6%	
	Other Management Shareholders (excluding the Co-Founders and John Gibbs)	2,325,000	1.7%	(587,500)	1,737,500	1.1%	
	Other Existing Shareholders	32,299,983	23.7%	(5,873,803)	26,426,180	17.4%	
	New Shares to be issued under the Offer or at Completion	–	–	15,600,000	15,600,000	10.3%	
	New Shareholders pursuant to the Offer	–	–	16,789,677	16,789,677	11.0%	
Total	136,393,395	100%	–	151,993,395	100%		

⁵ Selling Shareholders have provided commitments to sell-down the number of Shares specified in this column of the table. It is possible, however, that the total number of Shares sold into the Offer by any Selling Shareholder will ultimately be less than the stated amount if a decision is taken by the Company and Lead Manager to scale-back that Selling Shareholder's sell-down. Such scale back will not affect the overall aggregate sell-down of all Selling Shareholders.

⁶ This excludes any Shares acquired by Existing Shareholders under the Offer.

⁷ TDM Asset Management and its clients hold in aggregate 25,671,291 Shares at Prospectus date, and are expected to hold 24,387,726 Shares upon Completion of the Offer. TDM Asset Management has an indirect interest in the Shares held by its clients by virtue of the control it exercises in relation to the Shares under its investment management arrangements with its clients.

⁸ This does not include the indirect interest held by Ben Gisz as a director and beneficial owner of TDM Asset Management.

⁹ Grant Bourke has provided a firm commitment to subscribe for 1,538,462 Shares under the Offer. These Shares will be acquired under the Priority Offer.

Topic	Summary	For more information																																			
What significant benefits are payable to Directors and other persons connected with the Company or the Offer and what significant interests do they hold?	<table border="1"> <thead> <tr> <th style="text-align: left;">Directors</th> <th style="text-align: center;">Shares at Prospectus date</th> <th style="text-align: center;">Shares held upon Completion of the Offer¹⁰</th> <th style="text-align: center;">% post-IPO</th> <th style="text-align: center;">Performance Rights held upon Completion of the Offer</th> </tr> </thead> <tbody> <tr> <td>Robert Cameron AO</td> <td style="text-align: right;">3,540,000</td> <td style="text-align: right;">3,363,000</td> <td style="text-align: right;">2.2%</td> <td style="text-align: center;">Nil</td> </tr> <tr> <td>John Gibbs</td> <td style="text-align: right;">8,113,860</td> <td style="text-align: right;">6,500,000</td> <td style="text-align: right;">4.3%</td> <td style="text-align: right;">675,000</td> </tr> <tr> <td>Dr Alex Abrahams</td> <td style="text-align: right;">45,009,501</td> <td style="text-align: right;">39,608,361</td> <td style="text-align: right;">26.1%</td> <td style="text-align: right;">337,500</td> </tr> <tr> <td>Simon Rutherford</td> <td style="text-align: right;">1,811,325</td> <td style="text-align: right;">1,720,759</td> <td style="text-align: right;">1.1%</td> <td style="text-align: center;">Nil</td> </tr> <tr> <td>Ben Gisz</td> <td style="text-align: center;">Nil¹¹</td> <td style="text-align: center;">Nil</td> <td style="text-align: center;">-</td> <td style="text-align: center;">Nil</td> </tr> <tr> <td>Grant Bourke</td> <td style="text-align: center;">Nil</td> <td style="text-align: right;">1,538,462</td> <td style="text-align: right;">1.0%</td> <td style="text-align: center;">Nil</td> </tr> </tbody> </table>	Directors	Shares at Prospectus date	Shares held upon Completion of the Offer ¹⁰	% post-IPO	Performance Rights held upon Completion of the Offer	Robert Cameron AO	3,540,000	3,363,000	2.2%	Nil	John Gibbs	8,113,860	6,500,000	4.3%	675,000	Dr Alex Abrahams	45,009,501	39,608,361	26.1%	337,500	Simon Rutherford	1,811,325	1,720,759	1.1%	Nil	Ben Gisz	Nil ¹¹	Nil	-	Nil	Grant Bourke	Nil	1,538,462	1.0%	Nil	Refer to Section 6.3 for more details
	Directors	Shares at Prospectus date	Shares held upon Completion of the Offer ¹⁰	% post-IPO	Performance Rights held upon Completion of the Offer																																
	Robert Cameron AO	3,540,000	3,363,000	2.2%	Nil																																
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	Simon Rutherford	1,811,325	1,720,759	1.1%	Nil																																
	Ben Gisz	Nil ¹¹	Nil	-	Nil																																
Grant Bourke	Nil	1,538,462	1.0%	Nil																																	
<p>Directors are entitled to remuneration and fees on commercial terms, as described in Section 6.3.1. In addition, John Gibbs and Dr Alex Abrahams will be eligible to receive cash bonuses in FY2015 under the Company's short term incentive plan. See Section 6.3.2 for further detail.</p> <p>Dr Alex Abrahams receives dental support services and facilities from the Company pursuant to a Service and Facility Agreement. Alex operates his dental practice and derives patients fees in relation to these arrangements. In addition, Dr Alex Abrahams, Simon Rutherford and Robert Cameron (or persons affiliated with them) receive rental payments for providing rental premises to the Company. See Section 6.3.3 for further information.</p> <p>Ben Gisz is a partner at TDM Asset Management Pty Ltd, who is receiving fees in connection with services provided in relation to the Offer.</p> <p>John Gibbs, Dr Alex Abrahams and other members of the Senior Management team will receive grants of Performance Rights on or around the date of Completion pursuant to the terms of the long term incentive plan, which will vest after four years. See Section 9.5 for further detail.</p> <p>As at the Prospectus Date, 5.5 million partly paid Shares are on issue to Directors and Senior Management under the Company's existing Partly Paid Share Plan. Participants in the Partly Paid Share Plan are required to pay the Company, immediately prior to Completion of the Offer, the outstanding amount on all partly paid Shares issued under the Partly Paid Share Plan. The Company intends to pay a special dividend (Pre IPO Dividend) of 1.60 cents per Share to existing Shareholders prior to Listing, which will contribute towards the satisfaction of the outstanding amount.</p> <p>Advisers and other service providers are entitled to fees for services as disclosed in Section 6.3.3.</p>																																					
Will any Shares be subject to restrictions on disposal following Completion?	<p>All of the Existing Shares held or controlled at Listing by the Escrowed Shareholders (other than any Shares acquired under the Offer) will be subject to voluntary escrow restrictions until three business days after the date on which Pacific Smiles' full year results for the period ending 30 June 2015 are released to the ASX, subject to limited exceptions. After these dates, all of the relevant Existing Shares will be released from the voluntary escrow restrictions.</p> <p>Subject to certain exceptions, the Escrowed Shareholders may not dispose of their escrowed Shares whilst those escrowed Shares are subject to voluntary escrow restrictions.</p>	Refer to Section 7.7 for more details																																			

¹⁰ This does not include any Shares acquired by Directors under the Offer, other than the Shares to be acquired by Grant Bourke.

¹¹ Ben Gisz is a partner at TDM Asset Management. TDM Asset Management and its clients hold in aggregate 25,671,291 Shares at Prospectus date, and are expected to hold 24,387,726 Shares upon Completion of the Offer. TDM Asset Management (and Ben Gisz through his association with TDM Asset Management) has an indirect interest in the Shares held by its clients by virtue of the control it exercises in relation to the Shares under its investment management arrangements with its clients.

1 Investment overview (continued)

1.8 Proposed use of funds and key terms and conditions of the Offer

Topic	Summary	For more information
What is the Offer?	<p>Pacific Smiles is offering to issue 15.6 million Shares to raise \$20.3 million and SaleCo is offering to transfer approximately 16.8 million Existing Shares, to raise \$21.8 million.</p> <p>All Shares issued pursuant to this Prospectus will, from the time they are issued, rank equally with Existing Shares.</p>	Refer to Sections 7.1 and 9.4 for more details
Who are the issuers of the Prospectus?	<p>Pacific Smiles Group Limited (ACN 103 087 449), a company incorporated in New South Wales, Australia.</p> <p>Pacific Smiles SaleCo Limited (ACN 602 506 650), a company incorporated in Victoria, Australia.</p>	Refer to Section 7.1 for more details
What is SaleCo and what role does it play in the Offer?	<p>SaleCo is a special purpose vehicle, established to sell Shares acquired from the Selling Shareholders. The Existing Shares which SaleCo acquires from the Selling Shareholders, along with New Shares issued by the Company will be transferred to Successful Applicants at the Offer Price.</p>	Refer to Section 9.3 for more details
What is the proposed use of funds raised under the Offer?	<p>The Offer is expected to raise \$42.1 million.</p> <p>Proceeds received by Pacific Smiles for the issue of Shares will be used to further strengthen Pacific Smiles' balance sheet by repayment of most of the Company's outstanding bank debt and creating a net cash surplus which will contribute towards the funding of the Company's rollout strategy in the immediate term, in addition to paying Existing Shareholders a special dividend and to pay the costs of the Offer.</p> <p>The proceeds received by or on behalf of SaleCo will be paid to those Selling Shareholders who sell Existing Shares to SaleCo.</p>	Refer to Section 7.1.3 for more details
Will the Shares be listed?	<p>The Company will apply to the ASX for its admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code "PSQ").</p> <p>Listing is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.</p>	Refer to Section 7.13 for more details
How is the Offer structured?	<p>The Offer comprises:</p> <ul style="list-style-type: none"> • Broker Firm Offer – open to Australian resident retail clients of Brokers who have received a firm allocation from their Broker; • Institutional Offer – an invitation to bid for Shares made to Institutional Investors in Australia; and • Priority Offer – an offer to Australian resident investors nominated by Pacific Smiles to participate in the Offer, limited to \$4.5 million in aggregate proceeds. 	Refer to Section 7.1.1 for more details
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Lead Manager.	Refer to Section 7.6 for more details
What is the allocation policy?	<p>The allocation of Shares between the Broker Firm Offer, the Institutional Offer and the Priority Offer will be determined by the Lead Manager and Company, having regard to the allocation policies outlined in Sections 7.3, 7.4 and 7.5.</p> <p>For Broker Firm Offer Applicants, the relevant Broker will decide how they allocate Shares amongst their retail clients.</p> <p>With respect to the Priority Offer, allocation of Shares to invitees is at the absolute discretion of Pacific Smiles, provided that those allocations (in aggregate) do not exceed \$4.5 million.</p>	Refer to Sections 7.3, 7.4 and 7.5 for more details

Topic	Summary	For more information
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on an acquisition of Shares under the Offer.	Refer to Section 9.8 for more details
Are there any taxation considerations?	Summaries of certain Australian tax consequences of participating in the Offer and investing in the Shares are set out in Section 9.8. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Refer to Section 9.8 for more details
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched by standard post on or around Monday, 24 November 2014. Refunds to Applicants under the Offer who make an Application and are scaled back will be made as soon as possible after Settlement of the Offer, which is expected to occur on Thursday 20 November 2014. No refunds will be made where the overpayments related solely to rounding at the Offer Price.	Refer to Section 7.2 for more details
What is the minimum Application size?	\$5,000 worth of Shares.	Refer to Section 7 for more details
How can I apply?	Broker Firm Offer Applicants may apply for Shares by completing a valid Broker Firm Offer Application Form attached to or accompanying this Prospectus and lodging it with the relevant Broker who invited them to participate in the Offer. If you are an eligible investor under the Priority Offer, you may apply for Shares by completing a valid Priority Offer Application Form. Eligible investors under the Priority Offer who are in Australia may apply online by completing an online Priority Offer Application Form available on the Company website, www.pacificsmilesgroup.com.au . To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.	Refer to Sections 7.3, 7.4 and 7.5 for more details
When are the Shares expected to commence trading?	It is expected that the dispatch of holding statements will occur on or about Monday, 24 November 2014 and that Shares will commence trading on the ASX on a normal settlement basis on or about Tuesday 25 November 2014. It is the responsibility of each Applicant to confirm their holding before trading Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk.	Refer to Section 7.2 for more details
Can the Offer be withdrawn?	The Company reserves the right to withdraw the Offer at any time before the issue of Shares to successful Applicants under the Offer. If the Offer does not proceed, Application Monies will be fully refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Refer to Section 7.2 for more details
Where can I find out more information about this Prospectus or the Offer?	All enquiries in relation to this Prospectus should be directed to the Pacific Smiles Group Information Line on 1300 657 159 (within Australia) or +61 1 300 657 159 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.	



two Industry overview

2 Industry overview

2.1 Market overview

In Australia, the dental industry generates total revenue of approximately \$8.7 billion per annum from expenditure on dental services.

Dental services involve treating and assisting patients with a broad spectrum of oral related health services, such as the following:

- diagnostic and preventive services, such as periodic oral examinations, radiography, teeth cleaning, sealant applications and referrals to specialists;
- restorative services, such as filling carious and damaged teeth, maintaining health of surrounding gums and tissue;
- prosthodontics, including the provision of artificial dental prosthetics such as dentures, crowns, bridges and artificial teeth for cosmetic implants; and
- specialist services, including orthodontics (the treatment and prevention of irregularities in the development of teeth), periodontics (the treatment of gum disease) and endodontics (which provides root canal therapy) and oral surgery.

The dental sector has relatively low reliance on government funding, with Commonwealth Government expenditure accounting for less than 13% of total expenditure in private dental clinics.¹ The remaining expenditure is funded by patient out-of-pocket expenses and private health insurance benefits.

Pacific Smiles estimates that the Australian dental industry is comprised of approximately 20,000 registered dental practitioners, including dentists, prosthetists, dental hygienists, dental therapists and oral health therapists.

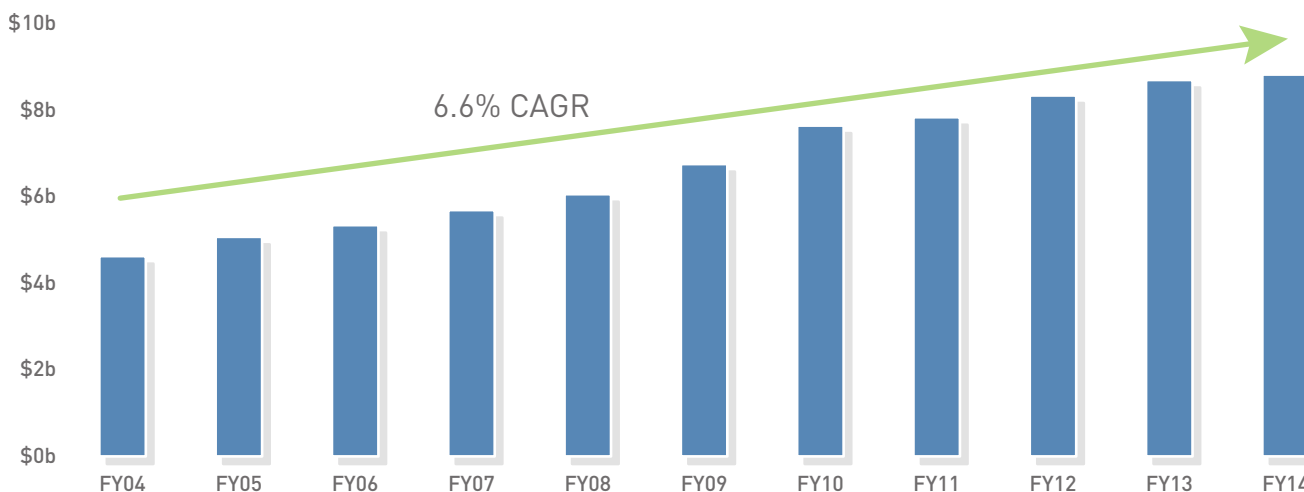
There were an estimated 13,178 dental practices across Australia as at 30 June 2014.² The largest dental services business in Australia, Dental Corporation (now owned by Bupa) has an estimated market share of approximately 4.4%.³

The dental industry is highly fragmented, with the majority of businesses having two or fewer dentists. Due to the fragmented nature of the industry and the appeal for patients of visiting dentists in close proximity of their homes or places of work, competition between dental businesses is typically highly localised.

2.2 Historical and forecast growth in the Australian dental market

During the 2012-2013 fiscal year, total dental expenditure in Australia was stated as \$8.7 billion. It has been estimated that Australian dental expenditure was \$8.8 billion in FY2014.⁴ This indicates an increase in dental expenditure in Australia at a CAGR of 6.6% from 2004 to 2014, as illustrated in Figure 1 below. Industry expenditure is expected to rise by a real CAGR of 2.5% over the five years through to 2020.⁵

Figure 1: Dental expenditure in Australia



Source: Data to FY13: Australian Institute of Health and Welfare, Health expenditure Australia (various years); Data FY14: IBISWorld, Dental Services in Australia Industry Report, August 2014, p. 28

1. In FY2014, Federal and State Government funding sources made up less than 10% of Patient Fees at Pacific Smiles' dental centres.

2. IBISWorld, Dental Services in Australia Industry Report, August 2014, p. 28

3. IBISWorld, Dental Services in Australia Industry Report, August 2014, p. 22

4. IBISWorld, Dental Services in Australia Industry Report, August 2014, p. 28

5. IBISWorld, Dental Services in Australia Industry Report, August 2014, p. 5

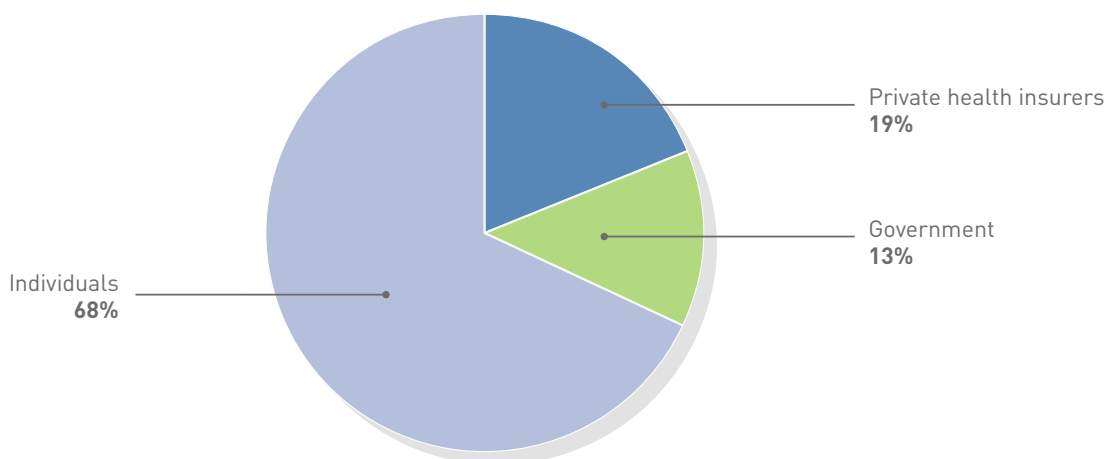
2 Industry overview (continued)

2.3 Overview of Industry Funding Arrangements

The Australian dental market is funded by a combination of individuals (via out-of-pocket expenditure), private health insurers and Government, as shown in Figure 2 below.

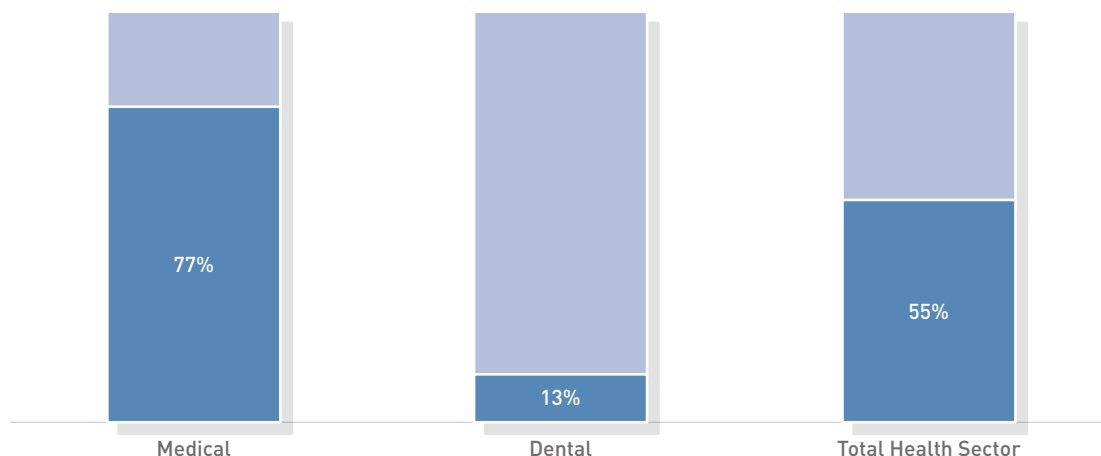
Dental services are predominantly funded by individuals' out-of-pocket expenditure (68% of total dental services expenditure). The industry has a low level of reliance on government funding, particularly compared to general medical services where government funding is 77% of the total, as shown in Figure 3.

Figure 2: Industry funding composition



Source: Australian Institute of Health and Welfare, Health expenditure Australia 2012-13, September 2014, p. 78

Figure 3: Federal Government funding by sector in 2012-13



Source: Excludes private health insurance rebates; Australian Institute of Health and Welfare, Health expenditure Australia 2012-13, September 2014, p. 78

2.3.1 Private health insurer funding of the dental sector

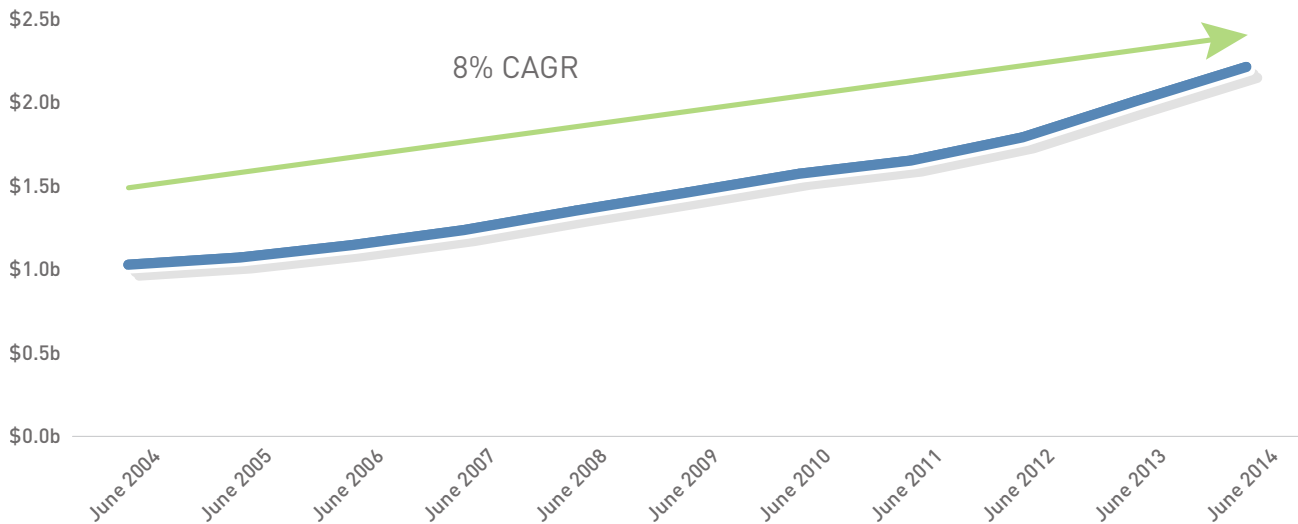
Private health insurance policies which include ancillary cover generally provide some level of coverage for dental services. Dental benefits account for approximately 50% of total benefits paid under private health insurance policies with ancillary cover, compared to the next highest category, Optical, which accounts for approximately 20%.

In 2012-2013 private health insurance funded approximately 19% of industry revenue.

Private health insurers may offer Preferred Provider Agreements (PPA) to dentists in order to negotiate favourable fee rates (including "No Gap" offers). Under a PPA the dentist agrees to provide dental treatment to a group of people (health fund customers) for a scheduled fee – usually with a ceiling limit or cap. In exchange, the private health insurers will promote those dentists or dental locations as being part of the insurer's PPA network. Dentists may elect to charge below the cap, but agree not to charge above the maximum fee for the associated treatments.

Figure 4 below shows the progressive trend of total private health insurer dental benefits paid over the last decade, reflecting a CAGR of 8.0%. Growth in the number of dental services for which private health insurance benefits are paid has been driven by an increase in the proportion of the Australian population with private health coverage.

Figure 4: Private health insurer dental benefits paid over the last ten years



Source: Private Health Insurance Administration Council, Statistical trends in membership and benefits data tables, June 2014

2.3.2 Government funding of the dental sector

Government funding of the dental sector includes both direct funding to patients who visit private dental clinics through various government programmes designed to improve general levels of dental health, as well as the direct provision of dental services via the operation of State based public dental clinics. Less than 10% of dental expenditure is attributable to public clinics.

Government funding to the private segment of the dental sector was reduced significantly with the removal of the Chronic Disease Dental Scheme (CDDS) in November 2012.

Eligible patients under the CDDS were able to claim up to \$4,250 in Medicare benefits for services rendered over a rolling two year period. The CDDS contributed approximately \$1 billion (12% of total industry expenditure) in 2011-12 and \$650 million in 2012-13.⁶

The CDDS has been replaced by other Government initiatives which provide lower levels of funding, including the Child Dental Benefits Schedule (CDBS) which commenced on 1 January 2014. The CDBS is a means-tested dental benefits program open to eligible children aged two to 17 years and provides up to \$1,000 in benefits to each child for basic dental services per rolling two year period. The government estimated that the scheme would provide \$2.9 billion of funding over six years.

Medicare data shows that the scheme contributed \$122 million to the dental sector in the six months from 1 January 2014 to 30 June 2014.⁷ Pacific Smiles expects that the CDBS will contribute approximately \$300 million per annum based on the quarterly run rate of payments to June 2014.

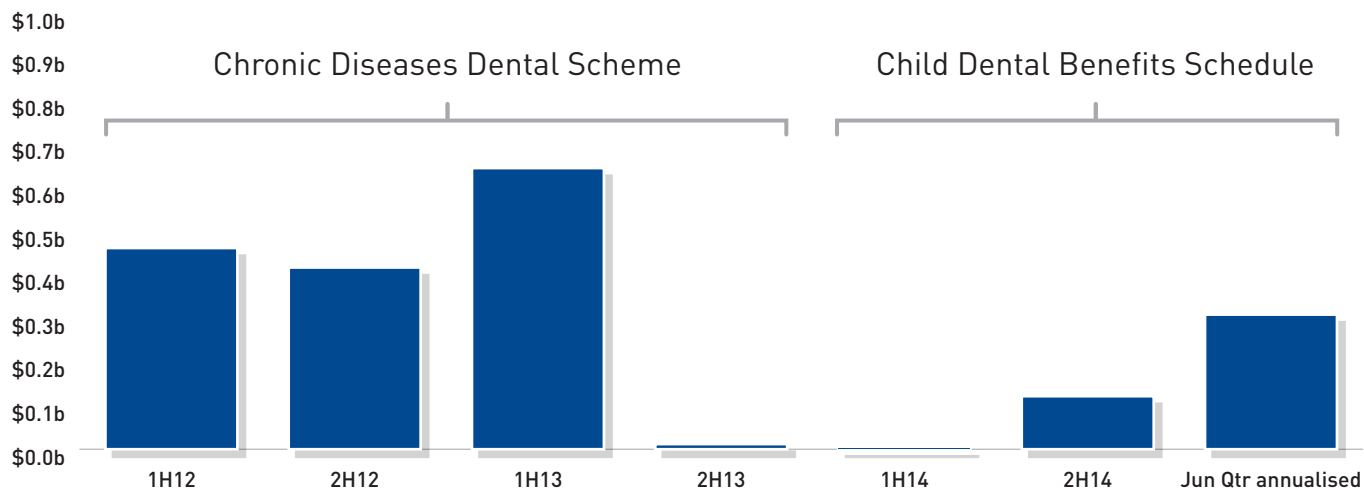
6. Australian Government Department of Human Services, Medicare Australia Statistics, July 2010 – July 2013

7. Australian Government Department of Human Services, Medicare Australia Statistics, July 2010 – July 2014

2 Industry overview (continued)

Figure 5 below shows the level of Medicare benefits paid for dental services under the CDDS and subsequently the CDBS. The dental sector's reliance on Federal Government funding has reduced substantially since November 2012.

Figure 5: Medicare benefits paid for dental services



Source: Australian Government Department of Human Services, Medicare Australia Statistics

In addition to the CDBS, the Federal Government has launched a National Partnership Agreement (**NPA**) to assist the States and Territories in funding dental services.

The NPA is designed to assist the States and Territories in providing treatment for up to 400,000 people on public dental waiting lists, with a particular focus on Indigenous patients, high risk patients and those from rural areas. The Federal Government allocated \$344 million of funding for the NPA between November 2012 and December 2015.

2.4 Key industry demand drivers

The frequency of dental visits in Australia is a major driver of overall dental health within the general population as well as a driver of total expenditure on dental services. Factors affecting frequency of dental visits include affordability of dental services and awareness of the benefits of frequent preventive care.

Key dental industry demand drivers include:

- **Household disposable income**

Although dental expenditure has a discretionary component leading to a degree of price sensitivity exhibited by patients, there is also a significant non-discretionary element (for example, where a patient is feeling discomfort requiring more urgent dental attention). In 2012–13, it is estimated that only 18% of people delayed or did not see a dentist due to cost.⁸

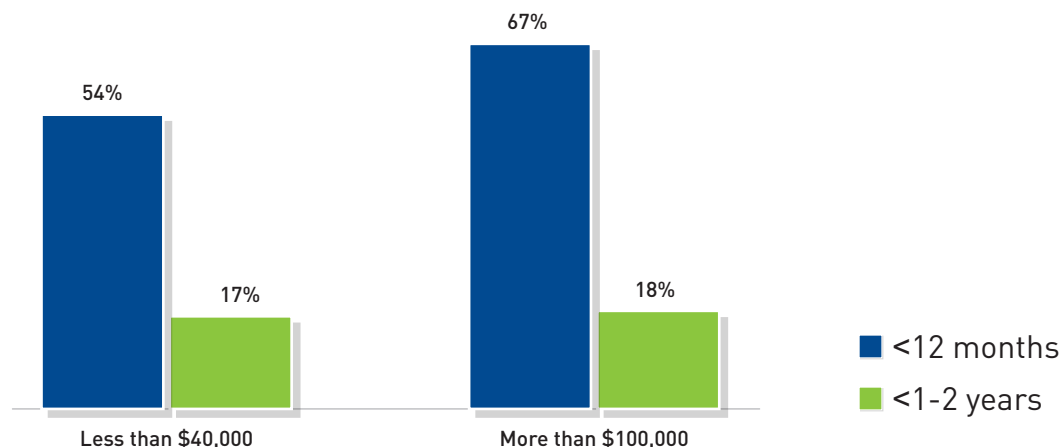
Households with higher disposable income are more likely to be covered by private health insurance, and also tend to have a higher expectation of dental health.⁹

54% of individuals with a household income of less than \$40,000 per year had visited the dentist in the previous year, compared to 67% of those with a household income of at least \$100,000. Almost one-third of the lower income group had not visited the dentist at all in the past two years, compared to less than one-fifth of the higher income group.

8. Australian Bureau of Statistics, Patient Experiences in Australia: Summary of Findings, 2012-13, November 2013

9. IBISWorld, Dental Services in Australia Industry Report, August 2014, p.6

Figure 6: Dental attendance by annual household income



Source: Data sourced from Australian Institute of Health and Welfare, Results from the National Dental Telephone Interview Survey 2010

• **Private health insurance participation rates**

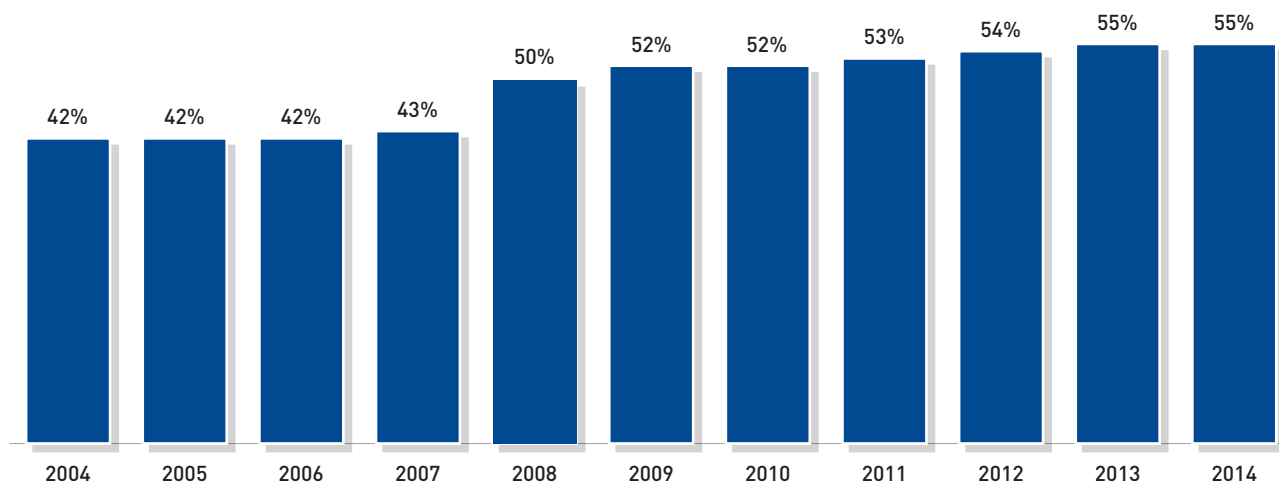
In 2012-2013 private health insurance funded approximately 19% of all private dental services.

During the March 2014 quarter, dental benefits paid under private health insurance made up approximately 50% of total private health insurance benefits.

Given the significant role played by private health insurance in funding the dental sector, take-up of private insurance cover and, in particular, private insurance cover which includes ancillary cover for dental services is a key factor in determining total demand for dental services.

Figure 7 below shows the proportion of the Australian population with ancillary cover under private health insurance. Since 2008 this has been gradually trending up to the current level of 55%.

Figure 7: Proportion of Australian population with ancillary cover



Source: Private Health Insurance Administration Council, Membership and Coverage March 2014

• **Government funding**

Government policy relating to the funding of the dental sector may influence demand for dental services. Government policy is currently focused on making dental care more accessible to lower income households, including through the provision of direct financial assistance for dental care received in privately operated clinics. The level and composition of government funding can alter attendance patterns and therefore impact industry demand for dental services.

2 Industry overview (continued)

• Dental health trends and ageing of the population

During the 12 months to 30 June 2013, 49% of the Australian population (aged 15 and over) visited a dentist at least once and of those individuals who visited a dentist, over half attended more than once. Although dental health in the Australian population has generally improved over time there remain some concerning indicators of dental health in Australia.

- poor childhood oral health is a strong predictor of poor adult oral health. Data from the Child Dental Health Survey indicates that after falling steadily since the 1970s, rates of tooth decay in children slowly rose from the late 1990s onwards;
- data from examination of children's teeth at public dental clinics in six Australian states and territories showed that in 2010 more than half of children aged six had experienced decay in their baby teeth, almost half of children aged 12 had experienced decay in their permanent teeth and almost every child aged 15 had at least one filled permanent tooth, and at least one other tooth with untreated decay;
- national surveys conducted between 2004-2006 indicate approximately one in three adults aged 25-44 had untreated tooth decay; and
- according to a 2012 Australian health survey, almost a third of the Australian adult population had not visited a dentist in the past two years.¹⁰

The state of dental health in the Australian population is likely to be a key factor in forming long term government policy on how to improve accessibility to good dental care and encouraging the population to visit dentists more regularly.

In addition, with Australians living longer and retaining more teeth, demand for dental services is expected to continue to grow, particularly for preventive and periodontal procedures as well as restorative and implant treatments. While forecasts suggest that dental practices will see the most growth from adult patient segments, there is evidence of a new spike in tooth decay among younger Australians which may be attributed to increased sugar in the diet and drinking of non-fluoridated water supplies.

• Cost of dental services

The dental industry is predominantly privately funded, and as a result of this the cost of dental services influences demand. Pacific Smiles calculates average dental expenditure per capita in Australia is approximately \$380 per annum.

• Range of available dental services

The range of available dental services in the market has expanded in recent years. Examples of additional services which can be provided by general practitioner dentists include cosmetic teeth whitening, dental implants and teeth straightening with new technologies such as Invisalign®. An expanding range of available services may result in either increased frequency of visits to the dentist or an increase in the fee per visit.

2.5 Industry structure and competitive landscape

The dental services industry remains highly fragmented, with the majority of dental practices managed by one or a small number of dentists who employ on average two to five support staff.

There are approximately 13,178 dental practices across Australia.¹¹ Due to the fragmented nature of the industry and patients' preference for visiting dentists in close proximity to their homes or places of work, competition between dental businesses tends to be highly localised. The larger players in the dental industry operate across multiple states and territories. Many of these large operators have grown through acquisition rather than organic rollout focused on consistent centre branding.

It is estimated that Dental Corporation, a subsidiary of Bupa Australia, is the largest dental service provider in the country with a 2013 market share of approximately 4.4%.¹²

2.6 Characteristics of dental workforce in Australia

Pacific Smiles estimates that the Australian dental industry is comprised of approximately 20,000 registered dental practitioners, including dentists, prosthetists, dental hygienists, dental therapists and oral health therapists. Of this sample of registered dental practitioners, 14,687 are registered dentists, and an estimated 90% are actively practising dentistry.

The ratio of dentists to the total population tends to be higher in the capital cities and the immediate surrounding areas and lower in less populated or more remote areas of Australia. For example, in 2012 there were 72 dentists per 100,000 of population in major cities but only 39 dentists per 100,000 population in outer regional areas.¹³

The dental workforce in Australia is characterised by a high proportion of part time workers. Approximately 31% of all dentists in Australia work part time. Furthermore, a growing proportion of the dental workforce is female, of which 47% work part time.

According to industry statistics, approximately 60% of dental graduates are female. Figure 8 below shows that women comprise more than a third of the dental workforce, up from 23% in 2000. Women are expected to comprise 50% of the dental workforce by 2020.

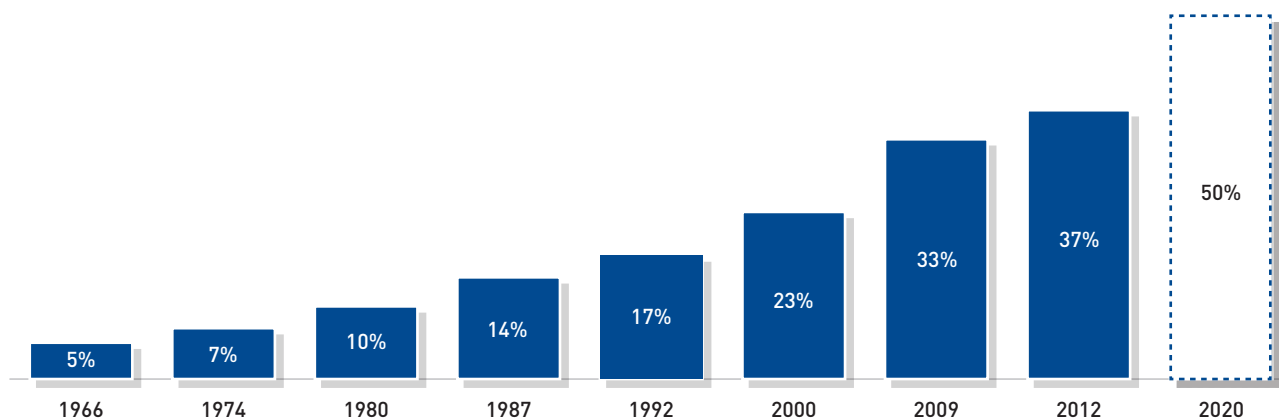
10. Australian Bureau of Statistics, Australian Health Survey: Health Service Usage and Health Related Actions, 2011-12, March 2013

11. IBISWorld, Dental Services in Australia Industry Report, August 2014, p.28

12. IBISWorld, Dental Services in Australia Industry Report, August 2014, p.22

13. Australian Institute of Health and Welfare, Dental workforce 2012, January 2014, p. 6

Figure 8: Percentage of females in the dental workforce



Source: Historical data: Australian Institute of Health and Welfare, Dental workforce 2012 – National health workforce series no. 7, January 2014; Forecast data: Insight Economics, Review of Australian Dental Workforce Supply to 2020, November 2012, p. 22

Pacific Smiles believes that its business model is well suited to cater to this changing composition of the workforce, given the ability of dentists to engage Pacific Smiles with flexible working arrangements and to be relieved of administrative duties. Many dentists practicing from Pacific Smiles dental centres elect to work less than five days a week.

2.7 Supply of dentists

There are two sources of supply for dentists in Australia, being domestically qualified dentists and overseas qualified dentists.

In response to concerns about a lack of supply of dentists in Australia particularly in outer regional areas, the Commonwealth Government has supported the opening of four new dental schools in regional universities, namely Griffith University, James Cook University, La Trobe University, and Charles Sturt University. These were aimed at addressing the perceived gap in dentists available to practise in rural and regional areas of Australia.

The addition of new dental schools has resulted in a substantial growth in the number of students entering and subsequently graduating from Australian dental programmes. For example, in 2007 the number of new dentists graduating from Australian universities was 193. In 2014 it is anticipated that in excess of 620 students will graduate.

Supply of dentists in Australia is also determined by the number of overseas qualified dentists entering the market each year. According to the Australian Workforce and Productivity Agency, in 2011–12 around 307 dentists were granted visas to enter and work in Australia (comprising, 137 permanent independent migrants and 170 temporary employer-sponsored migrants).

Dentists from the UK, Ireland and Canada can enter the country and seek registration without the requirement of assessment by way of the Australian Dental Council (**ADC**) examinations. Dentists with qualifications gained elsewhere must pass the ADC examinations before seeking registration.

The Australian Dental Association (**ADA**) estimates that between domestic graduates and migratory dentist supply, approximately 930 dentists are now entering the workforce annually, and has stated that this is higher than the level required to meet current demand.

Pacific Smiles believes that this increased supply of dentists will support its rollout strategy through increased availability of quality dentists seeking to practice from its centres, particularly in regional and strategic growth areas. Pacific Smiles will continue to seek to attract both domestically and overseas qualified dentists.

2 Industry overview (continued)

2.8 Government regulation affecting the dental industry

There are various specific Federal, State and Territory laws governing the practice of dentistry and the provision of dental services in Australia which impact the Company and the dental practitioners based at Pacific Smiles dental centres.

There is a single National Registration and Accreditation Scheme (**National Scheme**) for registered health practitioners. The Australian Health Practitioner Regulation Agency (**AHPRA**) is the agency that supports the National Boards to implement the National Scheme. AHPRA's operations are governed by the Health Practitioner Regulation National Law, as in force in each state and territory (the **National Law**), which came into effect on 1 July 2010.

The Dental Board of Australia is the National Board responsible for regulating dental practitioners. The functions of the Dental Board of Australia include:

- registering dentists, students, dental specialists, dental therapists, dental hygienists, oral health therapists and dental prosthetists;
- developing standards, codes and guidelines for the dental profession;
- handling notifications, complaints, investigations and disciplinary hearings;
- assessing overseas trained practitioners who wish to practise in Australia; and
- approving accreditation standards and accredited courses of study.

AHPRA works with the health complaints entities in each State and Territory to make sure the appropriate organisation investigates community concerns about registered health practitioners, including dental practitioners.

Dental practitioners must obtain a provider number from Medicare for each location of practice and comply with laws and regulations to participate in various third party funding arrangements for patient treatments. For example, registered dentists must hold a valid provider number to bill for dental services that will be paid for by Medicare and for dental services for which private health insurers pay benefits.

Authorities in each State and Territory administer legislation, including licensing regimes, to regulate the possession and use of radiation sources such as dental x-ray machines.

Each State and Territory in Australia has extensive legislation dealing with work health and safety issues. These laws impose various duties on persons conducting a business or undertaking, officers, workers and other persons who visit the workplace. Key employer duties include ensuring so far as is reasonably practicable, the health and safety of employees at work, and providing and maintaining a work environment that is without risk to health and safety.

The Company has governance structures in place to promote and monitor compliance with these laws by dentists practicing from its dental centres.



three Company overview

3 Company overview

3.1 Introduction

Pacific Smiles operates branded dental centres in Australia. The Company currently operates 42 dental centres in New South Wales, Victoria, Queensland and the Australian Capital Territory, of which 35 are branded Pacific Smiles Dental and 7 are branded nib Dental Care Centres¹ under an exclusive and long term licensing arrangement.

Pacific Smiles provides serviced facilities to over 250 dentists who provide a range of dental services to patients, with the assistance of approximately 720 support staff. Dental services provided include a range of general, family, urgent care, reconstructive and cosmetic dental treatments as well as specialist dental services. In the financial year to 30 June 2014, Pacific Smiles serviced approximately 400,000 patient attendances at its dental centres.

Pacific Smiles provides dentists with fully serviced and equipped facilities including support staff, materials, marketing and administrative services. The Pacific Smiles service model distinguishes the provision of dentistry from the supporting infrastructure and services, enabling dentists to maximise time spent treating patients without the distraction of owning and operating a dental centre.

Pacific Smiles' mission is to combine professional ethics and patient care with efficient and effective operating systems and structures to deliver a superior level of service to dentists and patients.

Pacific Smiles' growth strategy is to significantly increase its share of the Australian dental market by providing superior service to dentists and patients in an increasing number of locations. The Company aims to grow by increasing its market share organically in existing dental centre locations and by opening new centres in new locations. Pacific Smiles may consider the acquisition of existing centres where there is a strategic and financially compelling rationale, and where the acquired business is suitable for alignment to Pacific Smiles' consistent branding and operating model. Refer to Section 3.15 for further information on the Company's growth strategies and initiatives.

With a current market share of the Australian dental market of less than 2%, Pacific Smiles has a large market opportunity to pursue. The Company intends to increase the number of dental centres in its network by six to ten centres a year through the rollout of new centres in leased premises located predominantly in or near shopping centres.² Pacific Smiles, with the assistance of external consultants, has mapped the Australian dental market and identified more than 200³ potential future trade areas for Pacific Smiles dental centres.

1. As at 30 June 2014.

2. These figures should not be relied upon as a forecast or indication of the Company's future growth or financial performance. The Company will assess new trade areas on a case by case basis by applying its new centre assessment process to determine whether a particular trade area is suitable for a new centre opening. The number of new centre openings will differ on a year-by-year basis. There is no guarantee that the number of actual new centre openings will fall within this targeted range each year, or the time period for which new centres will continue to be added to Pacific Smiles' portfolio at this target rate. There is a risk that these growth objectives of the Company are not met. See Section 5.2.2 for further detail.

3. Geotech Information Services, Trade Area Network Planning Report (2013), p. 17.

3.2 History of Pacific Smiles

The following Section summarises the key events in the history of Pacific Smiles.

FY 2003	3 centres	<ul style="list-style-type: none"> • Founded in 2003 by Dr. Alex Abrahams and Dr. Alison Hughes • Three dental practices united under one brand in the Hunter region of New South Wales • Full Board of Directors, including Robert Cameron, the current Non-Executive Chairman, formed in 2003 for good governance
FY 2004	3 centres	<ul style="list-style-type: none"> • John Gibbs commences as General Manager
FY 2005	7 centres	<ul style="list-style-type: none"> • Commencement of relationship with nib via an operations agreement for the nib Dental Care Centres in Newcastle and Sydney • Expansion in regional NSW
FY 2006	7 centres	<ul style="list-style-type: none"> • Executive team expanded and corporate divisions established
FY 2007	14 centres	<ul style="list-style-type: none"> • Greenhills group head office completed and occupied • Victorian market entry • Commencement of cluster on Central Coast of New South Wales • Development of new nib Dental Care Centres
FY 2008	17 centres	<ul style="list-style-type: none"> • Expansion via new developments and some acquisitions • John Gibbs appointed to the Board as Managing Director
FY 2009	19 centres	<ul style="list-style-type: none"> • Further expansion through Victoria via acquisition and new centre rollout
FY 2010	25 centres	<ul style="list-style-type: none"> • Expansion in Victoria and Central Coast and South Coast of New South Wales
FY 2011	28 centres	<ul style="list-style-type: none"> • Pacific Smiles enters the Queensland market
FY 2012	31 centres	<ul style="list-style-type: none"> • Pacific Smiles enters the ACT market • Sydney nib Dental Care Centre relocated and expanded and new 15 year agreement with nib • TDM Asset Management acquired a 19.9% stake in Pacific Smiles
FY 2013	34 centres	<ul style="list-style-type: none"> • Pacific Smiles won “Business of the Year” award (Business Excellence >20 employees) at Hunter Business Awards • Federal Government Chronic Diseases Dental Scheme closed in November 2012 • Demographic and network planning expert engaged to assist with future network plan
FY 2014	41 centres	<ul style="list-style-type: none"> • Child Dental Benefits Schedule commenced in January 2014 • Medibank’s Dental & Eyecare Practice acquired in June 2014, with the eye care business sold immediately following completion • National network plan adopted for accelerated new centre rollout

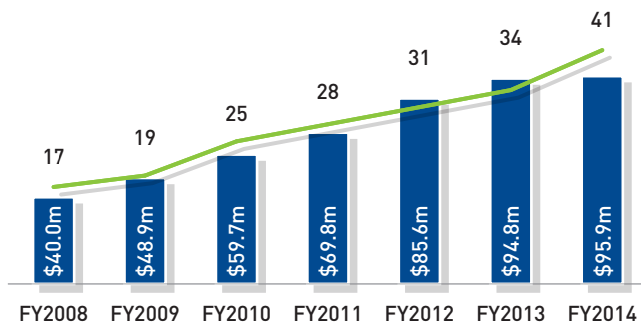
3 Company overview (continued)

Figure 9 below shows the strong historical financial performance of Pacific Smiles over time. From FY2008 to FY2014, Pacific Smiles has achieved the following:

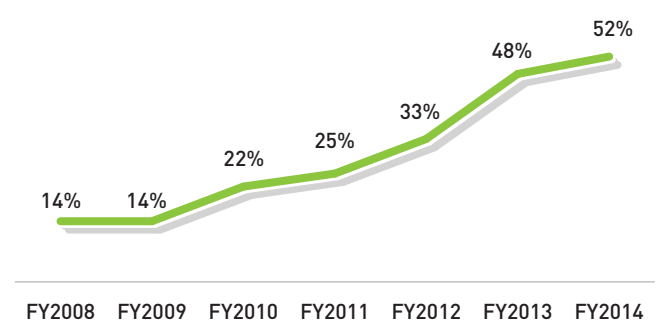
- total number of dental centres increased from 17 to 41, predominantly by new centre openings rather than acquisitions;
- Patient Fees increased from \$40.0 million in FY2008 to \$95.9 million in FY2014, a CAGR of 16% per annum;
- Revenue increased from \$33.2 million in FY2008 to \$59.1 million in FY2014, a CAGR of 10% per annum;
- EBITDA increased from \$4.2 million in FY2008 to \$15.1 million in FY2014,⁴ a CAGR of 24% per annum;
- Return on Invested Capital increased from 14% in FY2008 to 52% in FY14;⁵
- ratio of operating free cash flow EBITDA (“cash conversion”) of 113%,⁶ and
- operating cash flow increased from \$2.6 million in FY2008 to \$13.4 million in FY2014, a CAGR of 31% per annum.

Figure 9: Pacific Smiles’ track record of growth

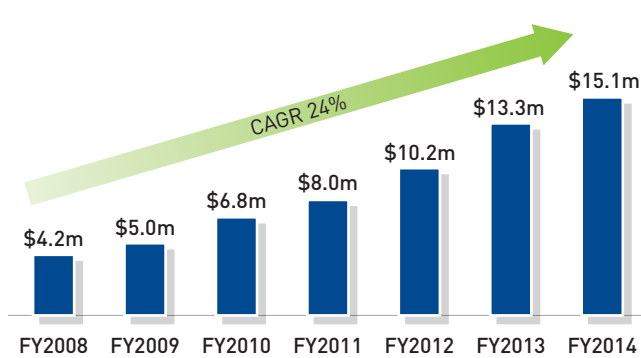
Patient Fees and Number of Centres



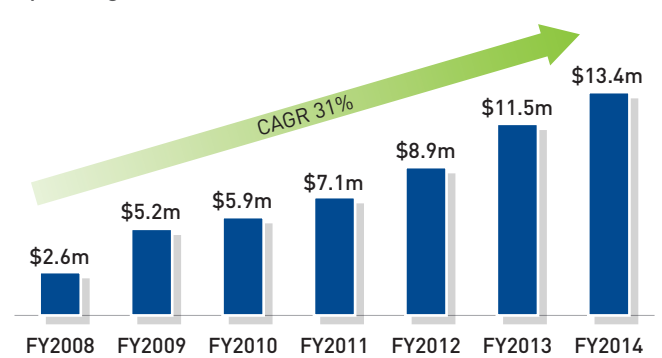
Return on Invested Capital (EBIT)



EBITDA



Operating Cashflow



4. Statutory EBITDA used in calculation is pre impairment of non-current assets.

5. Statutory EBIT used in calculation is pre impairment of non-current assets.

6. Based on statutory EBITDA (pre impairment of non-current assets) and operating cashflow (excluding net financing costs and tax paid).

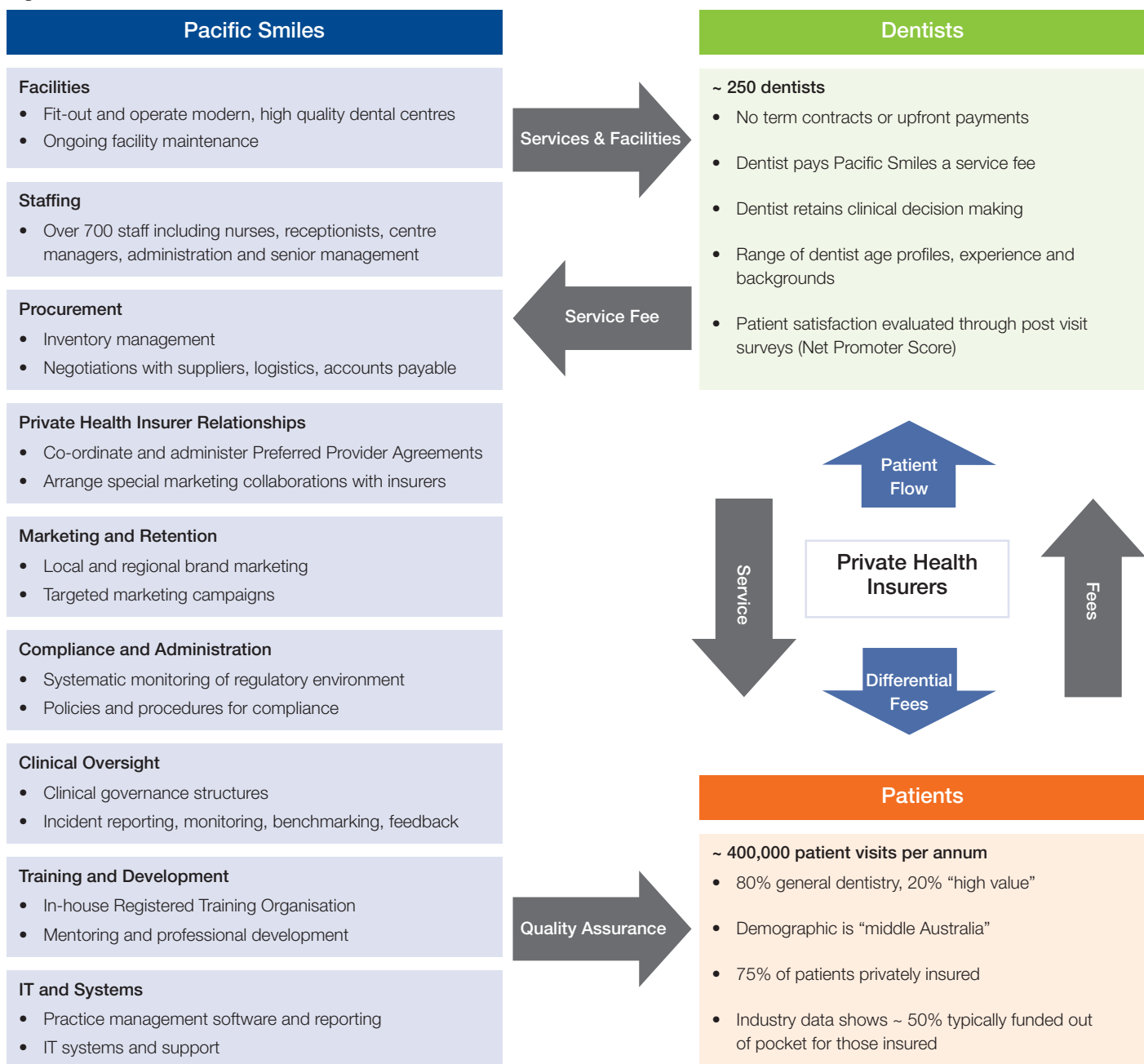
3.3 Key features of the Pacific Smiles business model

The Pacific Smiles business model is designed to provide a superior level of service to dentists and patients by efficiently and effectively bringing together the key components of the dental services value chain being:

- dentists;
- facilities and support services required by the dentists to deliver dental services;
- patients; and
- private health insurers who assist with funding for dental services.

Figure 10 below summarises how these elements combine in Pacific Smiles’ business model.

Figure 10: Overview of Pacific Smiles’ business model



3 Company overview (continued)

3.4 Pacific Smiles' service offering to dentists

Pacific Smiles provides dentists with the resources necessary to offer dental services to patients within Pacific Smiles' dental centres. These services include:

- well located dental centres with high exposure, easy patient access and high quality design and fit-out;
- fully equipped and maintained surgeries, sterilisation areas, reception and waiting rooms;
- procurement and stocking of consumable supplies;
- experienced centre and regional management, front-office reception services, and trained clinical support staff;
- electronic patient management systems for appointment bookings, recording dental records, treatment planning and invoicing;
- co-ordination of arrangements with private health insurers on behalf of dentists;
- HICAPS (health fund on the spot claiming);
- head office support including compliance, human resources, practitioner services, administration, IT systems and marketing services; and
- a clinical governance framework which complies with required standards and legislation and strives for best practice.

3.5 Key benefits of the Pacific Smiles model for dentists

Pacific Smiles believes there are a number of reasons why dentists choose to contract Pacific Smiles, including:

- enhanced patient flows driven by brand marketing and relationships with private health insurers facilitated by Pacific Smiles;
- all work hours can be devoted to the provision of dental services and treatment to patients, without the distraction of operating a dental centre;
- flexibility to work desired hours with income and service fees directly linked to output;
- ability to operate a practice with no up-front investment in premises, equipment or inventory;
- support of professional management, administration and full suite of head office functions;
- access to modern, well equipped facilities;
- access to continuing education and training; and
- dentists have the ability to terminate their Service and Facility Agreement upon compliance with a notice period.

3.6 Dentist engagement model

Dentists who practise from Pacific Smiles dental centres enjoy independent clinical decision making, subject to professional conduct requirements and standards, supported by Pacific Smiles' clinical governance systems.

Most Pacific Smiles dentists are independent principals to whom the Company provides services and facilities under contract. The dentists provide clinical services to patients in their own name (or in the name of their own company) and with their own Australian Business Number (ABN).⁷

Under Service and Facility Agreements (SFA), Pacific Smiles is engaged by the dentists to provide a fully serviced and equipped facility from which they deliver clinical services and treatments to patients. Pacific Smiles receives a monthly service fee for the provision of the serviced facility. The fee has a number of input variables, but is principally determined as a percentage of patient fees received for the clinical work undertaken by each dentist.

The relationship between Pacific Smiles and each individual dentist is documented in the SFA which both parties sign at the outset of the agreement. The key terms of the standard SFA are set out below.

Key Terms of Service and Facility Agreements

Under the SFA, Pacific Smiles agrees to provide services and facilities to dentists for the operation of dental practices, which are utilised by the dental practice in exchange for a services fee payable to Pacific Smiles.

Pacific Smiles provides and maintains the premises and equipment necessary for the provision of dental services. Pacific Smiles also assists in the administration of dental practices, providing services such as reception services, stock maintenance, the maintenance of accounts, the provision of nursing staff and fee collection on behalf of the practice.

Pacific Smiles enters SFAs on the basis that the dentist meets Pacific Smiles' credentialing requirements. If a party cannot satisfy those requirements, Pacific Smiles has the right to terminate the SFA. Pacific Smiles also has the right to terminate an SFA if a party ceases to be registered as a dentist with Dental Board of Australia, or has an unacceptable restriction placed on their practicing license. If a party to an SFA conducts their practice in such a way as to bring a Pacific Smiles dental centre into disrepute, Pacific Smiles may terminate with that party. Pacific Smiles may terminate an SFA if a party does not utilise the services provided under the SFA in accordance with Pacific Smiles' centre schedules on four or more occasions during a calendar month.

7. Pacific Smiles also employs a small number of dentists in a limited range of circumstances and contracts a limited number of dentists to provide ad hoc services in exchange for hourly services fees or commissions.

Either party may terminate the SFA without cause, subject to the provision of one month's notice within the first year of the term and on three months' notice after that time. Pacific Smiles has purposefully avoided termed contracts with dentists, believing that the Pacific Smiles business model must remain appealing to the dentist and they should not be bound to continue to engage Pacific Smiles for contractual reasons alone.

Pacific Smiles monitors the retention rate of dentists within its centres as one measure of the value of Company's service offering to dentists. Pacific Smiles' average dentist retention rate per annum over the 3 years to 30 June 2014 is 84%.

Pacific Smiles' business model provides dentists with a collegiate working environment. By practising within Pacific Smiles operated centres, dentists can interact with their professional peers who are located at the same centre and with those across the broader Pacific Smiles network.

3.7 Range of dental services offered within Pacific Smiles centres

Pacific Smiles seeks to have a mix of dentist skillsets within one or more centres in a particular geographic cluster to enable patients to access a range of services within their local area. These skillsets include:

- general dentistry such as check-ups, teeth cleaning, fillings and extractions;
- dental treatments such as crowns, bridges, dentures and tooth whitening;
- advanced dentistry such as dental implants;
- specialist dentistry such as orthodontics, prosthodontics, endodontics and periodontics are offered in some locations; and
- access to general anaesthetic and intravenous sedation (sleep dentistry) to assist dental treatment comfort.

3.8 Consistent market positioning of dental centres

Pacific Smiles dental centres are positioned in the market to provide broad appeal to the communities they serve. Pacific Smiles strives to offer consistently excellent customer service, outstanding patient care and a strong value proposition. Central to the achievement of these goals are features such as extended opening hours, preferred provider arrangements between the dentists and health funds, plus a wide array of general, cosmetic and specialist dental services available in most geographic clusters.

Pacific Smiles dental centres are typically open six or seven days a week, with many open on selected evenings and public holidays. Availability is a key advantage in an industry where many smaller industry participants do not offer extended opening hours. Pacific Smiles centres are conveniently located close to car park facilities and all centres are wheelchair accessible.

Pacific Smiles dental centres benefit from a consistent operating platform which has been refined over the Company's history. This model aims to achieve a consistently high quality of service to dentists and patients, while ensuring the Pacific Smiles model is highly scalable through continued new centre rollout.

Features of the Pacific Smiles standard operating platform include:

- standard surgery configuration, equipment and practice management software;
- consistent branding, colour scheme and design applied to dental centres; and
- standard systems, policies and procedures across all locations, including administration, clinical processes, clinical governance and work health and safety.

3.9 Key benefits of the Pacific Smiles model for patients

Delivering a superior service is key to Pacific Smiles' competitive advantage and is centred on the following benefits for patients:

- the ability to access dental care six or seven days a week, including extended opening hours and the availability of urgent care same-day appointments;
- consistent quality patient experience underpinned by the Company's in-house employee training framework;
- convenient, easy to access locations;
- a focus on fee transparency, with Pacific Smiles encouraging written quotation of treatment plan fees by dentists;
- the ability to receive a comprehensive range of general and specialist services within a cluster of Pacific Smiles centres;
- accessibility to the benefits of preferred provider arrangements with major health funds, such as capped fees; and
- assurance that Pacific Smiles offers a systematic approach to clinical governance across its dental centre network.

Pacific Smiles' patient care and customer service focus has been developed around an in-house employee training framework for administrative staff called A Perfect Patient Experience (APPEX®). APPEX® is an operating philosophy and culture that relates to all aspects of service delivery and decision making, and underpins the aim of a consistent patient experience across all Pacific Smiles dental centres.

Pacific Smiles' patient service philosophy encourages dentists to provide patients with full transparency around the pricing for dental treatments by way of a dental treatment plan in writing prior to commencement of dental treatments. These plans disclose the expected fees and charges to ensure the patient has visibility into expected treatment costs.

3 Company overview (continued)

Pacific Smiles regularly conducts post-visit surveys and has consistently achieved a strong Net Promoter Score of greater than 60, which is considered an exceptional score across many different companies and industries.⁸ This process allows Pacific Smiles' senior leadership team to hear current patient feedback and to continually improve service quality and patient satisfaction.

3.10 Pacific Smiles' patient engagement

Pacific Smiles attracts new patients through positive word of mouth in the local communities where the centres are located, as well as through targeted marketing campaigns. The commitment to APPEX[®] at Pacific Smiles centres is fundamental to the patient experiences that yield this positive word of mouth and underpins strong patient engagement.

Engagement is deepened through regular communication with the patient via programmed schedules comprising recall or prescheduled appointment notices, patient newsletters and other reminders.

Pacific Smiles sponsors events and seeks to promote the benefits of dental health in the local communities in which it operates.

Pacific Smiles also engages in online advertising and search engine optimisation in an effort to increase awareness of its dental centres and brands.

3.11 Private health insurer relationships

Pacific Smiles has developed important strategic relationships with major health insurers, and the Company continues to take a highly proactive approach to these relationships.

Dentists practising from Pacific Smiles centres currently have Preferred Provider Agreements (**PPAs**) in place with various private health insurers, who combined, represent 75% of the industry by market share.

In FY2014, approximately 75% of patients who visited a Pacific Smiles dental centre were able to use their health insurance benefits. While the legal relationship behind PPAs is directly between the dentist and the private health insurer, Pacific Smiles liaises directly with the private health insurer and facilitates PPA arrangements for the benefit of dentists, patients and the insurer.

In addition to standard PPAs, Pacific Smiles has arrangements in place with two of Australia's largest private health insurers, nib and Medibank (including ahm). Together these insurers have a market share of approximately 37% by total policies in Australia. These arrangements centre around collaborative marketing to encourage the insured members to attend Pacific Smiles dental centres (refer to Sections 9.6.1 and 9.6.2 for further details). The promotion of a strong value proposition is designed to encourage regular attendance at Pacific Smiles dental centres. Pacific Smiles considers that such regular attendance is likely to improve dental health and allow private health fund members to maximise the value they derive from their health insurance.

Pacific Smiles seeks to demonstrate to private health insurers the key benefits of collaborating with Pacific Smiles, which may include:

- the convenience and simplicity of having Pacific Smiles as the central point of contact, allowing the private health insurer to reach over 250 dentists with a significantly reduced administrative burden; and
- benefiting from Pacific Smiles' consistent, network-wide commitment to clinical governance and quality assurance.

3.12 Dental centre network overview

Pacific Smiles currently operates a network of 42 dental centres, located across New South Wales, Victoria, Queensland and the Australian Capital Territory. The dental centre network includes 35 Pacific Smiles Dental Centres and seven nib Dental Care Centres.

The Company operates a range of dental centre sizes, the smallest capacity (measured in total potential dental chairs) being two dental chairs and the largest being 18 dental chairs. The median capacity of Pacific Smiles dental centres across the network is six dental chairs. Pacific Smiles' portfolio includes four large format centres which are defined as centres with ten or more dental chairs. Over time, Pacific Smiles has built a skillset to effectively operate both larger and smaller clinics across regional and metropolitan locations.

Pacific Smiles dental centres are adaptable to a range of site types. The current Pacific Smiles portfolio can be divided into the following primary tenancy types: shopping centres or malls (eleven centres), commercial and retail (29 centres), and medical centres or precincts (two centres).

The composition and attributes of the Company's portfolio is discussed further in this Section 3.

8. Net Promoter Score (NPS) is a customer loyalty metric based on customers' likelihood of referral. Pacific Smiles is required under the terms of its agreement with nib and Medibank (refer to Section 9.6 for further detail) to periodically calculate its Net Promoter Score, which is determined by applying the standard NPS principles and framework (Satmetrix, <http://www.netpromoter.com/why-net-promoter/know/>).

3.13 Geographic footprint

Pacific Smiles operates in the three largest states for dental services in Australia: New South Wales (NSW), Victoria and Queensland, as well as the Australian Capital Territory (ACT) which together account for approximately 79% of dental expenditure in Australia.⁹

The scale of Pacific Smiles' operations in NSW (27 centres) and Victoria (11 centres) makes it one of the largest private dental services providers in these states. The Company's footprint is less developed in Queensland and in the ACT, which presents significant growth opportunities in these markets.

Pacific Smiles' origins are in the Hunter Valley region of NSW, where the Company's head office is located today. To date, most of the growth of Pacific Smiles' dental centre network has occurred in urban centres outside of Sydney. Pacific Smiles has focused its growth on areas which are close enough to a major city to attract dentists to new centre openings but without the same level of competition typical of the capital city markets.

As the Pacific Smiles brand developed, Pacific Smiles continued to open additional centres along the coast of NSW from Forster down to Nowra. In addition, Pacific Smiles opened centres in south-east Queensland and in regional and urban Victoria. The agreement for Pacific Smiles to own and operate nib branded dental centres has provided a significant presence in the Sydney and Melbourne markets.

Approximately 70% of patient fees are generated from non-capital city locations and 30% from capital cities. A graphical depiction of Pacific Smiles' extensive geographic footprint is provided below.

Figure 11: Pacific Smiles' geographic footprint



9. Geotech Information Services, Trade Area Network Planning Report (2013), p. 17.

3 Company overview (continued)

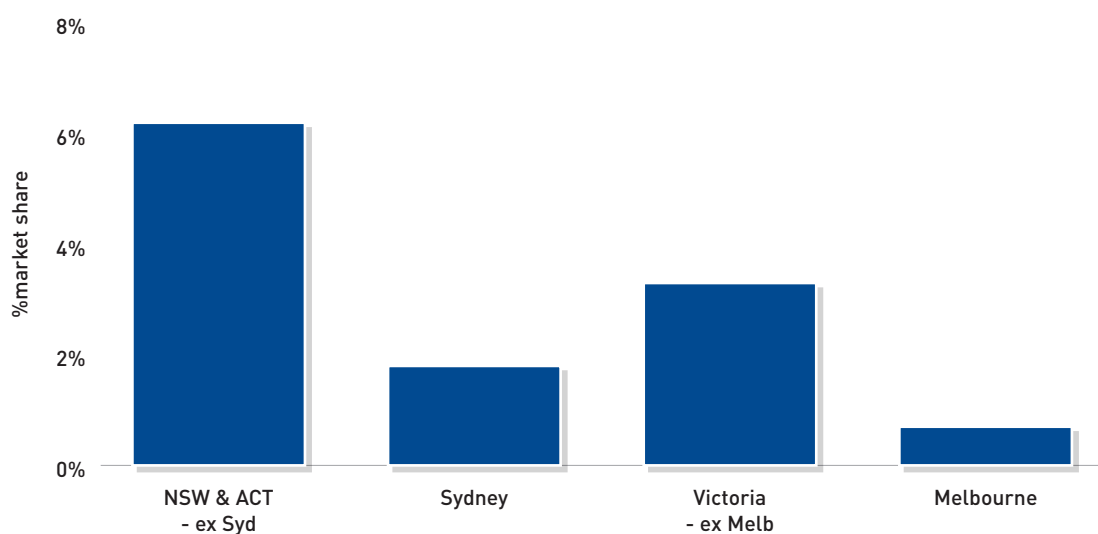
3.14 Localised demand for dental services

Pacific Smiles operates in a large, highly fragmented market. Despite Pacific Smiles being one of the largest corporate owned dental businesses in Australia, its share of the Australian dental services market is less than 2%.

The demand for dental services is localised due to patient preferences for the convenience of attending a dental centre within close proximity to their home or place of work. The localised nature of the demand for dental services allows Pacific Smiles to achieve a strong position in certain local communities as the awareness of the Pacific Smiles brand grows in those communities. A number of Pacific Smiles' more established dental centres have a market share of more than 30% in their local trade area.¹⁰ The average market share for Pacific Smiles centres which have been opened for more than three years is 14%, demonstrating the potential for national market share gains as new centres are rolled out.

Pacific Smiles currently has greater market penetration in regional areas compared to the capital cities, as shown in Figure 12 below. For example, the Company's market share in NSW and ACT, excluding Sydney, is approximately 6% compared to the Company's Sydney market share of less than 2%.

Figure 12: Regional market share analysis



Historically, Pacific Smiles has found relatively more new centre opportunities meeting its criteria in urban fringe and regional areas, where competition tends to be less than in the capital cities. More recently, Pacific Smiles has successfully expanded into capital city locations to take advantage of growth opportunities and the large markets that exist in the capital cities such as Sydney, Melbourne and Canberra.

3.15 Pacific Smiles' growth strategies and initiatives

Pacific Smiles has a record of strong growth since its foundation in 2003. Pacific Smiles has grown EBITDA at a CAGR of 24% over the six years to 30 June 2014. The Company considers that it is well-positioned to execute on the following growth initiatives.

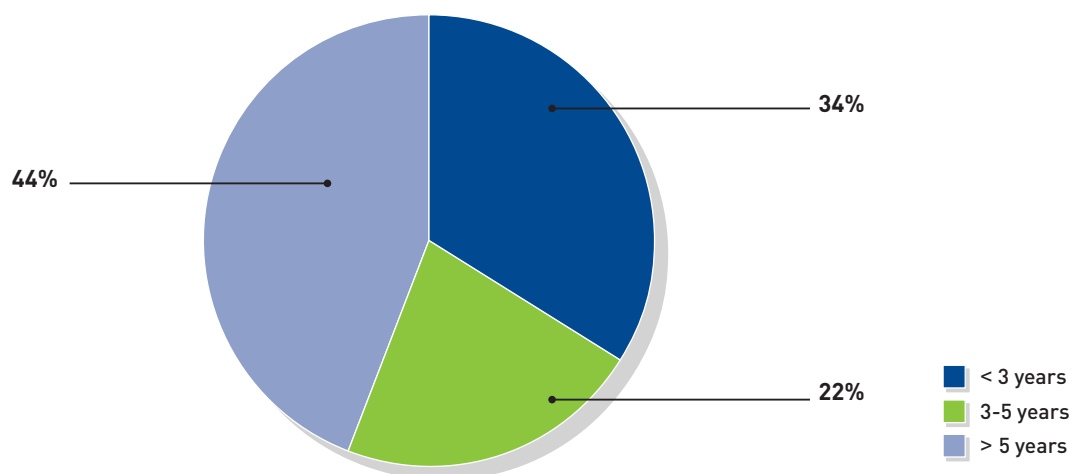
3.15.1 Increased utilisation of existing dental centres

Pacific Smiles opens new centres with spare capacity for future growth. For example, a typical dental centre tenancy with a maximum capacity of four dental chairs, may open with only two dental chairs fitted out and operational. As patient demand builds and more dentists engage Pacific Smiles for that location, further dental chairs are commissioned to meet demand growth with moderate incremental capital investment per additional dental chair commissioned. As at 30 June 2014, Pacific Smiles dental centres contained 203 active dental chairs (78% of total) and 56 inactive dental surgeries available for commissioning within existing dental centres (22% of total).

Approximately one third of the Company's dental centres have been open for less than three years, indicating that there is a significant growth path as the existing portfolio matures.

10. Geotech Information Services, Trade Area Network Planning Report (2013), p. 17.

Figure 13: Centre maturity profile



Pacific Smiles will continue to commission dental chairs within each centre to create additional capacity to meet demand as its market share grows.

Pacific Smiles achieved average Same Centre Patient Fees growth of 9.7% per annum in the six years to 30 June 2014, reflecting the multi-year ramp up of activity within existing centres.

3.15.2 New centre rollout

Pacific Smiles will continue to focus on new centre openings where the Company's stringent criteria are met. Pacific Smiles favours steady growth in new centre openings to maximise the estimated Return on Invested Capital from each new centre. The Company has developed a team within its head office which is capable of delivering its stated rollout target. The Board regularly reviews the optimal rate of new centre rollout.

Pacific Smiles Dental Centres are currently only in the Eastern States / Territories of New South Wales, Victoria, Queensland and Australian Capital Territory; however, the Company aspires to have a national network of dental centres within five years. With the assistance of external consultants, Pacific Smiles has developed a national network plan, identifying a pipeline of new centre opening opportunities including priority locations to target over a five year period. The pipeline is prioritised and analysed on a regular basis and new centre proposals are submitted to the Board for approval.

3.15.2.1 Pacific Smiles' approach to new centre openings

The focus of Pacific Smiles' growth strategy is on opening new dental centres. In Pacific Smiles' experience, opening new centres has the following advantages over acquisitions:

- standardised surgery layouts which facilitate multiple dentists using a single surgery on different days, allowing dentists to effectively practise across multiple Pacific Smiles locations. This, in turn, enables Pacific Smiles to maximise facility utilisation by operating six to seven days per week with extended trading hours;
- Pacific Smiles' facility layout template, refined over many years, is designed to maximise efficiency of the workflows that support dentists, including front desk and administrative support, patient flows from the waiting room to the surgeries, interaction between the dental assistants and the dentists, sterilisation of dental instruments, and replenishment of dental consumables;
- consistent practice management software systems in all dental centre locations;
- organisational culture is typically more consistent across new sites rather than acquired sites;
- no reliance on "vendor dentists", who may not be aligned to Pacific Smiles culture and who may present key person risk through customer relationships;
- policies, procedures, positioning and marketing can all be implemented from start-up in new centres, whereas implementation can be difficult in acquisition situations; and
- in each new location, Pacific Smiles seeks to build in the spare capacity required to satisfy potential future demand in a location. Therefore, new centres can provide Pacific Smiles greater flexibility to grow over the long term. In contrast, smaller dental practices which are available for purchase often do not have expansion capacity in their current location.

3 Company overview (continued)

3.15.2.2 Pacific Smiles' "cluster" strategy

Pacific Smiles has developed a number of geographic "clusters", which are areas with a number of dental centres located within a single regional or urban market. As the dental market is highly localised, dental centres can be located relatively close to each other without significant cannibalisation of patient fees. Operating dental centre clusters under a single brand with consistent operations has a number of benefits including:

- capacity utilisation management: during times of longer patient waiting times or full capacity at a certain centre, patients may be seen at other locations within the cluster;
- sharing of staff and flexible opportunities for dentists: Pacific Smiles' consistent methods of operation and surgery layout facilitate staff and dentists working across Pacific Smiles dental centre locations. This also provides flexibility to cover unexpected absences and optimise capacity utilisation;
- brand awareness and marketing: Pacific Smiles is able to better leverage its brand advertising in areas where advertising spend (for example, radio or local press) can be leveraged across a number of dental centres; and
- cross-referrals: where one Pacific Smiles dental centre is relatively better placed to provide a particular service (for example, implant dentistry) than another centre within the cluster, cross referrals between the dentists at the centres can occur.

3.15.2.3 Site prioritisation and selection

Pacific Smiles has continuously refined its new site prioritisation, selection and centre opening parameters as the Company has grown. In 2013, Pacific Smiles engaged demographic experts to assist with developing a better understanding of the demographic and location based drivers of success for a Pacific Smiles dental centre and priority locations for new centres based on overlaying these success factors with available data on each location.

Pacific Smiles has a database of individual trade areas and the demographic and other statistics relevant to decision making in relation to the opening of new dental centres. These mapped trade areas cover approximately 80% of the Australian population. Pacific Smiles has refined the trade area data, combined with its own proprietary information, to identify priority locations for future centre openings.

Figure 14 below summarises Pacific Smiles' approach to identifying new centre opportunities.

Figure 14: Overview of Pacific Smiles' new centre assessment process

1 Region assessment	2 Location assessment	3 Premises assessment	4 Business proposal
<ul style="list-style-type: none"> • Focused regional assessment aimed at highlighting the opportunities and risks specific to the region. • Consideration given to regional demographics and location of commercial, retail and transport hubs. • Benchmarking against other successful Pacific Smiles regions. • Detailed SWOT and other analyses undertaken. 	<ul style="list-style-type: none"> • Analysis of specific city or suburbs within the region. • Consideration given to current infrastructure and to city planning. • Desktop, field and third party research specific to the location. • Assessment of current providers. 	<ul style="list-style-type: none"> • Identification and assessment of specific premises for new centre site. • Site location suitability is assessed in terms of several qualitative factors. • The physical site is assessed in terms of the suitability for a dental centre layout and services infrastructure. • Rental cost and lease terms and conditions are assessed. 	<ul style="list-style-type: none"> • A detailed business proposal and rationale for the new centre is developed. • The proposal covers off on all details required for the Board to make a decision on whether to proceed. • The proposal includes a detailed budget for the new centre.

Pacific Smiles new centre opening opportunities typically meet the Company's established key criteria in the following areas:

- market size;
- demographic profile;
- private health insurance coverage within the local population;
- local competitive environment;
- location type (assessed by convenience, visibility and other factors);
- centre size and capacity, where capacity is typically measured by number of potential dental chairs;
- available lease term;
- dentist availability; and
- required upfront capital expenditure.

3.15.2.4 New centre financial parameters

Pacific Smiles estimates that, on average, capital expenditure required to open a typical new centre with the capacity for three to four dental chairs, of which two dental chairs are commissioned from opening, will be in the range of \$0.8 million to \$0.9 million. This upfront capital expenditure includes the cost of premises fit-out and equipment.

New Pacific Smiles dental centres exhibit a ramp-up in patient attendances and patient fees as the Pacific Smiles brand develops in the local community.

In the months surrounding a new centre opening, Pacific Smiles will incur a range of start-up costs, including marketing and staff expenditure, which are generally at higher levels as a proportion of patient fees in the early phase of a new centre's life. Pacific Smiles may incur occupancy costs prior to opening, and will also incur expenditure on small instruments which are expensed at the time of purchase. Together these start-up costs result in operating losses at and around the time of opening.

However, as patient flow builds, dental centres can quickly move to a breakeven position within the first year of operation and can become materially profitable in year two.

Figure 15 below shows summary data for the eight new Pacific Smiles Dental branded centres opened in the period June 2011 to October 2012. The table shows average data for these eight centres.

In the first year of operation, this cohort achieved average Patient Fees of \$1.0 million per centre, and approximately nil EBITDA (0% EBITDA to Patient Fees margin).

In year two, the cohort achieved \$1.3 million of Patient Fees and \$0.2 million EBITDA (15% EBITDA to Patient Fees margin). As an indication of the longer term potential of Pacific Smiles dental centres, the Company's existing network of centres which have been open for more than four years achieve a median of \$2.3 million of Patient Fees and \$0.5 million of EBITDA per annum. The median EBITDA to Patient Fees margin for centres trading for more than four years is more than 20%.

Figure 15: Pacific Smiles new centre financial profile

	New Pacific Smiles centres (opened Jun 2011- Oct 2012) ¹		Group median (all centres opened >4 years)
	Year 1	Year 2	
Dental chairs commissioned per centre	2	2	5
Patient Fees per centre ²	\$1.0 m	\$1.3 m	\$2.3 m
EBITDA per centre ²	\$0.0 m	\$0.2 m	\$0.5 m
EBITDA / Patient Fees	0%	15%	More than 20%

1 Figures reflect the average of the eight Pacific Smiles Dental branded centres which opened during the stated period.

2 Figures are rounded to the nearest \$0.1m.

3.15.3 Acquisitions

Pacific Smiles currently favours organic growth rather than acquisition driven growth, except where compelling opportunities present themselves. Any acquisition considered by Pacific Smiles must have the ability to integrate with Pacific Smiles' consistent branding, operating strategy and organisational culture.

In June 2014, Pacific Smiles acquired the assets of Dental and Eyecare Practice (**DEP**) from ahm, a subsidiary of Medibank. Immediately following the acquisition, Pacific Smiles disposed of the eyecare division and rebranded the dental centres "Pacific Smiles Dental".

The DEP business consisted of three New South Wales based dental and eye care service centres, located in Parramatta, Haymarket and Wagga Wagga (dental only), with a total capacity of 35 dental chairs. Pacific Smiles believes that DEP has potential for a significant improvement in performance under Pacific Smiles ownership.

Although Pacific Smiles is focused on an organic growth strategy, the strategic rationale to acquire DEP was considered to be compelling. The investment has significantly expanded Pacific Smiles' presence in the Sydney market and has facilitated a collaborative marketing arrangement with Medibank, in respect of Medibank members and ahm members, which represent 29% of the Australian insured population.

Pacific Smiles intends to improve the operating efficiency of the acquired dental centres by applying the Company's specialist systems, processes and disciplines to bring the acquired centres in line with Pacific Smiles' centre operating benchmarks over a multi-year period.

3.15.4 Private health insurer, corporate and government collaboration

Pacific Smiles intends to continually assess and optimise current collaboration partnerships to maximise benefits to Pacific Smiles, its patients, and collaboration partners. These arrangements are likely to leverage off Pacific Smiles' scale and increasing geographic reach. Future collaboration efforts may include:

- further extending the coverage of Preferred Provider Agreements in each Pacific Smiles dental centre location;
- exploring additional bespoke private health insurer relationships;
- working with state governments and government departments to improve dental care to low income earners; and

3 Company overview (continued)

- providing dental services solutions to the employees of large corporations, in a way that delivers value to the employees and improves oral health care.

3.15.5 Improved supply procurement

Pacific Smiles is able to use its increasing scale to improve the terms it can achieve with key suppliers. This includes clinical consumables, surgery equipment and marketing expenditure.

Pacific Smiles' consumables expense was \$5.3 million in FY2014, of which the vast majority was sourced from large distributors of branded consumables. A negligible proportion was sourced directly from suppliers. Over time, Pacific Smiles will have the opportunity to pursue direct sourcing of consumables, including supplies required to support its rollout strategy.

3.15.6 Labour cost management initiatives

Labour is Pacific Smiles' single largest expense. Pacific Smiles implemented a labour management software system in 2012 which has enabled better control of and management insights into Pacific Smiles' labour costs.

The Company sees an opportunity for further improvement in labour efficiency through improved scheduling and resource allocation within geographic clusters and analysis of best practice locations within its growing network.

3.15.7 Patient engagement initiatives

Pacific Smiles attracts new patients through positive word of mouth in the local communities where the centres are located, as well as through targeted marketing campaigns.

Pacific Smiles has an opportunity to further strengthen its patient relationships via more sophisticated patient engagement initiatives, including the potential introduction of a patient loyalty plan. With more than one million patients in Pacific Smiles' database, opportunities are being explored to introduce programs to improve the frequency of dental visits for preventive care and to reward loyal patients.

3.15.8 Additional Services

With a large patient base and spare capacity within the Pacific Smiles network, the Company has a potential opportunity to increase the range of services available to patients by engaging dentists with skills in cosmetic and implant dentistry and by attracting more specialist and niche dentists.

3.16 People and organisational structure

As at 30 June 2014, Pacific Smiles employed 720 staff across its centres and head office including 55 managers (including dental centre managers), 16 employed dental practitioners (including dentists, dental hygienists, dental therapists), 595 dental centre support staff and 54 other professionals. Dentists contracting Pacific Smiles rely on the support of these staff to deliver dental services to patients.

Pacific Smiles centres are managed by a Centre Manager, whose focus is to provide excellent customer service to dentists and patients. Regional Managers and head office staff provide the Centre Manager with specialised assistance in the areas of operations, practitioner services, human resources, marketing, finance and corporate services.

Figure 16: Overview of Pacific Smiles' people

	Total
Managers (including dental centre managers)	55
Employed dental practitioners ¹¹	16
Dental centre support staff	595
Other professionals	54
Total	720

3.17 Information technology

Pacific Smiles utilises a range of information technology (IT) solutions to support its operational and administrative functions. The IT systems play a critical role in enabling management to optimise the operation of its network of dental centres by centralising a number of processes.

Pacific Smiles' IT systems, strategy and planning are managed centrally, with the assistance of an outsourced IT service provider.

All Pacific Smiles dental centres run the same practice management software. Financial and management information is extracted from the individual centre practice management systems and consolidated at Company head office for reporting purposes.

11. This includes dentists, dental hygienists, and dental therapists.

Pacific Smiles intends to invest further in IT to enhance customer relationship management functionality and to further automate recurring administrative processes.

3.18 Fully owned registered training organisation

Pacific Smiles has established a Registered Training Organisation (**RTO**) for the delivery of the nationally accredited Certificate III and Certificate IV in Dental Assisting. The RTO provides services internally to Pacific Smiles staff, as well as to external customers.

3.19 Company-wide clinical governance and risk management

Pacific Smiles has systems and structures in place to maintain a strict focus on clinical governance and risk management. This includes a Dental Clinical Review Committee (**CRC**), comprising senior dentists, and a Practitioner Services Manager who conduct reviews and reports on opportunities for clinical advancement.

Pacific Smiles seeks to minimise its exposure to operational, financial and reputational risk through a coordinated, integrated and proactive approach to risk management. The Company's sterilisation policies and procedures are compliant with Australian Standards and relevant legislation. Occupational health and safety awareness and training is mandatory for all employees.

Dentists practising from Pacific Smiles' dental centres must have their own Professional Indemnity insurance policy in place. In addition, Pacific Smiles has a Company-wide medical malpractice insurance policy in place to provide protection for Pacific Smiles' business and its clinical staff against liability for claims arising from medical malpractice which result in injury or loss to patients.

Pacific Smiles is also insured against a range of events across its operations. Its comprehensive insurance program covers risks including workers compensation, business interruption, property damage and public liability.



four

Financial information

4 Financial information

4.1 Introduction

This Section contains a summary of the following financial information:

- Pro forma historical financial information of Pacific Smiles, being the:
 - Pro forma historical consolidated income statements of Pacific Smiles for the financial years ended 30 June 2012 (**FY2012**), 30 June 2013 (**FY2013**) and 30 June 2014 (**FY2014**);
 - Pro forma historical consolidated statements of cash flows of Pacific Smiles for FY2012, FY2013, FY2014; and
 - Pro forma historical consolidated balance sheet of Pacific Smiles as at 30 June 2014.(together the **Pro Forma Historical Financial Information**).
- Forecast financial information of Pacific Smiles being the:
 - Pro forma forecast consolidated income statement of Pacific Smiles for the financial year ending 30 June 2015 (FY2015);
 - Statutory forecast consolidated income statement of Pacific Smiles for FY2015;
 - Pro forma forecast consolidated statement of cash flows of Pacific Smiles for FY2015; and
 - Statutory forecast consolidated statement of cash flows of Pacific Smiles for FY2015.(together the **Forecast Financial Information**).

The Pro Forma Historical Financial Information and Forecast Financial Information together form the **Financial Information**.

The Financial Information has been reviewed and reported on by KPMG Transaction Services, whose Investigating Accountant's Report is contained in Section 8.

Also summarised in this Section are:

- the basis of preparation and presentation of the Financial Information (see Section 4.2);
- the Directors' best estimate assumptions underlying the Forecast Financial Information (see Section 4.9.1);
- an analysis of the key sensitivities in respect of the Forecast Financial Information (see Section 4.11);
- a summary of Pacific Smiles' proposed dividend policy (see Section 4.12.1)

All amounts disclosed in the tables are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest \$100,000. Any discrepancies between totals and sums and components in tables, figures and diagrams contained in this Prospectus are due to rounding.

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview

Under the terms of the Offer, Pacific Smiles is offering to issue New Shares and SaleCo is offering to transfer Existing Shares in Pacific Smiles. Refer to Section 7 for further details of the Offer.

The statutory consolidated financial statements of Pacific Smiles Group Limited for FY2013 and FY2014 have been audited by KPMG. KPMG has issued unqualified opinions in respect of both periods. The statutory consolidated financial statements of Pacific Smiles for FY2012 were audited by Pacific Smiles Group Limited's external auditor at that time, and the audit opinion provided by the external auditor was unqualified.

The Financial Information presented in the Prospectus has been reviewed by KPMG Transaction Services, as described in its Investigating Accountant's Report in Section 8. Investors should note the scope and limitations of that report (refer to Section 8).

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the accounting policies of Pacific Smiles as summarised in Section 10.

The Financial Information is presented in abbreviated form and does not include all of the disclosures, statements and comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The significant accounting policies of Pacific Smiles relevant to the Financial Information are set out in Section 10.

In accordance with AASB 8 Operating Segments, Pacific Smiles has determined that it satisfies the criteria to allow the reporting of one aggregated segment, being dental services in Australia, on the basis that each of Pacific Smiles' businesses have materially similar economic and regulatory characteristics, similar services provided and similar customer attributes.

4 Financial information (continued)

4.2.2 Preparation of Pro Forma Historical Financial Information

The pro forma historical financial information for FY2012, FY2013 and FY2014 is based on the audited general purpose statutory consolidated financial statements of Pacific Smiles, adjusted for certain pro forma transactions and/or other adjustments.

Refer to Section 4.3.2 for a reconciliation between the statutory historical consolidated income statements and the pro forma historical consolidated income statements of Pacific Smiles for FY2012, FY2013 and FY2014. Refer to Section 4.7.1 for a reconciliation between the statutory historical consolidated statements of cash flows and the pro forma historical consolidated statements of cash flows of Pacific Smiles for FY2012, FY2013 and FY2014. Refer to Section 4.4 for a reconciliation between the statutory historical consolidated balance sheet and the pro forma historical consolidated balance sheet of Pacific Smiles as at 30 June 2014.

Investors should note that past results do not guarantee future performance.

4.2.3 Preparation of Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors with due care and attention, and having regard to an assessment of present economic and operating conditions, and based on a number of best estimate general and specific assumptions regarding future events and actions. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. The Forecast Financial Information has been reviewed by KPMG Transaction Services but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report (refer to Section 8).

The Directors believe the best estimate assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus; however, this information is not fact and investors are cautioned not to place undue reliance on the Forecast Financial Information.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on Pacific Smiles' actual financial performance or financial position. Accordingly, none of Pacific Smiles, the Directors, Pacific Smiles' management, or any other person can give investors any assurance that the outcomes discussed in the Forecast Financial Information will arise.

Investors are advised to review the Forecast Financial Information in conjunction with the general and specific assumptions set out in Section 4.9, the sensitivity analysis set out in Section 4.11, the risk factors set out in Section 5 and other information set out in this Prospectus.

The Directors have no intention to update or revise the Forecast Financial Information or other forward looking statements following the issue of this Prospectus, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

The Forecast Financial Information is presented on both a statutory and pro forma basis. The statutory forecast consolidated income statements have been prepared on a basis consistent with how Pacific Smiles' statutory financial statements are expected to be prepared for future financial periods.

The pro forma forecast consolidated income statement, which is set out in Section 4.3, differs from the statutory forecast consolidated income statement as the pro forma forecast consolidated income statement reflects the full year effect of the operating and capital structure that will be in place upon completion of the Offer but excludes the costs of the Offer, one-off tax implications arising as a result of the Offer and other non-recurring items which are not expected to occur in the future. See Section 4.3.2 for reconciliations between the statutory and pro forma forecast financial information.

The statutory forecast consolidated income statement for FY2015 is the best estimate of the financial performance that the Directors expect to report in Pacific Smiles' general purpose audited statutory consolidated financial report for FY2015.

The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation of the Historical Financial Information.

4.3 Historical and forecast consolidated income statements

Set out below in Table 1 is a summary of Pacific Smiles' pro forma historical consolidated income statements for FY2012, FY2013 and FY2014, the pro forma forecast consolidated income statement for FY2015 and the statutory forecast consolidated income statement for FY2015.

Table 1: Summary of pro forma historical and forecast consolidated income statements and statutory forecast consolidated income statements

\$ millions	Pro forma historical ^(a)			Pro forma forecast ^(a)	Statutory forecast
	FY2012	FY2013	FY2014	FY2015	FY2015
Revenue	55.6	60.1	59.1	76.1	76.1
Direct expenses	(7.2)	(6.3)	(3.7)	(3.7)	(3.7)
Gross profit	48.4	53.8	55.3	72.4	72.4
Other income	0.9	1.5	1.5	1.2	1.2
Expenses					
Employee expenses	(22.8)	(24.0)	(24.2)	(33.3)	(33.0)
Consumable supplies expenses	(5.4)	(5.5)	(5.3)	(7.1)	(7.1)
Occupancy expenses	(5.0)	(6.0)	(6.0)	(8.0)	(8.0)
Marketing expenses	(1.4)	(1.1)	(0.8)	(1.4)	(1.4)
Administration and other expenses	(5.0)	(6.3)	(6.0)	(6.4)	(8.5)
EBITDA	9.7	12.4	14.5	17.4	15.5
Depreciation and amortisation	(3.3)	(3.6)	(3.8)	(4.5)	(4.5)
EBIT	6.4	8.8	10.8	12.9	11.0
Net finance costs	(0.4)	(0.2)	(0.1)	(0.0)	(0.2)
Profit before tax	6.0	8.6	10.7	12.9	10.8
Income tax expense	(1.8)	(2.8)	(3.3)	(4.0)	(3.4)
Net profit after tax	4.2	5.8	7.4	8.9	7.5

Notes:

(a) The pro forma historical consolidated income statements for FY2012, FY2013 and FY2014 and the pro forma forecast consolidated income statements for FY2015 are reconciled to the respective statutory historical consolidated income statements for FY2012, FY2013 and FY2014 and the statutory forecast consolidated income statements for FY2015 in Section 4.3.2.

4 Financial information (continued)

4.3.1 Key operating and financial metrics

Set out below in Table 2 is a summary of Pacific Smiles' key pro forma historical operating and financial metrics for FY2012, FY2013 and FY2014, and the key pro forma forecast operating and financial metrics for FY2015.

Investors should be aware that certain financial data included in the below table is "non-IFRS financial information" under Regulatory Guide 230 "Disclosing non-IFRS financial information" published by ASIC. Pacific Smiles believes this non-IFRS financial information provides useful information to users in measuring the financial performance and condition of Pacific Smiles. Investors are cautioned not to place undue reliance on any non-IFRS financial information.

Table 2: Pro forma historical and forecast operating and financial metrics for FY2012 to FY2015

	Notes	Pro forma historical			Pro forma forecast	Statutory forecast
		FY2012	FY2013	FY2014	FY2015	FY2015
Key operating metrics						
Number of Dental Centres		31	34	41	47	47
Number of Commissioned Dental Chairs		150	158	203	222	222
Patient Fees (\$m)	(a)	85.6	94.8	95.9	123.2	123.2
Same Centre Patient Fees growth	(b)	15.5%	7.4%	(3.0%)	5.1%	5.1%
Key financial metrics						
EBITDA growth		N/A	28.2%	17.4%	20.1%	7.1%
EBITDA margin	(c)	17.3%	20.6%	24.6%	22.9%	20.4%
EBITDA to Patient Fees margin		11.3%	13.1%	15.1%	14.1%	12.6%
EBIT growth		N/A	37.8%	22.6%	20.0%	2.4%
EBIT margin	(c)	11.4%	14.6%	18.2%	16.9%	14.5%
NPAT growth		N/A	37.2%	28.1%	21.2%	1.4%
NPAT margin	(c)	7.5%	9.6%	12.5%	11.7%	9.8%

Notes:

- (a) Patient fees represents the total patient fees billed by dentists operating in Pacific Smiles dental centres. These fees may be payable by a combination of patient out-of-pocket contributions, and contributions by third parties such as private health insurers and government authorities, amongst others. Patient Fees are primarily billed by dentists who have engaged Pacific Smiles under a Service and Facility Agreement to conduct their clinical practice at dental centres operated by Pacific Smiles. Therefore, the majority of Patient Fees do not form part of the statutory revenue of Pacific Smiles.
- (b) Same centre patient fees growth represents the year on year growth in patient fees for Pacific Smiles dental centres that have been in operation for the full twelve month period of the current financial year and the preceding financial year.
- (c) Margins are calculated based on statutory revenue.

4.3.2 Pro forma adjustments to the statutory historical and forecast consolidated income statements

In presenting the pro forma historical consolidated income statements included in the Prospectus, pro forma adjustments have been made for certain pro forma transactions. In addition, adjustments have been made to reflect the full year impact of additional operating costs that will be in place following Completion of the Offer, including costs associated with being a listed entity. These adjustments are summarised in Table 3 below.

Table 3: Pro forma adjustments to the audited statutory historical consolidated income statements for FY2012, FY2013 and FY2014 and the statutory forecast consolidated income statement for FY2015

\$ millions	Notes	Historical			Forecast
		FY2012	FY2013	FY2014	FY2015
Revenue					
Statutory revenue		55.6	60.1	59.1	76.1
Pro forma revenue		55.6	60.1	59.1	76.1
NPAT					
Statutory NPAT		4.6	6.1	7.8	7.5
Adjustments					
Listed public company costs	(a)	(0.6)	(0.6)	(0.6)	(0.2)
Transaction costs	(b)	–	–	–	2.1
Net interest	(c)	–	–	–	0.1
Income tax effect	(d)	0.2	0.2	0.2	(0.6)
Pro forma NPAT		4.2	5.8	7.4	8.9

Notes:

- (a) **Listed public company costs** – an adjustment has been made to include Pacific Smiles' estimate of the incremental annual costs that it will incur as a listed public company. These incremental costs include increased remuneration for Directors and certain Executives, implementation of a long-term equity-based incentive plan, listing fees, share registry fees, additional audit and legal costs, investor relations costs, as well as annual general meeting and annual report costs. The adjustment in FY2015 is to provide a full year impact of the additional costs, as the statutory forecast only includes those costs forecast to be incurred from completion of the Offer to 30 June 2015.
- (b) **Transaction costs** – total expenses of the Offer are estimated at \$3.0 million, of which \$2.1 million (\$1.5 million net of income tax) is expensed in the Statutory Forecast Results relating to the sale of Existing Shares. The remaining \$0.9 million (\$0.6 million net of tax) is directly attributable to the issue of New Shares and hence will be offset against equity raised in the Offer.
- (c) **Net interest** – as part of the Offer, outstanding borrowings at the time of the Offer will be repaid out of proceeds from the Offer with excess proceeds being used to help fund the new centre rollout in FY2015. Refer to Section 4.4 for the pro forma consolidated balance sheet. The adjustment is to reflect the full year impact on interest income and interest expense as if the Offer had taken effect on the opening balance at 1 July 2014.
- (d) **Income tax effect** – the tax effect number presented in Table 3 represents the income tax effect of the above adjustments at the Australian corporate tax rate of 30%.

4 Financial information (continued)

Set out in Table 4 below is the statutory historical consolidated income statements for FY2012, FY2013 and FY2014.

Table 4: Statutory historical consolidated income statements for FY2012, FY2013 and FY2014

\$ millions	Statutory historical		
	FY2012	FY2013	FY2014
Revenue	55.6	60.1	59.1
Direct expenses	(7.2)	(6.3)	(3.8)
Gross profit	48.4	53.8	55.3
Other income	0.9	1.5	1.5
Expenses			
Employee expenses	(22.4)	(23.6)	(23.8)
Consumable supplies expenses	(5.4)	(5.5)	(5.3)
Occupancy expenses	(5.0)	(6.0)	(6.0)
Marketing expenses	(1.4)	(1.1)	(0.8)
Administration and other expenses	(4.9)	(6.2)	(5.9)
EBITDA	10.2	12.9	15.1
Depreciation and amortisation	(3.3)	(3.6)	(3.8)
EBIT	6.9	9.3	11.3
Net finance costs	(0.4)	(0.2)	(0.1)
Profit before tax	6.6	9.1	11.2
Income tax expense	(2.0)	(3.0)	(3.5)
Net profit after tax	4.6	6.1	7.8

4.4 Pro forma historical consolidated balance sheet

The pro forma historical consolidated balance sheet as at 30 June 2014 in Table 5 is based on the audited statutory historical consolidated balance sheet as at 30 June 2014, adjusted for certain pro forma adjustments to reflect the impact of the change in capital structure that will take place as part of the Offer, as if it was in place as at 30 June 2014.

Table 5: Pro forma historical consolidated balance sheet as at 30 June 2014

\$ millions	Notes	Statutory 30-Jun-14	Impact of the Offer	Pro forma 30-Jun-14
Current assets				
Cash and cash equivalents	(a)	3.8	8.1	11.9
Receivables		3.6	–	3.6
Inventories		2.0	–	2.0
Other		0.1	–	0.1
Total current assets		9.5	8.1	17.6
Non-current assets				
Property, plant and equipment		22.0	–	22.0
Intangible assets		11.6	–	11.6
Deferred tax assets	(b)	3.2	0.9	4.0
Total non-current assets		36.8	0.9	37.6
Total assets		46.3	9.0	55.2
Current liabilities				
Payables		(9.5)	–	(9.5)
Borrowings		(0.2)	–	(0.2)
Current tax liabilities		(1.6)	–	(1.6)
Provisions		(2.8)	–	(2.8)
Total current liabilities		(14.0)	–	(14.0)
Non-current liabilities				
Borrowings	(c)	(9.4)	9.0	(0.4)
Deferred tax liabilities		(0.4)	–	(0.4)
Provisions		(3.6)	–	(3.6)
Total non-current liabilities		(13.4)	9.0	(4.4)
Total liabilities		(27.4)	9.0	(18.4)
Net assets		18.8	18.0	36.8
Equity				
Contributed equity	(d)	13.2	21.7	34.8
Retained profits	(e)	5.7	(3.7)	2.0
Total equity		18.8	18.0	36.8

Notes:

- (a) Cash increases by \$8.1 million as a result of cash proceeds from the Offer (\$20.3 million) and proceeds from the payment of partly paid shares (\$2.0 million), offset by the costs of the Offer (\$3.0 million), repayment of borrowings (\$9.0 million) and cash outflow from a pre-IPO special dividend (\$2.1 million after the impact of partly paid shares).
- (b) Reflects the deferred tax assets of \$0.9 million arising as a result of the transaction costs of \$3.0 million. It is assumed that these costs are deductible to Pacific Smiles for tax purposes over five years.
- (c) Non-current borrowings decrease by \$9.0 million on repayment of an existing bank loan from proceeds of the Offer.
- (d) Contributed equity increases by \$21.7 million as a result of the portion of the proceeds of the Offer which is received by Pacific Smiles through the issue of New Shares (\$20.3 million), monies received on partly paid shares in respect of the amounts outstanding (\$0.1 million via the pre-IPO special dividend and a further \$2.0 million to fully pay up the unpaid balances on the shares), offset by the after-tax IPO transaction costs applied against equity (\$0.6 million).
- (e) Retained profits decreases by \$3.7 million due to the payment of the pre-IPO special dividend at Completion (\$2.2 million), and total costs of the Offer expensed in the FY2015 Statutory Forecast Results (\$1.5 million net of tax).

On 15 September 2014, Pacific Smiles declared a final fully franked dividend of \$3.4 million in respect of the FY2014 year. This final dividend was paid to the existing shareholders of Pacific Smiles on 13 October 2014. As this final dividend for FY2014 was paid in the ordinary course of operations on a consistent basis with the dividend policy adopted by the Board and outlined in Section 2.1, this final FY2014 dividend has not been adjusted in the pro forma consolidated historical balance sheet set out in Table 5 above.

4 Financial information (continued)

4.4.1 Pro forma adjustments to the statutory balance sheet

In conjunction with the Offer, Pacific Smiles will issue new equity, which together with available cash will be used to:

- pay a fully franked pre-IPO special dividend of \$2.2 million, which was declared by Pacific Smiles on 3 November 2014 and will be paid to the entitled shareholders on Settlement of the Offer;
- pay down borrowings; and
- pay the costs of the Offer.

Details of the pro forma adjustments to the statutory audited consolidated balance sheet of Pacific Smiles as at 30 June 2014 are set out in the notes to Table 5 above. The pro forma historical consolidated balance sheet is provided for illustrative purposes and is not represented as being necessarily indicative of Pacific Smiles' view on its future financial position. Further information on the sources and uses of funds of the Offer is contained in Section 7.1.3.

4.5 Indebtedness

4.5.1 Indebtedness

Set out below in Table 6 is a summary of the indebtedness of Pacific Smiles as at 30 June 2014, before and following the impacts of Completion of the Offer.

Table 6: Pro forma indebtedness as at 30 June 2014

\$ millions	Statutory 30-Jun-14	Pro forma 30-Jun-14
Current borrowings	0.2	0.2
Non-current borrowings	9.4	0.4
Total borrowings	9.6	0.6
Cash and cash equivalents	3.8	11.9
Net total indebtedness/(Net total cash)	5.9	(11.3)
Net debt/FY2014 pro forma EBITDA (times)		N/A
Net debt/FY2015 pro forma EBITDA (times)		N/A

4.5.2 Description of the debt finance facilities

(a) Overview

Pacific Smiles has existing debt financing with Commonwealth Bank, under which it had drawn total borrowings of \$9.6 million as at 30 June 2014. It is proposed that Pacific Smiles repay \$9.0 million of this outstanding debt from the Offer proceeds, representing a paydown of all drawn debt as at 30 June 2014 (excluding asset finance liabilities of \$0.6 million). The debt facilities will remain in place following Listing.

The debt finance facilities are not anticipated to be fully drawn over the forecast period but are intended to provide Pacific Smiles with additional funding flexibility. After Completion of the Offer, the Board will consider whether to reduce any of the existing facility limits.

The current debt finance facilities are presented in Table 7 below.

Table 7: Debt finance facilities

\$ millions	Commonwealth Bank
Multi-option facility provided in respect of a contingent liability – bank guarantee facility	3.00
Market rate loan	9.30
Overdraft	0.50
Asset finance facility	0.60
Credit card facility	0.06
Total facilities	13.46

The terms and conditions for the existing debt financing with the Commonwealth Bank are set out in the Letter of Offer dated 17 June 2014 from Commonwealth Bank to Pacific Smiles and the CBA Current Terms and Conditions for Business Finance (together, the 'CBA Facility Agreement').

The Multi-option facility enables the Company to obtain bank guarantees. As it relates to bank guarantees, the Multi-option Facility does not have an interest rate, but attracts a line fee. The Multi-Option Facility is subject to annual review.

The Market Rate Loan is provided to assist the Company with its working capital requirements. It has a variable interest rate which is based on BBSY plus a margin. Repayments of amounts drawn under the Market Rate Loan by the Company are interest only with a final bullet principal payment at maturity (being the date which is 3 years after the first funding date). The Market Rate Loan attracts a number of fees including a line fee, usage fee, liquidity fee, reset fee and rollover fee.

(b) Representations, warranties and undertakings, events of default and other considerations

The CBA Facility Agreement contains a number of market standard representations, warranties and undertakings appropriate for a company of equivalent standing to Pacific Smiles. The undertakings include information reporting undertakings, undertakings in relation to the disposal of assets and the granting of security, and the financial covenants described below in Section 4.5.2(d).

The CBA Facility Agreement contains a number of market standard events of default which are appropriate for a company of equivalent standing to Pacific Smiles and for a business of its nature and includes events of default relating to a failure to pay, the occurrence of an insolvency event, breach of a term or condition or an unacceptable material change to ownership.

Provided that Pacific Smiles does not breach the financial covenants and other ‘look forward’ conditions, the CBA Facility Agreement does not contain a restriction on payment of distributions.

(c) Security

The debt finance facilities provided by Commonwealth Bank are secured by a registered equitable mortgage over the whole of the assets and undertakings of Pacific Smiles, including uncalled capital and an unlimited guarantee and all-assets security over the whole of the assets and undertaking of each other member of the Group.

(d) Financial covenants

The CBA Facility Agreement includes the following financial covenants which will be tested semi-annually on the last day of each June and December.

- **Net Worth Covenant (Percentage):** Pacific Smiles’ adjusted net worth (being, in summary, the total assets of the Group less total external liabilities) must not be less than 40% of total tangible assets plus total non-tangible assets;
- **Net Worth Covenant (Amount):** Pacific Smiles must maintain an adjusted net worth of not less than \$11 million; and
- **Debt Repayment Coverage Ratio:** Pacific Smiles must for each reporting period maintain a debt repayment coverage ratio of equal to or greater than 1.6x. This is calculated as net profit after taxation plus interest plus depreciation plus amortisation divided by the ‘total financial commitments’.

(e) Liquidity and capital

Following completion of the Offer, Pacific Smiles’ principal sources of funds will be cash flow from operations. It expects to be in a net cash position following completion of the Offer.

Pacific Smiles expects that it will have sufficient cash flow from operations to meet its operational requirements and business needs during the forecast period. Pacific Smiles expects that its operating cash flows, together with borrowings, will position Pacific Smiles to grow its business in accordance with the Forecast Financial Information.

4.6 Commitments

4.6.1 Contractual obligations and commitments

Operating lease commitments include contracted amounts for rental of premises and equipment under non-cancellable operating leases. Contractual escalation clauses have been factored into the commitments disclosed.

Capital expenditure was contracted for but not incurred and hence was not recognised as a liability as at 30 June 2014. Such capital expenditure commitments related to work in progress on the fit-outs of new dental centre locations.

Contractual obligations and commitments as at 30 June 2014 are presented in Table 8.

Table 8: Contractual obligations and commitments

\$ millions	Payments due by period		
	< 1 year	1- 5 years	> 5 years
Operating lease commitments	6.2	19.1	16.9
Capital expenditure commitments	0.4	–	–

4.6.2 Contingent liabilities

Pacific Smiles is required to provide bank guarantees as security under certain operating leases for premises. The bank guarantees issued are within Pacific Smiles’ debt financing facilities with Commonwealth Bank outlined in Section 4.5.2.

Bank guarantees as at 30 June 2014 amounted to \$1.6 million.

4 Financial information (continued)

4.7 Consolidated historical and forecast statements of cash flows

Set out below in Table 9 are Pacific Smiles' pro forma historical consolidated statements of cash flows for FY2012, FY2013 and FY2014, the pro forma forecast consolidated statement of cash flows for FY2015 and the statutory forecast consolidated statement of cash flows for FY2015.

Table 9: Summary pro forma historical and forecast consolidated statements of cash flows and statutory forecast consolidated statement of cash flows

\$ millions	Notes	Pro forma historical ^(a)			Pro forma forecast	Statutory forecast
		FY2012	FY2013	FY2014	FY2015	FY2015
EBITDA		9.7	12.4	14.5	17.4	15.5
Non-cash items		0.0	0.5	0.3	0.1	0.1
Changes in working capital (excluding income tax)		1.2	1.0	1.8	2.7	2.7
Operating free cash flow (before capital expenditure)		10.9	13.8	16.6	20.2	18.3
Capital expenditure (excluding new centres)	(b)	(1.7)	(0.9)	(1.3)	(3.1)	(3.1)
Operating free cash flow (before new centre capital expenditure)		9.2	12.9	15.3	17.1	15.2
New centre capital expenditure	(b)	(5.3)	(2.3)	(4.0)	(7.1)	(7.1)
Acquisition of businesses	(c)	–	–	(6.0)	1.5	1.5
Proceeds from disposal of business	(c)	0.7	–	0.1	–	–
Net free cash flow (before financing, tax and dividends)	(a)	4.6	10.6	5.3	11.5	9.6
Tax paid					(4.5)	(3.9)
Net finance costs paid					(0.0)	(0.2)
Borrowings (net)					–	(9.0)
Dividends paid					(5.8)	(7.9)
Proceeds from issue of shares					–	21.3
Net cash flow					1.2	9.9

Notes:

- (a) The pro forma historical consolidated statement of cash flows for FY2012, FY2013 and FY2014 have been presented before financing activities, tax and dividends, on the basis that Pacific Smiles' capital structure following Completion of the Offer will be different from that in place during the historical period to Completion of the Offer. The pro forma historical consolidated statements of cash flows for FY2012, FY2013 and FY2014 and the pro forma forecast consolidated statement of cash flows for FY2015 are reconciled to the respective statutory historical consolidated statements of cash flows for FY2012, FY2013 and FY2014 and the statutory forecast consolidated statement of cash flows for FY2015 in Section 4.7.1.
- (b) On a number of previous occasions, Pacific Smiles has relocated dental centres. When this has occurred, it has involved exiting the previous premises and developing and opening a dental centre at another location nearby. Where applicable, "New centre capital expenditure" presented in the statements of cash flows in this Section 4.7 includes capital expenditure incurred to establish new dental centres as a result of relocating existing dental centres.
- (c) Relates to the acquisition of three Dental & Eye Care Practices from Medibank in June 2014 and immediate disposal of the Eye Care Practices. Refer Section 3.15.3 for further details.

4.7.1 Pro forma adjustments to the statutory consolidated statements of cash flows

In presenting the pro forma historical consolidated statements of cash flows and the pro forma forecast consolidated statement of cash flows included in the Prospectus, adjustments to the audited statutory historical consolidated statements of cash flows and statutory forecast consolidated statement of cash flows have been made for certain pro forma transactions and/or other adjustments to eliminate certain non-recurring items. These adjustments are summarised in Table 10 and Table 11 below.

Table 10: Pro forma adjustments to the statutory historical consolidated statement of cash flows for FY2012, FY2013 and FY2014

\$ millions	Notes	Historical		
		FY2012	FY2013	FY2014
Statutory free cash flow (before financing, tax and dividends)		5.0	11.0	5.8
Listed public company costs	(a)	(0.4)	(0.4)	(0.4)
Pro forma net free cash flow (before financing, tax and dividends)		4.6	10.6	5.3

Table 11: Pro forma adjustments to the statutory forecast consolidated statement of cash flows for FY2015

\$ millions	Notes	Forecast FY2015
Statutory net cash flow		9.9
Listed public company costs	(a)	(0.2)
Transaction costs expensed	(b)	2.1
Proceeds from issue of shares (net of capitalised transaction costs)	(c)	(21.3)
Repayment of borrowings	(d)	9.0
Pre IPO special dividend	(e)	2.1
Net interest paid	(f)	0.2
Tax paid	(g)	(0.6)
Pro forma net cash flow		1.2

Notes:

- (a) **Listed public company costs** – An adjustment has been made to reflect Pacific Smiles' estimate of the cash flow impact of incremental annual costs that it will incur as a listed public company. The adjustment in FY2015 is to provide a full year impact of the additional costs as the statutory forecast includes those costs forecast to be incurred from the Completion of the Offer to 30 June 2015. The adjustment assumes the expense is paid in the same year as it is incurred, with the exception of the expense related to accounting for performance rights under Pacific Smiles' equity-based long term incentive plan (\$0.05 million pro forma adjustment in FY 2015 and \$0.1 million on an annualised basis in the historical FY2012, FY2013 and FY2014 years). Expenses associated with these share-based payments are non-cash in nature.
- (b) **Transaction costs** – \$2.1 million represents the amount of the transaction costs which are expensed to the statutory forecast consolidated income statement for FY2015 but are not included in the Pro forma consolidated income statement for FY2015.
- (c) **Proceeds from the issue of Shares (net of capitalised transaction costs)** – As outlined in Section 7.1, Pacific Smiles is proposing to raise \$20.3 million via the issue of New Shares as part of the Offer. Further, 5.5 million partly paid shares were on issue at the time of the Offer, and the unpaid amounts on those shares will be called up and paid to Pacific Smiles at Completion. The unpaid amounts on partly paid shares is \$2.1 million, of which \$0.1 million will be paid up via application of the pre-IPO special dividend and the remaining \$2.0 million from a combination of funds directly from the holders and from the proceeds of sale of some Existing Shares under the Offer. Proceeds from the issue of shares is reduced by \$0.9 million of capitalised transaction costs.
- (d) **Repayment of borrowings** – As previously mentioned, the proceeds from the issue of New Shares will be used in part to pay down existing borrowings by \$9.0 million, representing all borrowings except asset finance liabilities.
- (e) **Pre IPO special dividend** – As part of the Offer, a pre-IPO special dividend of \$2.2 million (representing cash of \$2.1 million after \$0.1 million is applied to the unpaid balance of partly paid shares rather than paid in cash) is proposed to be paid.
- (f) **Net interest** – The adjustment reflects the full year impact on interest income and interest expense as if the excess raised in connection with the Offer had taken effect on the opening balance at 1 July 2014.
- (g) **Tax paid** – Represents the tax impact of the above adjustments net of those adjustments which are not tax deductible (such as share based payment expense) at 30%, being the Australian corporate tax rate. The adjustment assumes the tax is paid according to Pacific Smiles expected income tax instalment obligations.

On 15 September 2014, Pacific Smiles declared a fully franked final dividend of \$3.4 million in respect of the FY2014 year. The FY2014 final dividend was paid to shareholders on record at 15 September 2014 on 13 October 2014. This final dividend for FY2014 is consistent with the dividend policy adopted by the Board and outlined in Section 4.12.1, and hence this final FY2014 dividend has not been treated as a pro forma adjustment to the statutory forecast consolidated statement of cash flows for FY2015.

4 Financial information (continued)

4.8 Management discussion and analysis of the Pro Forma Historical Financial Information

4.8.1 General factors affecting the operating results of Pacific Smiles

Below is a discussion of the main factors which affected Pacific Smiles' operations and relative financial performance in FY2012, FY2013 and FY2014 and which Pacific Smiles expects may continue to affect it in the future.

The discussion of these general factors is intended to provide a brief summary only and does not detail all factors that affected Pacific Smiles' historical operating and financial performance, or everything that may affect Pacific Smiles' operating and financial performance in the future. The information in this Section should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

(a) Revenue

An overview of the different revenue streams generated by Pacific Smiles and the key drivers of each revenue stream is set out below.

Pacific Smiles primarily generates revenue by charging dentists a monthly fee for the supply of services and facilities. Pacific Smiles also generates a small portion of revenue via the direct provision of dental services to patients through its employed dentists. Key drivers of revenue include:

- **Patient fees** – are primarily billed by dentists who have engaged Pacific Smiles' under a Service and Facility Agreement and conduct their clinical practices at dental centres operated by Pacific Smiles. Patient fees billed by dentists are not included in the statutory revenue reported by Pacific Smiles. However, the patient fees collected by Pacific Smiles on behalf of dentists form the basis for the monthly service and facility fee revenue earned and recognised by Pacific Smiles.

Patient fees are affected by the number of patient appointments in a given period, the nature of the dental treatments provided at each appointment, and the prices of these treatments.

- **Service and facility fees** – are the fees payable by dentists to Pacific Smiles in exchange for the provision of dental facilities and support services. The service and facility fee is typically based on a percentage of monthly patient receipts (net of dentists' direct costs) and is structured to incentivise high performance and productivity, with higher hourly billing rates by the dentists attracting a lower service fee percentage.

Pacific Smiles also generates revenue from patient fees earned by a small number of dentists that are employed directly by Pacific Smiles or under contract as locums. Where a dentist is employed directly by Pacific Smiles or operates under a locum contract, the full patient fees are recognised by Pacific Smiles as revenue. The cost of employee dentists and locum dentists is recognised as a direct expense.

(b) Gross Profit

Gross Profit largely represents the net income to Pacific Smiles from service and facility fees from dentists, as well as revenue from direct patient billings by employed dentists to patients, less direct expenses. A comparatively small amount of gross profit is also derived from the sale of oral health products at the Company's dental centres.

(c) Other Income

On an ongoing basis, the main source of Other Income is rents from sub-leasing space within some of Pacific Smiles' leased premises where the space is not required for dental centre or corporate operations in the near term. From time to time, other sundry items form part of Other Income.

(d) Expenses

Key expenses include:

- **Direct expenses** – As outlined previously, Pacific Smiles' operating model involves independent dentists engaging the Company under Service and Facility Agreements to provide dental facilities and support services in exchange for a monthly fee. In certain limited circumstances, a small number of dentists are directly employed or contracted by a subsidiary of Pacific Smiles. The wages, commissions and other costs payable by a Pacific Smiles' subsidiary and which are directly associated with engaging employee or contracted dentists (not including dentists who engage Pacific Smiles under Service and Facility Agreements) are reported as "Direct expenses".
- **Employee expenses** – Pacific Smiles' major operating expense is employee costs, which include salaries, wages and other employee related costs of staff employed by Pacific Smiles at the Company's dental centres and head office. Employee costs are primarily fixed in nature in the short term, with the number of employees generally varying depending on the number of centres that Pacific Smiles' operates. Once dental centres become established and the scale of their operations grows, incremental employee costs tend to be more variable. Pacific Smiles' employment relationship with its staff is governed by relevant awards, individual employment agreements and an enterprise agreement.
- **Consumable supplies expenses** – Consumable supplies include infection control products, paper products, anaesthetics, filling materials, and other products used in providing dental services, together with office supplies. These costs are primarily variable in nature and move in line with patient volumes.

- **Occupancy expenses** – Occupancy costs consist of lease costs for dental centres and head office, as well as premises-related costs such as repairs and maintenance. The majority of leases are on five to ten year terms (with options for Pacific Smiles to extend) and feature a mix of annual CPI-driven and fixed price increases. Payments made under non-cancellable operating leases, net of incentives received from the lessor, are charged to profit and loss on a straight-line basis over the period of the lease.
- **Marketing expenses** – Marketing expenses represent direct expenditure on advertising and promotion via a range of channels, including media, sponsorship, print collateral, promotional merchandise and on-line.
- **Administration and other expenses** – Administration and other costs include overhead costs associated with the dental centres as well as the corporate head office, including IT, equipment repairs and maintenance, cleaning, telecommunications, utilities, legal, insurance, audit and professional fees.
- **Depreciation and amortisation** – Depreciation and amortisation primarily relates to the depreciation of leasehold improvements and plant and equipment at dental centres.

(e) Working capital

Typically patients are required to pay for dental treatment at the time of their appointment. As Pacific Smiles typically remits patient fees to dentists (less services fees payable to Pacific Smiles) and other operating costs monthly, Pacific Smiles has a negative working capital balance (reflected in the excess of trade payables over trade receivables and inventory on the balance sheet). This represents a form of funding for Pacific Smiles.

(f) Capital expenditure (excluding new centres)

Capital expenditure (excluding new centres) relates to maintenance capital expenditure associated with the general purchase and replacement of operational assets such as dental equipment, IT equipment and refurbishment of dental centre facilities, as well as expenditure incurred to activate additional dental surgeries within existing dental centres.

(g) New centre capital expenditure

New centre capital expenditure largely relates to the cost of fitting out and equipping premises to open new dental centres as part of Pacific Smiles' strategy of organic growth via new centre openings.

4.8.2 Pro forma historical consolidated income statements: FY2013 compared to FY2012

Table 12 sets out the summary pro forma historical consolidated income statements and selected key performance indicators for FY2012 and FY2013.

Table 12: Summary of pro forma historical consolidated income statements and selected key performance indicators for FY2012 and FY2013

\$ millions	Pro forma historical		
	FY2012	FY2013	% Change
Revenue	55.6	60.1	8.0%
Direct expenses	(7.2)	(6.3)	(13.1%)
Gross profit	48.4	53.8	11.1%
Other income	0.9	1.5	67.1%
Expenses			
Employee expenses	(22.8)	(24.0)	5.4%
Consumable supplies expenses	(5.4)	(5.5)	2.8%
Occupancy expenses	(5.0)	(6.0)	20.7%
Marketing expenses	(1.4)	(1.1)	(26.5%)
Administration and other expenses	(5.0)	(6.3)	24.8%
EBITDA	9.7	12.4	28.2%
Depreciation and amortisation	(3.3)	(3.6)	9.5%
EBIT	6.4	8.8	37.8%
Net finance costs	(0.4)	(0.2)	(45.9%)
Profit before tax	6.0	8.6	42.9%
Income tax expense	(1.8)	(2.8)	55.9%
Net profit after tax	4.2	5.8	37.2%

4 Financial information (continued)

Table 12: Summary of pro forma historical consolidated income statements and selected key performance indicators for FY2012 and FY2013 (continued)

	Pro forma historical		
	FY2012	FY2013	% Change
Key operating metrics			
Number of Dental Centres	31	34	9.7%
Number of Commissioned Dental Chairs	150	158	5.3%
Patient Fees (\$m)	85.6	94.8	10.7%
Same Centre Patient Fees growth	15.5%	7.4%	
Key financial metrics			
EBITDA growth	N/A	28.2%	
EBITDA margin	17.3%	20.6%	
EBITDA to Patient Fees	11.3%	13.1%	
EBIT growth	N/A	37.8%	
EBIT margin	11.4%	14.6%	
NPAT growth	N/A	37.2%	
NPAT margin	7.5%	9.6%	

Revenue

Revenue grew 8.0%, from \$55.6 million in FY2012 to \$60.1 million in FY2013 due to:

- Patient fees generated by dentists at Pacific Smiles dental centres increasing by 10.7%, from \$85.6 million in FY2012 to \$94.8 million in FY2013, arising from:
 - Same Centre Patient Fees growth of 7.4% associated with an increase in the number of appointments attended at existing dental centres;
 - full year contribution of the four new centres opened in FY2012 including Woden in the ACT, Kotara in Newcastle, Northlakes in Southern Queensland and Penrith in Sydney's west; and
 - part-year contribution from the new dental centres established in FY2013 including Bendigo in regional Victoria, Bateau Bay on the Central Coast and Belmont on Lake Macquarie.
- The increase in patient fees in turn led to an increase in revenue from service and facility fees charged by Pacific Smiles to dentists. Pacific Smiles overall gross profit margin on patient fees remained largely consistent in FY2012 and FY2013 at 56.5% and 56.8% respectively.
- Revenue in FY2012 included \$1.8 million in professional services and product sales relating to a retail optometry and eye care business owned by Pacific Smiles until November 2011, from which time it was sold to a specialist eye care operator. Direct Expenses in FY 2012 included \$1.0 million of cost of sales and other direct expenses for the eye care business. There was no Revenue or Direct Expenses relating to the former eye care business for FY2013.
- Other income increased by 67.1% in FY2013 as a result of the release of contingent consideration of \$0.5 million which did not become payable in relation to an historical acquisition of a dental centre. This was offset by an equal impairment expense in administration and other expenses as described below.

Total operating expenses

Total operating expenses (excluding direct expenses) grew 8.3%, from \$39.7 million in FY2012 to \$42.9 million in FY2013 as a result of:

- 5.4% increase in employee expenses from an increase in employee numbers associated with new dental centres opened in FY2013 and the full year contribution of new centres opened in FY2012 and modest wage rises to Pacific Smiles employees. Despite an increase in patient fees of 10.7%, employee expenses increased by only 5.4%. This was attributable to the implementation of an on-line rostering and payroll system during FY2013 and a focus on labour management.
- 2.8% increase in consumables expenses associated with an increase in the number of appointments, offset by savings derived from improved procurement savings.
- 20.7% increase in occupancy expenses related to the full year impact of lease costs on new centres opened in FY2012, the part year impact of lease costs on new centres opened in FY2013 and initial recognition of an onerous contract provision in FY2013.
- 26.5% reduction in marketing expenses as a result of focusing on in-house development and execution of marketing initiatives and a shift towards lower-cost electronic marketing techniques.
- 24.8% increase in administration and other expenses is primarily due to an impairment charge of \$0.8 million relating to the write down of the carrying value of goodwill in relation to two dental centres acquired in previous years. This amount also includes \$0.5 million which is offset by a related increase in Other Income which was recognised as a result of reversal of a liability for contingent consideration which did not become payable.

EBITDA and EBIT

EBITDA increased by 28.2%, from \$9.7 million in FY2012 to \$12.4 million in FY2013 as a result of an 11.1% growth in gross profit and an 8.3% increase in operating expenses. The lower level of expense increase relative to gross profit increase resulted in EBITDA margin expanding from 17.3% to 20.6% over the same period.

EBIT grew 37.8% in FY2013 to \$8.8 million, with the EBIT margin expanding from 11.4% to 14.6% over the same period.

4.8.3 Pro forma historical consolidated statements of cash flows: FY2013 compared to FY2012

Table 13 sets out the summary pro forma historical consolidated statements of cash flows for FY2012 and FY2013.

Table 13: Pro forma historical consolidated statements of cash flows for FY2012 and FY2013

\$ millions	Pro forma historical		
	FY2012	FY2013	% Change
EBITDA	9.7	12.4	28.2%
Non-cash items	0.0	0.5	N/A
Changes in working capital	1.2	1.0	(20.7%)
Operating free cash flow (before capital expenditure)	10.9	13.8	26.6%
Capital expenditure (excluding new centres)	(1.7)	(0.9)	(44.7%)
Operating free cash flow (before new centre capital expenditure)	9.2	12.9	39.8%
New centre capital expenditure	(5.3)	(2.3)	(57.8%)
Proceeds from disposal of business	0.7	–	(100.0%)
Net free cash flow (before financing, tax and dividends)	4.6	10.6	131.9%

Net free cash flow (before financing, tax and dividends)

Net cash flow (before financing, tax and dividends) increased 131.9% in FY2013 to \$10.6 million, from \$4.6 million in FY2012. This is predominantly due to a 28.2% increase in EBITDA and a reduction in both new centre and other capital expenditure.

Working capital

The cash inflow from working capital of \$1.0 million in FY2013 reflects the impact of higher patient fees collected in FY2013 compared with FY2012.

Capital expenditure

Capital expenditure (excluding new centres) decreased by 44.7% in FY2013 to \$0.9 million, from \$1.7 million in FY2012. This is primarily related to a reduced requirement for maintenance capital expenditure in FY2013 following the relocation (including renewal of equipment) and refurbishment of several dental centres in FY2012.

New centre capital expenditure decreased by 57.8% in FY2013 to \$2.3 million compared to \$5.3 million FY2012. This decrease is related to a decline in the number of new dental centre opened in the year and dental centre relocations. In FY2012 there were a total of four new centres opened, and there were two dental centre relocations, including the relocation of the large format centre in Sydney. In FY2013 there were a total of three new centres opened.

Proceeds from disposal of business

The proceeds from disposal of business of \$0.7 million in FY2012 relates to the consideration received from the sale of the retail optometry and eye care business in November 2011.

Revenue

Revenue decreased 1.7%, from \$60.1 million in FY2013 to \$59.1 million in FY2014 due to the following factors:

- Patient fees generated by dentists increased by 1.2%, from \$94.8 million in FY2013 to \$95.9 million in FY2014, arising from:
 - Same Centre Patient Fees decreased by 3.0%, largely driven by the impact of the cessation of the Chronic Diseases Dental Scheme at the end of November 2012.
 - Full-year contribution of the three new centres established in FY2013 including Bendigo in regional Victoria, Bateau Bay on the Central Coast and Belmont on Lake Macquarie.
 - Part-year contribution from the new centres established in FY2014 including Melton in outer suburban Melbourne, Singleton in the Hunter Valley of NSW, Belconnen in the ACT and a new nib Dental Care Centre in Chatswood on the north shore of Sydney.
 - Acquisition of the three Dental & Eye Care Practices from Medibank (ahm) in mid June 2014 comprising large format dental centres in Haymarket in Sydney's CBD and Parramatta in Western Sydney and a dental centre in Wagga Wagga in regional NSW.
- The uplift in patient fees noted above was more than offset by the impact of a lower number of directly employed and locum dentists in FY2014 compared to FY2013 which resulted in a lower level of revenue being generated in FY2014.
- The reduction in employee and locum dentists numbers resulted in a decline in direct expenses. Accordingly, direct expenses decreased by 40.7% from \$6.3 million in FY2013 to \$3.7 million in FY2014.
- Gross Profit increased by 2.9% from \$53.8 million in FY2013 to \$55.3 million in FY2014 as a result of the factors set out above.

Total operating expenses

Total operating expenses (excluding direct expenses) declined 1.4%, from \$42.9 million in FY2013 to \$42.3 million in FY2014, as a result of:

- Occupancy expenses of \$6.0 million in FY2014 is consistent with FY2013. While occupancy expenses increased as a result of the full year impact of new centres opened in FY2013 and the part year impact of new centres opened in FY2014, this was offset by non-recurrence of the initial impact of recognition of an onerous contract provision in FY2013 of \$0.4 million in relation to a property that the business had vacated.
- Administration and other expenses declined by 4.2% from \$6.3 million in FY2013 to \$6.0 million in FY2014 due to the non-recurrence of \$0.8 million of impairment charges that were incurred in FY2013, partially offset by \$0.4 million of acquisition related costs associated with the acquisition of the three Dental & Eye Care Practices from Medibank (ahm) and \$0.2 million of expenses associated with the abandonment of assets associated with a lease that was surrendered early by agreement with the lessor.

Despite an increase in patient fees and the overall scale of the business from new centres, employee expenses and consumables supplies expenses remained largely consistent between FY2013 and FY2014.

EBITDA and EBIT

EBITDA grew 17.4%, from \$12.4 million in FY2013 to \$14.5 million in FY2014, with the EBITDA margin expanding from 20.6% to 24.6% over the same period driven by the decline in operating expenses as a percentage of revenue.

EBIT grew 22.6% in FY2014 to \$10.8 million, with the EBIT margin expanding from 14.6% to 18.2% over the same period.

4 Financial information (continued)

4.8.5 Pro forma historical consolidated statements of cash flows: FY2014 compared to FY2013

Table 15 sets out the summary pro forma historical consolidated statements of cash flows for FY2013 and FY2014.

Table 15: Summary of pro forma historical consolidated statements of cash flows for FY2013 and FY2014

\$ millions	Pro forma historical		
	FY2013	FY2014	% Change
EBITDA	12.4	14.5	17.4%
Non-cash items	0.5	0.3	(40.1%)
Changes in working capital	1.0	1.8	86.3%
Operating free cash flow (before capital expenditure)	13.8	16.6	20.3%
Capital expenditure (excluding new centres)	(0.9)	(1.3)	40.1%
Operating free cash flow (before new centre capital expenditure)	12.9	15.3	18.8%
New centre capital expenditure	(2.3)	(4.0)	77.7%
Acquisition of businesses	–	(6.0)	N/A
Proceeds from disposal of business	–	0.1	N/A
Net free cash flow (before financing, tax and dividends)	10.6	5.3	(49.7%)

Net free cash flow (before financing, tax and dividends)

Net cash flow (before financing, tax and dividends) declined 49.7% in FY2014 to \$5.3 million, from \$10.6 million in FY2013 reflecting a 17.4% increase in EBITDA and the impact of the items set out below.

Working capital

The cash inflow from working capital of \$1.8 million in FY2014 reflects the impact of the acquisition of the three Dental and Eye Care Practices from Medibank (ahm).

Capital expenditure

The 77.7% increase in new centre capital expenditure in FY2014 to \$4.0 million is associated with:

- Pacific Smiles opening four new centres in FY2014;
- Progress towards fit-out of a new centre at Jesmond which opened in July 2014; and
- Preparations for the relocation of a dental centre at Gladesville.

This compares with Pacific Smiles only opening three new dental centres in FY2013.

Acquisition of businesses and proceeds from disposal of business

FY2014 net cash flow (before financing, tax and dividends), includes \$6.0 million of cash outflow associated with the acquisition of three Dental & Eye Care Practices from Medibank (ahm) in June 2014. The Eye Care practices were immediately subsequently disposed of for \$0.3 million. The disposal of the Eye Care practices included the provision of vendor finance of \$0.2 million, resulting in a net cash flow impact of \$0.1 million during FY2014. There were no similar acquisitions or disposals made in FY2013.

4.9 Forecast Financial Information

4.9.1 Best estimate assumptions underlying forecasts

(a) General assumptions

In preparing the Forecast Financial Information, the following general assumptions have been adopted by the Directors:

- no material change in the competitive operating environment in which Pacific Smiles operates;
- no significant deviation from current market expectations of global or local Australian economic conditions relevant to Pacific Smiles;
- no material changes in Commonwealth, state or local government legislation, tax legislation, regulatory legislation, regulatory requirements or government policy that will have a material impact on the financial performance or cash flows, financial position, accounting policies, financial reporting or disclosure of Pacific Smiles;
- no material changes in applicable Australian Accounting Standards or other mandatory professional reporting requirements or the Corporations Act, which have a material effect on Pacific Smiles' financial performance, financial position, accounting policies, financial reporting or disclosure;
- no material business acquisitions or disposals;
- no material industrial strikes or other disturbances, environmental costs or legal claims;
- retention of key personnel;
- no material changes to the dental care industry or funding for the industry that would have a material impact on demand for or price of Pacific Smiles' services;
- no change in Pacific Smiles' capital structure other than as set out in, or contemplated by, this Prospectus;
- no material amendment to any material agreement or arrangement (including funding agreements) relating to Pacific Smiles' businesses;
- no material cash flow or income statement or financial position impact in relation to litigation (existing or otherwise);
- none of the risks listed in Section 5 have a material adverse impact on the operations of Pacific Smiles; and
- the Offer proceeds to Completion in accordance with the timetable set out in Key Offer Dates on page 3 of this Prospectus.

(b) Material assumptions affecting the Forecast Financial Information and management discussion

The Forecast Financial Information is based on various best estimate assumptions, including those set out below. In preparing the Forecast Financial Information, Pacific Smiles has undertaken an analysis of historical performance and applied assumptions, where appropriate, across the business. The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 4.11, the risk factors set out in Section 5 and the Investigating Accountant's Report set out in Section 8 and the other information in this Prospectus.

Revenue

The Forecast Financial Information is based on the following key revenue assumptions:

- Patient fees are influenced by the number of patient appointments, the nature of the dental treatments provided at each appointment, and the prices of these treatments. The forecast revenue also reflects the following timing considerations:
 - Full-year contribution from the four new centres opened in FY2014;
 - Full-year contribution from the three dental centres acquired from Medibank (ahm) in June 2014;
 - Part-year contribution from six new centres expected to be opened in FY2015;
 - Maturing of centres that were opened in FY2012 and FY2013; and
- Application of the service fee rates and calculation methodology reflected in the Service and Facility Agreements under which dentists have engaged Pacific Smiles.
- Other income is largely based on the expected sub-lease income from known sub-lease agreements.

Expenses

The Forecast Financial Information is based on the following expense assumptions:

- Employee expenses, consumables expenses, marketing expenses and other operating expenses for existing centres based on Pacific Smiles' operating parameters;
- Occupancy costs based on Pacific Smiles' known operating lease commitments for FY2015;
- New centres expected to be opened in FY2015 incurring pre-opening and early stage establishment costs in line with Pacific Smiles' usual approach to commissioning new dental centres; and
- Annualised impact of incremental costs Pacific Smiles expects to incur as a listed public company is reflected in Employee Expenses and Administration and Other Expenses.

4 Financial information (continued)

Depreciation and amortisation

Amortisation of intangibles and depreciation of property, plant and equipment is forecast based on the existing useful life profile, with any new capital expenditure during the forecast period depreciated/amortised over the useful life in accordance with Pacific Smiles' accounting policies.

Net finance costs

Finance costs are forecast based on current contractual terms applicable to the debt financing facilities and forecast utilisation of these facilities. Interest income was forecast based on current interest rates.

Income tax assumptions

The forecast income tax expense is based on the corporate tax rate of 30% in Australia. Pacific Smiles' pro forma effective tax rate is expected to be 31% in FY2015, which is reflected in the Forecast Financial Information.

Change in working capital

Month-by-month working capital is forecast based on the usual operating cash flow cycle of the Company, and also having regard to the impact of non-recurring items in the period from FY2012 to FY2014 that are not expected to be incurred in FY2015.

Capital expenditure

Capital expenditure is forecast based on current approved business plans for the opening of the new dental centres and relocation of certain existing dental centres. Maintenance capital expenditure has been forecast based on the condition and performance of the existing asset base and anticipated equipment replacement at the end of each item's useful life.

4.10 Management discussion and analysis of the Forecast Financial Information

4.10.1 Pro forma historical and forecast consolidated income statements: FY2015 compared to FY2014

Table 16 sets out the summary pro forma historical and forecast consolidated income statements and selected key performance indicators for FY2014 and FY2015.

Table 16: Pro forma historical and forecast consolidated income statements and selected key performance indicators for FY2014 and FY2015

\$ millions	Pro forma historical FY2014	Pro forma forecast FY2015	% Change
Revenue	59.1	76.1	28.8%
Direct expenses	(3.7)	(3.7)	–
Gross profit	55.3	72.4	30.8%
Other income	1.5	1.2	(22.7%)
Expenses			
Employee expenses	(24.2)	(33.3)	37.3%
Consumable supplies expenses	(5.3)	(7.1)	33.1%
Occupancy expenses	(6.0)	(8.0)	34.5%
Marketing expenses	(0.8)	(1.4)	68.0%
Administration and other expenses	(6.0)	(6.4)	6.3%
EBITDA	14.5	17.4	20.1%
Depreciation and amortisation	(3.8)	(4.5)	20.4%
EBIT	10.8	12.9	20.0%
Net finance costs	(0.1)	(0.0)	(139.8%)
Profit before tax	10.7	12.9	20.7%
Income tax expense	(3.3)	(4.0)	19.6%
Net profit after tax	7.4	8.9	21.2%

Table 16: Pro forma historical and forecast consolidated income statements and selected key performance indicators for FY2014 and FY2015 (continued)

	Pro forma historical FY2014	Pro forma forecast FY2015	% Change
Key operating metrics			
Number of Dental Centres	41	47	14.6%
Number of Commissioned Dental Chairs	203	222	9.4%
Patient Fees (\$m)	95.9	123.2	28.5%
Same Centre Patient Fees growth	(3.0%)	5.1%	
Key financial metrics			
EBITDA growth	17.4%	20.1%	
EBITDA margin	24.6%	22.9%	
EBITDA to Patient Fees	15.1%	14.1%	
EBIT growth	22.6%	20.0%	
EBIT margin	18.2%	16.9%	
NPAT growth	28.1%	21.2%	
NPAT margin	12.5%	11.7%	

Revenue

Revenue is forecast to grow by 28.8%, from \$59.1 million in FY2014 to \$76.1 million in FY2015 due to:

- Patient fees generated by dentists at Pacific Smiles dental centres are forecast to grow 28.5%, from \$95.9 million in FY2014 to \$123.2 million in FY2015. This reflects:
 - Same Centre Patient Fees growth of 5.1% associated with an expected increase in the number of appointments attended at existing dental centres.
 - Full-year contribution of the three new Pacific Smiles Dental Centres and one nib Dental Care Centre established in FY2014 including Melton in outer suburban Melbourne, Singleton in the Hunter Valley of NSW, Belconnen in the ACT and the nib branded centre in Chatswood on the north shore of Sydney.
 - Full-year contribution from the acquisition of the three Dental & Eye Care Practices from Medibank in June 2014; Haymarket, Parramatta and Wagga Wagga. The forecast reflects a total of \$17.0 million in patient fees to be generated at these three dental centres in FY2015.
 - Part-year contribution from six new dental centres expected to be opened in FY2015, of which one centre, Jesmond in Newcastle, opened in July 2014.
- The increase in patient fees of 28.5% is forecast to drive an increase in revenue from service and facility fees charged by Pacific Smiles to dentists. This increase in revenue is forecast to translate to an increase in Gross Profit for Pacific Smiles of 30.8%, reflecting the application of average service and facility fee rates.

Total operating expenses

Total operating expenses (excluding direct expenses) is forecast to increase by 32.5%, from \$42.3 million in FY2014 to \$56.1 million in FY2015 as a result of:

- 37.3% growth in employee expenses primarily related to the full year impact of employee expenses associated with the three Dental Practices acquired from Medibank (ahm) and the four new centres opened in FY2014, the part year impact of employee expenses associated with the six new centres forecast to be opened in FY2015, increases in costs to support the Company as a listed entity, including increases in senior management remuneration and expansion of group head office functions;
- 33.1% growth in consumables supplies expenses to support the increase in patient appointments;
- 34.5% growth in occupancy expenses associated with the full year impact of leases entered into during 2014 (including the leases associated with the three Dental Practices acquired from Medibank (ahm)) and the part year impact of leases for the new centres opening in FY2015;
- 68.0% increase in marketing expenses, primarily associated with planned marketing campaigns via a variety of channels to drive and support the growing network of dental centres; and
- 6.3% increase in administration and other expenses associated with the expansion of the group head office to prepare the company for listing, partially offset by non-recurrence of acquisition related costs (\$0.4 million) and the costs associated with a lease surrender (\$0.2 million) that were incurred in FY2014.

4 Financial information (continued)

As a percentage of gross profit, operating expenses are forecast to be 77.5% of gross profit in FY2015 compared with 76.5% in FY2014.

EBITDA and EBIT

EBITDA is forecast to grow 20.1%, from \$14.5 million in FY2014 to \$17.4 million in FY2015, with the EBITDA margin contracting from 24.6% to 22.9% over the same period. This has been driven by the margins generated by the recently acquired dental centres being lower than the average margins of the other Pacific Smiles dental centres in their first full year of trading under Pacific Smiles' ownership.

EBIT is forecast to grow 20.0% in FY2015 to \$12.9 million, with the EBIT margin contracting from 18.2% to 16.9% over the same period.

4.10.2 Pro forma historical and forecast consolidated statements of cash flows: FY2015 compared to FY2014

Table 17 sets out the summary pro forma historical and forecast consolidated statements of cash flows for FY2014 and FY2015.

Table 17: Pro forma historical and forecast consolidated statements of cash flows for FY2014 and FY2015

\$ millions	Pro forma historical FY2014	Pro forma forecast FY2015	% Change
EBITDA	14.5	17.4	20.1%
Non-cash items	0.3	0.1	(59.6%)
Changes in working capital	1.8	2.7	49.8%
Operating free cash flow (before capital expenditure)	16.6	20.2	22.0%
Capital expenditure (excluding new centres)	(1.3)	(3.1)	135.6%
Operating free cash flow (before new centre capital expenditure)	15.3	17.1	12.1%
New centre capital expenditure	(4.0)	(7.1)	76.7%
Acquisition of businesses	(6.0)	1.5	(124.8%)
Proceeds from disposal of business	0.1	–	(100.0%)
Net free cash flow (before financing, tax and dividends)	5.3	11.5	116.7%

Net free cash flow (before financing, tax and dividends)

Net cash flow (before financing, tax and dividends) is forecast to increase 116.7% in FY2015 to \$11.5 million, from \$5.3 million in FY2014. This reflects the forecast 20.1% increase in EBITDA, a favourable working capital movement and receipt of cash from an historical acquisition, partially offset by an increase in capital expenditure for both new centres and other purposes.

Change in working capital

Working capital is forecast to decrease by \$2.7 million in FY2015, reflecting additional working capital benefits that flow from Pacific Smiles' revenue growth, as well as the impact of several non-recurring items. Non-recurring items include the receipt of consideration for the surrender of a lease of \$0.5 million which was reflected in Other Income in FY2014 and the settlement by way of payment to Pacific Smiles for net working capital adjustments related to the acquisition of the Dental & Eyecare Practices from Medibank (ahm).

Capital expenditure

Capital expenditure (excluding new centres) in FY2015 is forecast to increase from \$1.3 million in FY2014 to \$3.1 million in FY2015 reflecting the forecast commissioning of additional seven dental chairs within existing centres and an allowance for maintenance capital expenditure across a larger network of dental centres (including the Dental & Eyecare Practices acquired from Medibank (ahm)).

New centre capital expenditure is forecast to increase to \$7.1 million in FY2015. In FY2015 Pacific Smiles expects to open six new dental centres, of which one, Jesmond in Newcastle, opened in July 2014. The Company has also relocated the Pacific Smiles Dental Centre at Gladesville following surrender of the former lease. New centre capital expenditure also includes the expected costs to relocate the Pacific Smiles Dental Centre at Parramatta, which was acquired as part of the Dental & Eye Care Practices acquisition from Medibank (ahm) in June 2014. Relocation of the Parramatta centre was agreed as part of the acquisition. This compares to FY2014 during which time there were a total of four new dental centres opened.

Acquisition of business

Acquisition of business cash inflow of \$1.5 million reflects the forecast receipt of cash by Pacific Smiles from Medibank in relation to the planned relocation of the acquired Parramatta dental centre. This cash inflow reflects a reduction in purchase price from the \$6.0 million cash payment made in relation to the acquisition of the business in FY2014.

4.11 Sensitivity analysis of Forecast Financial Information

The Forecast Financial Information included above is based on a number of estimates and assumptions as described in Section 4.9.1. These estimates and assumptions are subject to business, economic and competitive uncertainties, many of which are beyond the control of Pacific Smiles, the Directors and management. These estimates are also based on assumptions in relation to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions, set out below is a summary of the sensitivity of the Forecast Financial Information to changes in a number of key assumptions. The changes in the key assumptions set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown. For the purposes of this analysis, each sensitivity is presented in terms of the impact of each on FY2015 pro forma forecast NPAT of \$8.9 million and is set out in Table 18 below.

Table 18: Sensitivity analysis for FY2015 pro forma NPAT

Assumption	Increase / Decrease	FY2015 Pro forma NPAT Impact (\$ million)
Change in number of new centre openings ^(a)	+/- 1	-/+ 0.1
Change in number of patient appointments	+/- 100 bps	+/- 0.3
Change in employee expenses	+/- 100 bps	-/+ 0.2
Change in ratio of gross profit to Patient Fees	+/- 100 bps	+/- 0.9

Notes:

(a) Each new centre opening will also impact on cash flow as a result of the initial capital expenditure required to develop a new site. Pacific Smiles estimates that, on average, capital expenditure required to open a typical new centre with the capacity for three to four dental chairs, of which two dental chairs are commissioned from opening, is approximately \$0.9 million.

Care should be taken when interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to present the likely impact on the forecast. In practice, changes in variables may offset each other or be additive, and it is likely that Pacific Smiles management would respond to any adverse change in one variable by seeking to minimise the net effect on Pacific Smiles' NPAT.

4.12 Dividends

4.12.1 Dividend policy

The payment of a dividend by Pacific Smiles is at the discretion of the Board and will be a function of a number of factors, including the general business environment, the operating results, cash flows and the financial condition of Pacific Smiles, future funding requirements including the number of new centres to be opened in the following year, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Pacific Smiles, and any other factors the Board may consider relevant.

It is the current intention of the Board to pay dividends in respect of half years ending 31 December and final dividends in respect of full years ending 30 June each year. It is anticipated that interim dividends will be paid in April and final dividends will be paid in October following the relevant financial periods. It is expected that all future dividends will be franked to the maximum extent possible.

It is the Board's current intention to target a payout ratio of between 70% and 100% of NPAT. However the level of payout ratio is expected to vary between periods depending on the factors above.

It is the Board's current intention to weight dividend payments towards the final dividend in the ratio of approximately 40%/60% (interim/final). However, for dividends in relation to FY2015 financial performance, the anticipated ratio of interim/final dividend is 33%/67%.

No assurances can be given by any person, including the Board, about the payment of any dividend and the level of franking on any such dividend.

4.12.2 Dividend Reinvestment Plan (DRP)

The Constitution authorises the Board, on any terms and at their discretion, to establish a Dividend Reinvestment Plan under which any Shareholder may elect that the dividends payable by Pacific Smiles be reinvested in whole or in part by a subscription for Shares at a price to be determined by the Board from time to time, in its absolute discretion. No dividend reinvestment plan has been assumed to be activated by Pacific Smiles during FY2015.



five Risks

5 Risks

5.1 Introduction

Pacific Smiles is subject to various risk factors. Some of these are specific to its business activities, others are of a more general nature. Each of the risks set out below could, in isolation or in combination, if they eventuate, have a materially adverse impact on Pacific Smiles' business, financial condition and results of operations. Investors should note that this Section 5 does not purport to list every risk that may be associated with an investment in Shares now or in the future, and the occurrence or consequences of some of the risks described in this Section 5 are partially or completely outside the control of Pacific Smiles, its Directors and Senior Management. This Section 5 should be read in conjunction with other information disclosed in this Prospectus. There can be no guarantee that Pacific Smiles will achieve its stated objectives or that any forward looking statements or forecasts will eventuate.

Before applying for Shares, investors should satisfy themselves that they have a sufficient understanding of the matters identified in this Section 5 and should consider whether Shares are a suitable investment for them, having regard to their own investment objectives, financial circumstances and particular needs (including financial and tax issues). If investors are unclear in their understanding of any matter or are uncertain as to whether Pacific Smiles is a suitable investment for them, they should seek professional guidance from their solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

5.2 Risks specific to an investment in Pacific Smiles

5.2.1 Deterioration or loss of key insurer relationships

Pacific Smiles obtains substantial benefits from preferred provider arrangements between private health insurers and the dentists who practise from Pacific Smiles dental centres. The preferred provider arrangements typically involve members of particular private health insurers being able to access dental treatment with participating dentists on differential terms to those available to non-participating dentists.

Pacific Smiles has also developed strategic relationships with two of Australia's largest private health insurers, nib and Medibank (including ahm).¹ The long term contractual arrangements underpinning these relationships provide for preferred provider status as well as marketing collaboration. These relationships and contractual arrangements contribute significant patient volume at Pacific Smiles and nib branded dental centres.

Any adverse changes to arrangements between the private health insurers and the dentists, including changes to the nature of benefits offered to patients under the preferred provider agreements and the number of dentists to whom preferred provider agreements apply, whether as a result of termination or amendment of the contractual arrangements with nib and Medibank or a deterioration in the quality of the relationship with the insurers, may reduce the volume of patients attending Pacific Smiles dental centres. This may in turn impact dentists' patient fees, and the service fees derived by Pacific Smiles which could materially and adversely affect the earnings of Pacific Smiles.

5.2.2 Failure to achieve growth objectives or meet forecasted returns

Pacific Smiles' future financial performance is dependent on its ability to meet its growth objectives and to develop and execute appropriate strategies and initiatives in relation to those objectives, including the growth strategies outlined in Section 3.15 in relation to rollout of new dental centres. If key strategies are ineffective or are achieved later than expected, Pacific Smiles' may not meet its growth objectives and its forecasted returns and future financial performance could be adversely affected.

With a growing dental centre portfolio, there is a risk that Pacific Smiles' growth strategy, if it is not appropriately controlled and implemented by Pacific Smiles, could impact overall service levels, and the quality of its brands and reputation.

Pacific Smiles may make acquisitions of existing dental centres from time to time (for example, the acquisition of the Dental and Eyecare Practice from Medibank (ahm) in June 2014). There is a risk that the acquired centres suffer patient or dentist attrition, which may impact Pacific Smiles through reduced earnings or management distraction. There is a risk that the acquisitions of centres and development of new centres is not executed in accordance with expectations or does not meet forecasts.

There is also a risk that Pacific Smiles may not be able to appropriately implement its rollout strategy. The Company's ongoing rollout of new centres and growth depends on availability of practitioners. Inadequate supply of appropriately skilled practitioners or a lack of suitable geographic locations may significantly restrain the ability of Pacific Smiles to realise its growth initiatives.

5.2.3 Reduction in private health insurance coverage or membership rates

Private health insurers fund more than 19% of dental expenditure in Australia. Any material reduction in private health insurance coverage, composition of policy coverage between dental services and other health services, or reductions in general membership rates (for example, as a result of increasing policy costs) could significantly impact total expenditure on dental care and the earnings generated by the dental industry as a whole. This could, in turn, significantly impact Pacific Smiles' revenues and future financial performance.

Although private insurer coverage has been growing steadily, a worsening economic climate, changes in the private health insurance rebate and tax incentives, or increases in private health insurance premiums may cause reductions in private health insurer membership levels. A higher proportion of out-of-pocket expenditure for dental services as a result of any such reductions in private insurance health coverage could increase the importance of cost as a barrier to accessing dental services. This has the potential to reduce demand for Pacific Smiles' services, put downward pressure on patient fees, and adversely impact its revenues and financial performance.

1. Refer to Sections 9.6.1 and 9.6.2 for further information on the contractual arrangements Pacific Smiles currently has in place for Medibank (including ahm) and nib.

5 Risks (continued)

5.2.4 Exposure to reputational or other damage caused to the Company or its brands

The reputation of Pacific Smiles and the value of its brands could be adversely impacted by a number of factors, both within and outside of the control of the Company. This may include actions taken by employees of the Company or dentists who engage Pacific Smiles, including failure to provide customers with consistent and quality treatment and services or clinical incidents, or third party actions such as adverse media coverage.

While dentists are responsible for their conduct and clinical treatments, and are required to hold professional indemnity insurance, clinical incidents can cause reputational risks, as well as the emergence of legal proceedings and potential liability for Pacific Smiles (such as vicarious liability for medical malpractice claims or if Company staff are found to have contributed to a patient claim).

Pacific Smiles operates its business under brand names which could also decline in value as a result of the factors described above. Significant erosion in the value or reputation of Pacific Smiles' brands could have an adverse flow-on effect for customer loyalty, relationships with dentists, employee retention rates and the demand for Pacific Smiles' services, all of which could adversely affect the future operating and financial performance of Pacific Smiles.

5.2.5 Termination of Service and Facility Agreements by dentists

As outlined in Section 3.6 of the Prospectus, Pacific Smiles enters into Service and Facility Agreements with individual dentists (or their operating dental companies) who provide dental services at clinics operated by Pacific Smiles. Under the terms of these Service and Facility Agreements, dentists may terminate the agreement without cause, subject to the provision of one month's notice within the first year of the term and on three months' notice after that time.

If a significant number of dentists contracted by Pacific Smiles were to terminate their Service and Facility Agreements and were unable to be adequately replaced by other practitioners, this could materially and adversely impact on Pacific Smiles' services fee revenues, its ability to implement its growth strategies, and its future financial performance. This could be caused by an industry-wide event or events specific to Pacific Smiles, for example, reputational damage or negative public perception of Pacific Smiles' brands.

5.2.6 Changes to Government regulation/policies or declines in Government funding

Pacific Smiles' business is subject to Federal and State laws and regulations relevant to the dental industry (for further information, refer to Section 2.8). Government or regulatory policies may change, which could have a general impact on the economic environment, general market conditions or the dental health industry, or specifically impact on Pacific Smiles' current business model, its compliance costs or capital expenditure requirements. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of Pacific Smiles.

Whilst government funding is low comparative to other medical sectors, if the Government changes the funding it provides for dental services (including levels of funding or conditions or eligibility requirements), patients may face higher out-of-pocket expenses and be less likely to obtain dental treatment as regularly or to the same extent. This may cause the dental industry as a whole, and Pacific Smiles in particular, to experience reduced demand for its services and reduced revenues and profitability.

5.2.7 Exposures to reduced demand in the Australian dental industry due to general economic conditions

Although a number of dental services are non-discretionary in nature, there is a degree of economic sensitivity for certain dental services (for example, teeth whitening, dental implants or other cosmetic treatments). Pacific Smiles' future business performance may be adversely affected by a downturn in general economic conditions in Australia. In particular, the level of household disposable incomes in Australia and other macroeconomic factors such as unemployment can adversely impact on the demand for dental services and the earnings derived by Pacific Smiles from patient revenue.

5.2.8 Loss of key management personnel

Pacific Smiles' future performance depends to a significant degree on its key personnel, and its ability to attract and retain experienced and high performing personnel. The current Senior Management team has extensive experience in, and knowledge of, Pacific Smiles' business and the dental industry.

The loss of key management personnel, or any delay in their replacement, may therefore adversely affect Pacific Smiles' ability to develop and implement its business and growth strategies or increase the cost of obtaining appropriate personnel. This may result in an adverse impact on Pacific Smiles' future operating and financial performance.

5.2.9 Fee pressures

An increase in the number of qualified dentists relative to population in Australia, could lead to increased price-based competition amongst dentists. Such an increase in price-based competition could lead to fee pressures on the dental industry over time.

There is also an emerging trend towards patients seeking lower-cost cosmetic and other medical and dental procedures offshore, particularly in Asia, which may impact on the fees for dental services in Australia and impact on industry revenues as a whole.

5.3 General risks of an investment in Pacific Smiles

5.3.1 Price of Shares

Once Pacific Smiles becomes a public listed company on the ASX, it will be subject to general risks applicable to all securities listed on a stock exchange. This may result in fluctuations in the Share price that are not explained by the performance of Pacific Smiles.

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the Offer Price. There is no assurance that the price of the Shares will increase following quotation on the ASX, even if Pacific Smiles' earnings increase.

Some factors which may affect the price of the Shares include:

- fluctuations in the domestic and international markets for listed securities;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices;
- the nature of the markets in which Pacific Smiles operates; and
- general operational and business risks.

5.3.2 Trading and liquidity in shares

There can be no guarantee that an active market in the Shares will develop. There may be relatively few potential buyers or sellers of the Shares on the ASX at any given time. In addition, in aggregate, 94.7 million Shares (or 62.3% of Shares on issue) will be the subject of escrow arrangements, under which Shares they hold (or otherwise control) will be escrowed until three business days after the date on which Pacific Smiles' full-year results for the period ending 30 June 2015 are released to the ASX (refer to Section 7.7 for further information). As a result, it could be expected that there will be greater illiquidity in the market for Shares throughout the escrow period.

These factors may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid for their Shares under the Offer.

5.3.3 Potential non-franking of dividends

To the extent that Pacific Smiles pays any dividends, Pacific Smiles may not have sufficient franking credits in the future to frank dividends, or the franking system may be subject to review or reform. The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

5.3.4 Shareholder dilution

In the future, Pacific Smiles may elect to issue Shares in connection with fundraisings, including to raise proceeds for acquisitions. While Pacific Smiles will be subject to the constraints of the Listing Rules regarding the percentage of its capital it is able to issue within a twelve month period (other than where exceptions apply), Shareholders may be diluted as a result of such fundraisings.

5.3.5 Pacific Smiles may be subject to changes in tax law

Significant reforms and current proposals for further reforms to Australia's tax laws give rise to uncertainty. The precise scope of many of the new and proposed tax laws is not yet known. Any changes to the current rate of company income tax may impact shareholder returns. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and shareholder returns.

5.3.6 Litigation risk

In the ordinary course of its business, Pacific Smiles is subject to the risk of litigation and other disputes with its employees, dentists, suppliers, lessors, regulators, partners, competitors and other third parties. Proceedings may result in high legal costs, adverse monetary judgements and/or damage to Pacific Smiles' reputation, which could have an adverse effect on the financial performance of Pacific Smiles' business.

5 Risks (continued)

5.3.7 Interruption or damage to IT systems

Pacific Smiles is dependent upon the usage of computers, information communications technology and systems. Pacific Smiles' technology systems could be interrupted or damaged by a diverse array of events, including natural disasters, acts of war or terrorism, telecommunications failures or other similar occurrences, and are exposed to the potential risk of computer hackers, unauthorised users, computer viruses, malicious codes and cyber-attacks. Any disruption in Pacific Smiles' computer and communications systems could adversely impact Pacific Smiles' operating results. There is a risk that Pacific Smiles' technology (including its IT platform) could experience technical problems, or incur material expansion or other costs, which require significant additional investment or reduce the effectiveness of its IT systems.

Pacific Smiles' security precautions may be unable to prevent attacks, which could directly impair Pacific Smiles' operations and necessitate increased expenditure on technology protections in the future. Perceived lack of patient privacy and security may adversely affect public trust and perception of the Pacific Smiles brand and adversely impact on its operational and financial performance.

5.3.8 Force majeure events

Events may occur within or outside Australia that could impact upon the global and Australian economies, the operations of Pacific Smiles and the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events or occurrences that can have an adverse effect on the demand for Pacific Smiles' services and its ability to conduct business. Pacific Smiles has only a limited ability to insure against some of these risks.

5.3.9 Accounting standards

Australian Accounting Standards are issued by the AASB and are not within the control of Pacific Smiles and its Directors. Any changes to the Accounting Standards or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of Pacific Smiles.

5.3.10 Interest rate fluctuations

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect Pacific Smiles' cost of servicing these borrowings which may adversely affect its financial position.








six Key People, Interests and Benefits

6 Key People, Interests and Benefits

6.1 Board of Directors

The Directors of the Company bring to the Board relevant skills and experience including in the areas of industry and business knowledge, financial management and corporate governance.





6.1.1 Experience and background

Director	Experience
 <p>Robert Cameron AO <i>BE Min (Hons) MBA Grad.</i> <i>Dip. Geoscience, FAICD,</i> <i>FAIM, FAusIMM</i></p> <p>Independent Non-Executive Chairman, appointed in 2003</p> <p>Member of the Nomination and Remuneration Committee</p>	<p>Robert is the Founder and Chairman (non-executive) of Centennial Coal Company Limited and was its Managing Director and Chief Executive Officer until 30 June 2011. He is currently Chairman of County Coal Limited, Chairman of Hunter Valley Training Company, Trustee of the University of NSW Foundation and of the Museum of Applied Arts and Sciences. He has served on many community, educational, industry and government bodies.</p>
 <p>John Gibbs <i>B.Bus, M.Bus.(Int. Mkg.),</i> <i>AFAIM, GAICD</i></p> <p>Managing Director and Chief Executive Officer, appointed in 2008</p>	<p>John commenced as General Manager in 2004. His background experience includes the development and management of private health facilities, and the marketing and business development of medical and surgical devices. He established new private hospitals for Mayne Health and local joint-venture partners in the Asia-Pacific region, following his participation in private hospital expansion and upgrade projects for Mayne Health in Australia. John has undergraduate and postgraduate Business and Marketing Degrees.</p>
 <p>Dr Alex Abrahams <i>BDS (Syd Uni), AIMM</i></p> <p>Founder and Executive Director – Strategy and Business Development appointed in 2002</p>	<p>Alex co-founded the Company and oversaw its development from a group of partnerships to an incorporated entity in 2003. Alex is a Dentist with a special interest in dental implants. He is a member of the Australian Dental Association. He is a Director of Group Homes Australia Pty Limited.</p>
 <p>Simon Rutherford <i>B. Comm., CA, FAICD</i></p> <p>Independent Non-Executive Director, appointed in 2003</p> <p>Chairman of the Audit and Risk Management Committee</p>	<p>Simon is a Chartered Accountant and Partner with PKF Lawler working in business advisory services. He is a director and responsible manager with PFK Lawler Corporate Finance Pty Limited and specialises in strategy, governance, structuring, business sales, mergers and acquisitions. In this role Simon has assisted various companies with capital raising, listing requirements and transactions. Simon is a Director of the Trustee of Canyon Property Trust and is involved with other syndicated investments. He has also served on a number of boards including National Brokers Group and Vow Financial Group.</p>
 <p>Ben Gisz <i>B. Comm., CA, FFin, CFA</i></p> <p>Non-Executive Director, appointed in 2012</p> <p>Chairman of the Nomination and Remuneration Committee and member of the Audit and Risk Management Committee</p>	<p>Ben is a Partner at TDM Asset Management, a Sydney based private investment firm. Ben has extensive financial markets experience, including roles in investment banking and private equity/principal investments with Investec Group in Sydney and London. Prior to this, Ben was an equities analyst with Credit Suisse.</p> <p>Ben holds a Bachelor of Commerce degree from the University of Sydney and is a Fellow of the Financial Services Institute of Australasia. Ben is also a Chartered Accountant and a CFA charterholder and has served on the CFA Society of the UK's continuing education committee.</p>

Director	Experience
 <p>Grant Bourke <i>BSc (Hons), MBA, MAICD</i> Independent Non-Executive Director, appointed in 2014 Member of the Audit and Risk Management Committee and member of the Nomination and Remuneration Committee</p>	<p>Grant has over 30 years' experience in retailing and the food service industry. He is a non-executive director of Domino's Pizza Enterprises Ltd (Domino's), director of Domino's Pizza Japan and formerly managing director of Domino's European business. Grant was integrally involved in the listing of Domino's on the ASX, which was the first publicly listed fast food chain in Australia.</p>

6.2 Senior management

Profiles of Pacific Smiles' Senior Management team are set out below. Further information on the terms of employment of certain members of the senior management team, including the Chief Executive Officer and Chief Financial Officer, are set out in Section 6.3.2.

Senior manager	Experience
 <p>John Gibbs Managing Director and Chief Executive Officer</p>	<p>As above.</p>
 <p>Dr Alex Abrahams Founder and Executive Director – Strategy and Business Development</p>	<p>As above.</p>
 <p>Dr Alison Hughes <i>BDS (Syd)</i> Founder and Head of Practitioner Services</p>	<p>Alison co-founded the business in 2003. Alison has a background in clinical dentistry. Her current role is critical in managing relationships with dentists and ensuring that high clinical standards are maintained throughout the Company.</p>
 <p>Jane Coleman <i>B Comm, MBA, CA, GAICD</i> Chief Financial Officer and Company Secretary</p>	<p>Jane joined Pacific Smiles in 2006. Jane has held previous senior accounting roles for nib Health Funds and Credit Suisse, following a Chartered accounting career as a manager at PricewaterhouseCoopers.</p>

6 Key People, Interests and Benefits (continued)

Senior manager	Experience
 <p>Paul Robertson <i>B Comm</i> Chief Operating Officer</p>	<p>Paul joined Pacific Smiles in 2008.</p> <p>Paul previously worked in senior operational management roles and has a financial background in private health care facilities, including management of various sized private hospitals.</p>
 <p>Jennifer Duggan <i>B Comm</i> Human Resource Manager</p>	<p>Jennifer joined Pacific Smiles in 2011.</p> <p>Jennifer has broad general HR management experience with specialised focus on industrial and employee relations, remuneration, talent management and cultural development.</p>

6.3 Interests and benefits

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offer:

- a director or proposed director of the Company;
- a person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- a promoter of the Company; or
- a stockbroker to the Offer, who holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:
 - the formation or promotion of the Company;
 - property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
 - the Offer, and no other amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a director of the Company.

6.3.1 Directors' interests and remuneration

Non-Executive Director remuneration

Under the Constitution, the Directors decide the total amount paid to each Director as remuneration for their services as a Director to Pacific Smiles; however, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company's shareholders. This amount has been currently fixed at \$500,000. Annual Directors' fees currently agreed to be paid by Pacific Smiles are \$120,000 to the Chairman, and \$70,000 to each of the other Non-Executive Directors.

Reimbursement of expenses and other remuneration

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs.

Non-Executive Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as Director of the Company or a subsidiary of the Company. John Gibbs and Dr Alex Abrahams will be eligible to receive cash bonuses in FY2015 under the Company's short term incentive plan. See Section 6.3.2 for further detail.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

Deeds of Access and Indemnity

The Company has entered into deeds of access, indemnity and insurance with each Director, which confirms and extends the Director's general law rights of access to certain books and records of the Company and its subsidiaries for a period of seven years after the Director ceases to hold office. This seven year period may be extended where certain proceedings or investigations commence before that seven year period expires.

Pursuant to the Constitution, the Company must indemnify any current and former Directors and officers of the Company against any liability incurred by that person in that capacity, including legal costs, for the period from when the person becomes a Director or officer until seven years after the person ceases to be a Director or officer of the Company or its subsidiaries. The deed provides that the Company must advance to the Director, costs reasonably incurred by the Director in conducting or defending certain proceedings.

The Constitution also allows the Company to enter into and pay premiums on contracts insuring any liability incurred by any current and former Directors and officers of the Company, which is incurred by them in that capacity, including legal costs, for the period from when the person becomes a Director or officer until seven years after the person ceases to be a Director or officer of the Company. Accordingly, the deed requires the Company to maintain, to the extent permitted by law, an insurance policy, which insures the Director against liability as a Director and officer of the Company from the date of the deed until the date which is seven years after the Director ceases to hold office as a Director of the Company.

Directors' interests in Shares and other securities

Directors are not required under the Constitution to hold any Shares in the Company; however the Directors (and their associates) are entitled to apply for Shares in the Offer.

The number of Shares that are held by the Directors as at the Prospectus Date and the number which will be held by the Directors on Completion of the Offer (not including any Shares acquired by a Director under the Offer) is set out in the following table:

Director	Shares (million) (as at the Prospectus Date)	Shares (million) (upon completion of the Offer)	Performance Rights held (upon completion of the Offer)
Robert Cameron AO (Independent Chairman)	3,540,000	3,363,000	Nil
John Gibbs (Managing Director and Chief Executive Officer)	8,113,860	6,500,000	675,000
Dr Alex Abrahams (Executive Director and Founder)	45,009,501	39,608,361	337,500
Simon Rutherford (Non-Executive Director)	1,811,325	1,720,759	Nil
Ben Gisz (Non-Executive Director)	Nil ¹	Nil	Nil
Grant Bourke (Non-Executive Director)	Nil	1,538,462	Nil

Directors' interests comprise Shares directly held as well as interests in Shares held through companies or trusts. The Directors are entitled to apply for Shares under the Offer.

All of the Shares described in the table above will be subject to voluntary escrow restrictions as outlined in Section 7.7.

As described above, John Gibbs and Dr Alex Abrahams (as well as other non-director members of the Senior Management team) will receive grants of Performance Rights on or around Completion pursuant to the terms of the Performance Rights Plan, which will vest after 4 years. See Section 9.5 for further details of the Performance Rights Plan.

Additional executive directors of the Company may be offered Performance Rights and/or Options under the Performance Rights Plan, or be entitled to participate in and receive bonuses under the Company's short term incentive plan, from time to time at the Board's discretion.

As at the Prospectus Date, 5.5 million partly paid Shares are on issue to Directors and Senior Management under the Company's existing Partly Paid Share Plan. Participants in the Partly Paid Share Plan are required to pay the Company, immediately prior to Completion of the Offer, the outstanding amount on all partly paid Shares issued under the Partly Paid Share Plan. The Company intends to pay a special dividend (**Pre IPO Dividend**) of 1.60 cents per Share to existing Shareholders prior to Listing, which will contribute towards the satisfaction of the outstanding amount.

Related party arrangements

The Company has entered into contracts of employment with John Gibbs and Dr Alex Abrahams which are summarised in Section 6.3.2 below. In addition, Dr Alex Abrahams is party to a Service and Facility Agreement with the Company under which Pacific Smiles provides dental facilities and support services to Alex for the operation of his dental practice at Pacific Smiles dental centres, in exchange for service fees payable to Pacific Smiles. In FY2014, Alex received approximately \$270,000 in direct earnings (net of costs and services fees payable) under these arrangements.²

Ben Gisz is a partner at TDM Asset Management Pty Ltd, which is receiving consultancy fees in connection with professional advisory and assistance provided in relation to the Offer. See Section 6.3.3 for further information.

Prior to Completion, each of the Existing Shareholders will receive a Pre IPO Dividend of 1.60 cents per Share. The Pre IPO Dividend will be paid to each Existing Shareholder (or otherwise set off against amounts owing in respect of partly paid Shares) in its capacity as a member of the Company pro rata according to its respective Shareholding.

1. Ben Gisz is a partner at TDM Asset Management. TDM Asset Management and its clients hold in aggregate 25,671,291 Shares as at the Prospectus date, and are expected to hold 24,387,726 Shares upon Completion of the Offer. TDM Asset Management (and Ben Gisz through his association with TDM Asset Management) has an indirect interest in the Shares held by its clients by virtue of the control it exercises in relation to the Shares under its investment management arrangements with its clients.

2. The amount of financial benefit that Alex derives under his Service and Facility Agreement varies year by year, and is primarily dependent on the level of patient fees he derives from his practice at Pacific Smiles centres.

6 Key People, Interests and Benefits (continued)

As previously disclosed to shareholders in the Company's annual report, persons affiliated with Dr Alex Abrahams (including an entity affiliated with Dr Alex Abrahams, Simon Rutherford and Robert Cameron) receive rental payments of approximately \$1.3 million per annum (in aggregate) from the Company for providing rental premises to the Company. The Board considers that the rental agreements are on arm's length, commercial terms.

The Board does not consider that there are any risks associated with these related party arrangements.

6.3.2 Executive Remuneration

Set out below is a summary of the remuneration arrangements applicable to key senior executives of the Company.

Chief Executive Officer

John Gibbs is employed by Pacific Smiles in the position of Managing Director and Chief Executive Officer and reports to the Board. John Gibbs will enter into a new employment contract with effect from (and conditional upon) Listing with an annual salary of \$400,000 (inclusive of superannuation). John is also entitled to participate in the Company's short term incentive plan and may receive a bonus of up to 20% of fixed annual remuneration if the Company's target FY2015 NPBT is achieved, and up to a maximum of 35% of fixed remuneration for exceptional performance if higher thresholds are reached. His ongoing participation in the short term incentive plan will be subject to the discretion of the Board.

John Gibbs' employment contract does not have a fixed term; however, John's performance will be subject to annual review and he is required to give the Company nine months' notice to terminate the contract. The Company may terminate the contract by giving 12 months' notice or payment in lieu of notice. The Company may terminate his employment without payment in lieu of notice in circumstances involving serious or wilful misconduct. Furthermore, John's contract includes a restraint on working for a competitor or within the dental industry for 12 months after termination. Enforceability of such restraint is subject to all usual legal requirements.

On Listing, John will be issued with 675,000 Performance Rights under the Company's Performance Rights Plan, described in Section 9.5.

Chief Financial Officer

Jane Coleman is employed by Pacific Smiles in the position of Chief Financial Officer and Company Secretary and reports to the Chief Executive Officer and Chairman respectively. Jane Coleman will enter into a new employment contract with effect from (and conditional upon) Listing, with an annual salary of \$300,000 (inclusive of superannuation). Jane will be eligible to participate in the Company's short term incentive plan at the discretion of the Board. Jane may receive a bonus of up to 20% of fixed annual remuneration if the Company's target FY2015 NPBT is achieved, and up to a maximum of 35% of fixed remuneration for exceptional performance if higher thresholds are reached.

Pacific Smiles or Jane may terminate her employment contract with nine months' and six months' notice respectively. Pacific Smiles may terminate Jane's contract by notice or by payment in lieu of notice, except in circumstances involving serious or wilful misconduct, in which case the Company owes no notice or payment obligations. Jane's contract does not have a fixed term. The contract includes a restraint on working for a competitor or within the dental industry for nine months after termination. The enforceability of such restraint is subject to all usual legal requirements.

On Listing, Jane will be issued with 506,250 Performance Rights under the Company's Performance Rights Plan, described in Section 9.5.

Dr Alex Abrahams

Alex Abrahams is employed by Pacific Smiles in a senior executive position on a part-time basis. Dr Alex Abrahams will enter into a new employment agreement with effect from (and conditional upon) Listing, with an annual salary of \$180,000 (inclusive of superannuation). Alex is entitled to participate in the Company's short term incentive plan and may receive a bonus of up to 20% of fixed annual remuneration if the Company's target FY2015 NPBT is achieved, and up to a maximum of 35% of fixed remuneration for exceptional performance if higher thresholds are reached. His ongoing participation in the short term incentive plan will be subject to the discretion of the Board.

Pacific Smiles or Alex may terminate his employment contract with six months' and three months' notice respectively. Alex's contract does not have a fixed term. Alex's contract includes a restraint of trade provision (subject to all usual legal requirements) under which Alex is restrained from working for a competitor or within the dental industry for six months after termination.

On Listing, Alex will be issued with 337,500 Performance Rights under the Company's Performance Rights Plan, described in Section 9.5.

Executive incentive arrangements

The Company intends to establish a long term incentive plan (**Performance Rights Plan**), under which the Board may grant Performance Rights and/or Options to employees of the Company from time to time. Certain members of the Senior Management team will receive Performance Rights on or around Completion. See Section 9.5 for further detail on the Performance Rights Plan.

In addition, in FY2015, members of the Senior Management team will be eligible to receive a cash bonus under the Company's short term incentive plan (**STI**), dependent upon FY2015 financial results compared to its target FY2015 NPBT and the achievement of a range of financial and non-financial key performance indicators (KPIs). The STI will pay out a maximum bonus of up to 20% of fixed annual remuneration if the Company's target FY2015 NPBT is achieved, and up to a maximum of 35% of fixed remuneration if higher thresholds are reached.

The STI has been designed to reach its maximum only in the case of exceptional performance by key executives and exceptional financial results for the Company overall.

6.3.3 Interests of professionals

The Company and SaleCo have engaged CBA Equities Limited to act as Lead Manager to the Offer and the fees payable to the Lead Manager are described in Section 9.6.3.

Bell Potter Securities Limited has been engaged as Co-Manager in relation to the Offer and the Company has agreed to pay Bell Potter Securities Limited \$190,000 (excluding disbursements and GST) for services provided in relation to the Offer.

Gilbert + Tobin has acted as legal adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$400,000 (excluding disbursements and GST) for these services.

KPMG Transaction Services has acted as the Investigating Accountant in relation to the Financial Information in relation to the Offer, and has performed work in relation to its Investigating Accountant's Report in section 8. The Company has paid, or agreed to pay, approximately \$255,000 (excluding disbursements and GST) to KPMG Transaction Services for these services up to the date of this Prospectus. Further amounts may be paid to KPMG Transaction Services under time based charges.

KPMG acts as auditor for the Company, and other KPMG entities have performed work in relation to due diligence enquiries and tax advice in relation to the Offer. The Company has paid, or agreed to pay, approximately \$98,000 (excluding disbursements and GST) for these services up until the date of this Prospectus. Further amounts may be paid to KPMG in accordance with its normal time based charges.

TDM Asset Management Pty Ltd (a major shareholder of the Company) was engaged by the Company to provide advisory and other services in connection with the Offer. The Company has paid, or agreed to pay, approximately \$200,000 (excluding disbursements and GST) for these services up until the date of this Prospectus. Further amounts may be paid to TDM Asset Management in accordance with its agreed time based charges.

6.4 Corporate governance

The Board monitors the operational and financial position and performance of Pacific Smiles and oversees its business strategy, including approving the strategic goals of Pacific Smiles. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return and sustaining the growth and success of the Company. In conducting business with these objectives, the Board is concerned to ensure that Pacific Smiles is properly managed to protect and enhance Shareholder interests, and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has adopted corporate governance policies and practices designed to promote the responsible management and conduct of Pacific Smiles.

Pacific Smiles has adopted its Corporate Governance policies to comply with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd edition) (**ASX Recommendations**), which came into effect on 1 July 2014.

The ASX Recommendations are guidelines, not prescriptions. As a listed entity, Pacific Smiles will be required to report against the ASX Recommendations and disclose to stakeholders any divergence from the ASX Recommendations. Further, if Pacific Smiles has not followed a particular recommendation it must disclose the reason for not following it.

Copies of the Company's key policies and practices and the charters for the Board and each of its committees will be available at www.pacificsmilesgroup.com.au during the Offer Period.

6.4.1 The Board of Directors

The Board of Directors is comprised of the Chief Executive Officer, one Executive Director and four Non-Executive Directors of whom three are considered by the Board to be independent. The Board comprises:

- Robert Cameron AO;
- John Gibbs;
- Dr Alex Abrahams;
- Simon Rutherford;
- Ben Giszi; and
- Grant Bourke.

Detailed biographies of the Board members are provided in Section 6.1.

Each Director has confirmed to Pacific Smiles that he anticipates being available to perform his duties as a Non-Executive Director or Executive Director without constraint from other commitments.

The Board considers an independent Director to be a Non-Executive Director who is not a member of the Company's Management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time.

6 Key People, Interests and Benefits (continued)

The Board Charter sets out guidelines of materiality for the purpose of determining independence of Directors in accordance with the ASX Recommendations and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

The Board considers qualitative principles of materiality for the purpose of determining 'independence' on a case-by-case basis. The Board will consider whether there are any factors or considerations which may mean that the Director's interest, business or relationship could, or could be reasonably perceived to, materially interfere with the Director's ability to act in the best interests of Pacific Smiles.

The Board considers that Grant Bourke is free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of his judgement and is able to fulfil the role of Independent Non-Executive Director and for the purpose of the ASX Recommendations.

The Board also considers that each of Robert Cameron and Simon Rutherford is free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of the Director's judgement and is able to fulfil the role of independent Director for the purpose of the ASX Recommendations. Although Robert Cameron and Simon Rutherford have served on the Pacific Smiles Board since 2003, the remaining directors have assessed this tenure and determined that it does not interfere, nor should it be seen to interfere, with either of Robert Cameron and Simon Rutherford's capacity to bring an independent judgement to bear on issues before the Board and act in the best interests of the entity and its security holders generally.

John Gibbs, Alex Abrahams and Ben Gisz are currently considered by the Board not to be independent. John Gibbs and Alex Abrahams are not considered independent because they each perform an executive role in the Company, and Alex Abrahams is a major shareholder in the Company. Ben Gisz is not considered to be independent because he was appointed to the Board as a nominee director for TDM Asset Management, a major shareholder of the Company. Notwithstanding his formal designation as non-independent, the Board considers that Ben Gisz, in practice, exercises his duties independently from the management and business operations of the Company.

Accordingly as at Listing, the Board will not consist of a majority of independent Directors as recommended in the ASX Recommendations, but will be composed evenly of independent and non-independent directors.

The three Directors who are not considered to be independent add significant value to Board deliberations with their considerable experience and skills. Each of these three Directors brings objective judgement to the Board's deliberations. Furthermore, all Directors are entitled to seek independent professional advice as and when required.

The Directors believe that they are able to effectively and appropriately analyse the issues before them in the best interests of all shareholders and in accordance with their duties as Directors.

6.4.2 Board Charter

The Board Charter adopted by the Board sets out the responsibilities of the Board in greater detail. It envisages that the Board should comprise Directors with a range of skills, expertise, experience and diversity which are relevant to the Company's businesses and the Board's responsibilities. The Board Charter allows the Board to delegate powers and responsibilities to committees established by the Board. The Board retains ultimate accountability to Shareholders in discharging its duties.

6.4.3 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established an Audit and Risk Management Committee and a Nomination and Remuneration Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements, and the skills and experience of individual Directors.

Under the Board Charter, Board committee performance evaluations will occur regularly. From time to time, Committee meetings may be attended by other members of the Board and the Company Secretary by invitation.

6.4.3.1 Audit and Risk Management Committee

The Audit and Risk Management Committee assists the Board in fulfilling its responsibilities for corporate governance and oversight of Pacific Smiles' financial reporting, internal control structure, risk management systems and external audit functions. In doing so, the Committee has the responsibility to maintain free and open communication with the external auditor and Pacific Smiles' management.

The Committee comprises Simon Rutherford (Chairman), Ben Gisz, and Grant Bourke, each Non-Executive Directors of the Company. Simon Rutherford and Grant Bourke are considered by the Board to be independent directors.

The Audit and Risk Management Committee helps enforce the risk management framework, as outlined in the Audit and Risk Management Committee Charter, and review and make recommendations to the Board in relation to risks relevant to Pacific Smiles.

The Audit and Risk Management Committee Charter sets out the framework for the engagement of an external auditor and the services that may be provided by the external auditor. It is the policy of Pacific Smiles that its external auditor:

- must be independent of Pacific Smiles and the Directors and Senior Management. To ensure this, Pacific Smiles will annually request from the external auditor a report which sets out all relationships that may affect the external auditor's independence; and
- will not perform any non-audit or assurance services that may impair or appear to impair the external auditor's judgement or independence in respect of Pacific Smiles.

The Directors are able to review and challenge policies and practices to ensure decisions taken are in the best interests of the Company. The Audit and Risk Management Committee will meet at least three times annually or as frequently as required to undertake its role effectively. The Committee will meet in private with both the Chief Financial Officer and the external auditor at least once a year and at other times as considered appropriate. All meetings will be minuted by the Company Secretary and made available for inspection by any director. The Audit and Risk Management Committee will regularly report to the Board about committee activities.

6.4.3.2 Nomination and Remuneration Committee

The Nomination and Remuneration Committee's role is to review and make recommendations to the Board on remuneration packages and policies related to the Directors and Senior Management and to ensure that the remuneration policies and practices are consistent with the strategic goals of the Board. Under the Nomination and Remuneration Committee Charter, the Board is empowered to investigate any matter, with full access to all books, records, company operations, and people of Pacific Smiles and the authority to engage external consultants or other professional advisers as it determines necessary to carry out its duties. The Nomination and Remuneration Committee are responsible for reviewing in detail all incentive plans and equity plans and oversee remuneration related disclosure to comply with ASX Recommendation 8.1.

The Nomination and Remuneration Committee will meet at least once annually or as often as required to undertake its role effectively. The proceedings of the meetings will be minuted by the Company Secretary and made available for inspection by all members of the Board, and any matter or resolution requiring Board consideration will be brought directly to the consideration of the Board.

The Committee comprises Ben Gisz (Chairman), Grant Bourke, and Robert Cameron. Ben Gisz is a non-executive director but is not designated as independent. This means the Committee does not have an independent chairperson as recommended in the ASX Recommendation 8.1; however, the Board considers that Ben exercises his duties sufficiently independently from management and has the appropriate skills and experience to chair this Committee.

6.4.4 Continuous disclosure policy

Pacific Smiles is a "disclosing entity" pursuant to section 111AC and 111AR of the Corporations Act and is subject to continuous disclosure requirements in the Listing Rules and the Corporations Act. Subject to any exceptions, Pacific Smiles will be required to disclose to the market any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares.

The Board aims to ensure that Shareholders and stakeholders are informed of all major developments affecting the Company's state of affairs. As such, the Company has adopted a Disclosure Policy and a Shareholder Communications Policy, which together establish procedures to ensure that Directors and Senior Management are aware of, and fulfil their obligations in relation to, providing timely, full and accurate disclosure of material information to the Company's stakeholders and comply with the Company's disclosure obligations under the Corporations Act and Listing Rules. The Disclosure Policy also sets out procedures for communicating with Shareholders, the media and the market.

All relevant information provided to the ASX will be posted on the Company's website after the ASX confirms the appropriate ASX announcement has been made.

6.4.5 Code of Conduct

The Code of Conduct adopted by the Board sets out how Pacific Smiles expects Directors and employees to behave and conduct business in a range of circumstances. The Code requires awareness of, and compliance with, laws and regulations relevant to the Company's operations, including risk management, employment practices and operational health and safety. Pacific Smiles employees are obliged to familiarise themselves with, and comply with, Pacific Smiles' policies, frameworks and processes. The Code of Conduct is available on Pacific Smiles' website.

6.4.6 Securities trading policy

Pacific Smiles has developed and adopted a formal policy to regulate dealings in Shares (and other securities of the Company) by Directors, officers and other employees and their associates. Often Directors, officers and other employees will be in possession of information relating to the Company and other companies which may be classified as "inside" information. The Corporations Act prohibits a person in possession of inside information from trading or procuring another person to trade, in securities of the company.

The Company's securities trading policy explains what inside information is and what trading is prohibited and allowed under the Corporations Act. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.

The securities trading policy also provides for certain closed periods when trading in the Company's securities is prohibited, including:

- the period commencing from the end of 31 December until the end of the trading day on which Pacific Smiles' half-year financial results are released to ASX;
- the period commencing from the end of 30 June until the end of the trading day on which Pacific Smiles' annual financial results are released to ASX;
- the period commencing four weeks prior to Pacific Smiles' Annual General Meeting and ending at the end of the day on which the Annual General Meeting is held; and
- any other period that the Board specifies from time to time.

6 Key People, Interests and Benefits (continued)

6.4.7 Communication with Shareholders

The Board's aim is to ensure that Shareholders are provided with sufficient information to assess the performance of the Company and that they are informed of all major developments affecting the state of affairs of the Company relevant to Shareholders in accordance with all applicable laws.

Pacific Smiles will communicate with Shareholders through releases to the market via the ASX, posting information released to the ASX on the Company's website, mailing information to shareholders, and providing information at general meetings of Shareholders. Pacific Smiles is committed to making timely and accurate communications to Shareholders.

6.4.8 Diversity policy

Pacific Smiles intends to adopt a diversity policy upon listing which will be overseen by the Remuneration and Nomination Committee. Pacific Smiles acknowledges the positive outcomes that can be achieved through a diverse workforce and recognises and utilises the contribution of diverse skills and talent from its workforce.

Pacific Smiles recognises that in order to have a diverse workplace, discrimination, bullying, harassment, vilification and victimisation cannot and will not be tolerated. For the purposes of this policy, "diversity" encompasses (without limitation) diversity of gender, age, ethnicity, cultural background, impairment or disability, sexual orientation and religion. The Diversity Policy is aimed at aligning the Company's business operations with a diverse work environment where staff consider they are treated fairly and with respect.

The Diversity Policy will require disclosure in Pacific Smiles' annual report of the Company's progress in achieving its objectives and respective proportions of men and women on the board, in senior positions and across the whole organisation, or the Gender Equality Indicators as defined in the *Workplace Gender Equality Act 2012* (Cth).



seven
Details
of the Offer

7 Details of the Offer

7.1 The Offer

This Prospectus relates to an initial public offering of approximately 32.4 million Shares in Pacific Smiles at an offer price of \$1.30 per Share (**Offer Price**). The Shares offered under this Prospectus will represent approximately 21.3% of the Shares on issue at Completion. The final number of Shares to be offered under this Prospectus will depend on the number of Shares transferred to successful Applicants via SaleCo (see Section 7.1.6 and Section 9.3 for further detail).

The Offer is expected to raise a minimum of \$42.1 million (comprising \$20.3 million from the issue of 15.6 million New Shares by the Company for the Company's benefit and \$21.8 million for the sale of Existing Shares by SaleCo, on behalf of Selling Shareholders).

The total number of Shares on issue upon Completion and Listing will be approximately 152.0 million and all Shares will, once issued, rank equally with each other. A summary of the rights attaching to the Shares is set out in Section 9.4.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.1 Structure of the Offer

The Offer comprises:

- the **Broker Firm Offer** – open to Australian resident retail clients of Brokers who have received a firm allocation from their Broker; and
- the **Institutional Offer** – an invitation to bid for Shares made to Institutional Investors in Australia; and
- the **Priority Offer** – open to Australian resident investors nominated by Pacific Smiles, limited to \$4.5 million in aggregate proceeds.

No general public offer of Shares will be made under the Offer.

Details of the Broker Firm Offer and the allocation policy under it are described in Section 7.3. Details of the Institutional Offer and the allocation policy under it are described in Section 7.4. Details of the Priority Offer and the allocation policy under it are described in Section 7.5.

The allocation of Shares between the Broker Firm Offer, the Institutional Offer and the Priority Offer will be determined by the Lead Manager in agreement with Pacific Smiles, having regard to the allocation policies outlined in Sections 7.3, 7.4 and 7.5.

The Offer has been fully underwritten by the Lead Manager. A summary of the Underwriting Agreement, including the events which would entitle the Lead Manager to terminate the Underwriting Agreement, is set out in Section 9.6.3.

7.1.2 Purpose of the Offer and use of proceeds

The purpose of the Offer is to provide the Company with:

- access to capital markets, which it expects will provide added financial flexibility to pursue the growth opportunities and implement the growth strategies outlined in Section 3.15; and
- a liquid market for its Shares and an opportunity for others to invest in the Company.

The Offer also provides the opportunity for Selling Shareholders to realise their investment in Pacific Smiles.

The proceeds of the Offer will be applied to:

- payment to SaleCo (which will distribute payments to Selling Shareholders);
- increase in the Company's cash and cash equivalents;
- payment of the costs associated with the Offer;
- payment of a special dividend to Existing Shareholders; and
- repayment of most of the outstanding debt drawn on the Company's debt facilities.

7.1.3 Sources and uses of funds

Sources	\$ million	%	Uses	\$ million	%
Cash proceeds received from sale of Existing Shares	21.8	51.8%	Payment of proceeds to SaleCo	21.8	51.8%
Cash proceeds received from issue of New Shares	20.3	48.2%	Payment of costs of the Offer*	3.0	7.2%
			Partial repayment of existing debt facilities	9.0	21.4%
			Increase in cash and cash equivalents	6.2	14.6%
			Payment of a special dividend to Existing Shareholders	2.1	5.0%
Total sources	42.1	100%	Total uses	42.1	100%

* The costs of the Offer include the fees payable to advisers as referred to in Section 6.3.3, as well as other costs such as registry fees, certain costs of financing, listing fees, insurance costs and other adviser fees.

7.1.4 Pro forma balance sheet

Pacific Smiles' pro forma balance sheet following Completion, including details of the pro forma adjustments, is set out in Section 4.4.

7.1.5 Capital structure

The Company's capitalisation and indebtedness as at 30 June 2014, before and following the completion of the Offer, is set out in Section 4.5.

7.1.6 Shareholders

Details of the ownership¹ of Shares as at the Prospectus Date and following Completion of the Offer² are set out below:

	Shares at Prospectus Date	Pre-IPO (%)	Expected Shares ³ issued/ acquired/ (sold)	Expected Shares post- IPO	Expected Post-IPO (%)
Dr Alex Abrahams (Co-Founder and Executive Director)	45,009,501	33.0%	(5,401,140)	39,608,361	26.1%
TDM Asset Management ⁴	25,671,291	18.8%	(1,283,565)	24,387,726	16.0%
Alison Hughes (Co-Founder and Management Shareholder)	17,622,435	12.9%	(1,762,244)	15,860,192	10.4%
John Gibbs (Managing Director and Chief Executive Officer)	8,113,860	5.9%	(1,613,860)	6,500,000	4.3%
Non-Executive Director Shareholders	5,351,325	3.9%	1,270,896 ⁵	6,622,221	4.6%
Other Management Shareholders (excluding the Co-Founders and John Gibbs)	2,325,000	1.7%	(587,500)	1,737,500	1.1%
Other Existing Shareholders	32,299,983	23.7%	(5,873,803)	26,426,180	17.4%
New Shares to be issued under the Offer or at Completion	–	–	15,600,000	15,600,000	10.3%
New Shareholders pursuant to the Offer	–	–	16,789,677	16,789,677	11.0%
Total	136,393,395	100%	15,600,000	151,993,395	100%

A number of Existing Shareholders have provided a commitment to sell 16.8 million Shares into the Offer via SaleCo (see Section 9.3 for further details).

SaleCo is a special purpose vehicle that has been established to provide a facility for Existing Shareholders to realise all or a portion of their investment. Each Existing Shareholder will be offered the opportunity to nominate a number of Shares it wishes to sell into the Offer via SaleCo by 10 November 2014 and therefore the total number of Shares available under the Offer will not be known until this time. See section 9.3 for further details.

All of the Shares held by Director and Senior Management Shareholders, as well as the Shares held (or otherwise controlled) by TDM Asset Management, are subject to escrow arrangements under which they agree not to dispose or otherwise deal with the Shares until three business days after Pacific Smiles has released its financial results for the year ended 30 June 2015, subject to limited exceptions. Details of the escrow arrangements are set out in Section 7.7.

7.1.7 Control implications of the Offer

The Directors do not expect any Shareholder to control Pacific Smiles on Completion of the Offer.

7.1.8 Potential effect of the fundraising on the future of Pacific Smiles

The Directors believe that on Completion of the Offer, Pacific Smiles will have sufficient funds available from the cash proceeds of the Broker Firm Offer, Priority Offer and the Institutional Offer and the Company's operations, to fulfil the purposes of the Offer and meet Pacific Smiles' stated business objectives.

1. Existing Shareholders' interests include Shares directly held by that Existing Shareholder as well as interests in Shares held through companies or trusts and/or Shares held by immediate family.
2. This excludes any Shares acquired by Existing Shareholders under the Offer.
3. Selling Shareholders have provided commitments to sell-down the number of Shares specified in this column of the table. It is possible, however, that the total number of Shares sold into the Offer by any Selling Shareholder will ultimately be less than the stated amount if a decision is taken by the Company and Lead Manager to scale-back that Selling Shareholder's sell-down. Such scale back will not affect the overall aggregate sell-down of all Selling Shareholders.
4. TDM Asset Management and its clients hold in aggregate 25,671,291 Shares. TDM Asset Management has an indirect interest in the Shares held by its clients by virtue of the control it exercises in relation to the Shares under its investment management arrangements with its clients.
5. Grant Bourke has provided a firm commitment to subscribe for approximately 1,500,000 Shares under the Offer. These Shares will be acquired under the Priority Offer.

7 Details of the Offer (continued)

7.2 Terms and Conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in Pacific Smiles).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 9.4.
What is the consideration payable for each security being offered?	Successful Applicants under the Offer will pay the Offer Price, being \$1.30 per Share.
What is the Offer period?	<p>The Broker Firm Offer and Priority Offer opens at 9:00am (AEST) on Tuesday, 11 November 2014. The Broker Firm Offer and Priority Offer closes at 5:00pm (AEST) on Monday, 17 November 2014.</p> <p>The key dates, including details of the Offer Period, are set out on page 3. This timetable is indicative only and may change. Unless otherwise indicated, all times are stated in AEST. The Company and SaleCo, in consultation with the Lead Manager, reserve the right to vary both of the above times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Closing Date, to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or any Applicants). If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their Applications as soon as possible after the Offer opens.</p> <p>No securities will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date.</p>
What are the cash proceeds to be raised?	\$42.1 million will be raised if the Offer proceeds (comprising \$20.3 million from the issue of New Shares by Pacific Smiles for Pacific Smiles' benefit and \$21.8 million for the sale of Existing Shares by SaleCo on behalf of Selling Shareholders).
Is the Offer underwritten?	Yes. The Lead Manager has fully underwritten the Offer pursuant to the Underwriting Agreement. Details are provided in Section 9.6.3.
What is the minimum and maximum Application size under the Broker Firm Offer and Priority Offer?	The minimum Application under the Broker Firm Offer and the Priority Offer is \$5,000 worth of Shares. There is no maximum application size, unless directed by your Broker.
What is the allocation policy?	<p>The allocation of Shares between the Broker Firm Offer, the Priority Offer, and the Institutional Offer will be determined by agreement between the Lead Manager and the Company, having regard to the allocation policy outlined in Sections 7.3, 7.4 and 7.5.</p> <p>For Broker Firm Offer participants, the relevant Broker will decide as to how they allocate Shares amongst their retail clients.</p> <p>With respect to the Priority Offer, allocation of Shares to invitees is at the absolute discretion of Pacific Smiles, provided that those allocations (in aggregate) do not exceed \$4.5 million.</p> <p>The Lead Manager and Pacific Smiles have absolute discretion regarding the allocation of Shares to Applicants under the Offer and may reject an Application, or allocate a lesser number of Shares than applied for. The Lead Manager and Pacific Smiles also reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person.</p>
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched by standard post on or around Monday, 24 November 2014.
Will the Shares be listed?	Pacific Smiles will apply to the ASX for its admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code "PSQ").

Topic	Summary
When are the Shares expected to commence trading?	<p>It is expected that the dispatch of holding statements will occur on or about Monday, 24 November 2014 and that Shares will commence trading on the ASX on a normal settlement basis on or about Tuesday, 25 November 2014.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. The Company, SaleCo and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Pacific Smiles Group Information Line, by a Broker or otherwise.</p>
Are there any escrow arrangements?	Yes. Details are provided in Section 7.7.
Has an ASIC relief or ASX waiver been obtained or been relied on?	Yes. Details are provided in section 9.7
Are there any taxation considerations?	Summaries of certain Australian tax consequences of participating in the Offer and investing in the Shares are set out in Section 9.8. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.
Is there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.
Where can I find out more information about this Prospectus or the Offer?	<p>All enquiries in relation to this Prospectus should be directed to the Pacific Smiles Group Information Line on 1300 657 159 (within Australia) or +61 1 300 657 159 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.</p> <p>All enquiries in relation to the Broker Firm Offer should be directed to your Broker.</p> <p>If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.</p>

7.3 Broker Firm Offer

7.3.1 Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia. If you have received a firm allocation of Shares from your Broker, you will be treated as a Broker Firm Offer Applicant in respect of that allocation. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer.

7.3.2 How to apply

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus. If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Broker from whom you received your firm allocation. Application Forms for the Broker Firm Offer must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

If you apply in the Broker Firm Offer, you must apply for a minimum of \$5,000 worth of Shares and in multiples of \$1,000 worth of Shares thereafter. There is no maximum number or value of Shares that may be applied for under the Broker Firm Offer; however, Pacific Smiles and the Lead Manager reserve the right to reject or scale back any applications in the Broker Firm Offer. Pacific Smiles and the Lead Manager also reserve the right to aggregate any applications which they believe may be multiple applications from the same person. Pacific Smiles may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

Applicants under the Broker Firm Offer must lodge their Application Form and Application Monies with the relevant Broker in accordance with the relevant Broker's directions in order to receive their firm allocation. Applicants under the Broker Firm Offer must not send their Application Forms to the Share Registry.

7 Details of the Offer (continued)

The Broker Firm Offer opens at 9.00am (AEST) on the Opening Date and is expected to close at 5.00pm (AEST) on the Closing Date. Pacific Smiles and the Lead Manager may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late applications either generally or in particular cases. The Offer or any part of it may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their applications as early as possible. Please contact your Broker for instructions.

7.3.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

7.3.4 Allocation policy under the Broker Firm Offer

Shares which have been allocated to Brokers for allocation to their Australian resident retail clients will be issued to the applicants nominated by those Brokers (subject to the right of the Lead Manager and Pacific Smiles to reject or scale back applications). It will be a matter for the Brokers how they allocate Shares among their retail clients, and they (and not Pacific Smiles, SaleCo or the Lead Manager) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

7.3.5 Acceptance of Applications

An application in the Broker Firm Offer is an offer by the applicant to Pacific Smiles and SaleCo to apply for the amount of Shares specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to Successful Applicants.

The Lead Manager and Pacific Smiles reserve the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by an Applicant in completing their Application.

7.3.6 Application monies

Application monies received under the Broker Firm Offer will be held in a special purpose account until Shares are issued or transferred to Successful Applicants. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Pacific Smiles.

7.3.7 Announcement of final allocation policy in the Broker Firm Offer

Pacific Smiles expects to determine the final allocation policy under the Broker Firm Offer on or about Tuesday, 18 November 2014. If required by ASX, this information will be advertised in The Sydney Morning Herald, The Melbourne Age, The Australian, The Australian Financial Review, and The Courier Mail as well as other major metropolitan newspapers on that same day. Applicants in the Broker Firm Offer should confirm their firm allocation with the Broker from whom they received their allocation.

They may also call the Pacific Smiles Group Information Line on 1300 657 159 (within Australia) or +61 1 300 657 159 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday to confirm their allocations. If you sell Shares before receiving a holding statement, you do so at your own risk, even if you have confirmed your firm allocation with your Broker or obtained details of your holding from the Pacific Smiles Offer Information Line.

7.4 The Institutional Offer

7.4.1 Invitations to bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia to apply for Shares. The Lead Manager has separately advised Institutional Investors of the application procedures for the Institutional Offer.

7.4.2 Allocation policy under the Institutional Offer

The allocation of Shares among applicants in the Institutional Offer was determined by Pacific Smiles and the Lead Manager. The Lead Manager and Pacific Smiles had absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy was influenced, but not constrained, by the following factors:

- number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- Pacific Smiles' desire for an informed and active trading market following listing on ASX;
- Pacific Smiles' desire to establish a wide spread of institutional shareholders;
- overall level of demand under the Broker Firm Offer and Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long-term shareholders; and
- any other factors that Pacific Smiles and the Lead Manager considered appropriate.

7.5 The Priority Offer

7.5.1 Who may apply

The Priority Offer is open to Australian resident investors nominated by Pacific Smiles. If you are a Priority Offer Applicant, you should have received a personalised invitation to apply for Shares in the Priority Offer.

7.5.2 How to apply

If you have received a personalised invitation to apply for Shares under the Priority Offer and you wish to apply for Shares, you should follow the instructions on your personalised invitation.

The Priority Offer opens at 9.00am (AEST) on Tuesday, 11 November 2014 and is expected to close at 5.00pm (AEST) on Monday, 17 November 2014.

Applications under the Priority Offer must be for a minimum of \$5,000 worth of Shares and in multiples of \$1,000 worth of Shares thereafter.

There is no maximum value of Shares that may be applied for under the Priority Offer; however, the maximum size of the Priority Offer is \$4.5 million. The Company reserves the right to scale back applicants under the Priority Offer in its absolute discretion.

Any amount applied for in excess of the amount allocated to you will be refunded in full (without interest). If the amount of your BPAY® payment for Application Monies (or the amount for which those BPAY® payments clear in time for allocation) is insufficient to pay for the amount you have applied for in your Application Form, you may be taken to have applied for such lower amount as your cleared Application Monies will pay for (and to have specified that amount in your Application Form) or your Application may be rejected.

Priority Offer Applicants may apply for Shares by visiting www.pacificsmilesgroup.com.au, completing the online Application Form and paying the Application Monies via BPAY® (no physical Application Form is required when paying by BPAY®). There are instructions available on the online Application Form to assist with its completion. It is the responsibility of the Applicant to ensure payments are received by the Registry by no later than the Closing Date, being 5.00pm (AEST) on Monday, 17 November 2014. If you make a BPAY® payment, your bank, credit union or building society may impose a limit on the amount that you can transact on BPAY® and policies with respect to timing for processing BPAY® transactions, which may vary between bank, credit union or building society.

BPAY® Payments

When completing the BPAY® Payment, Priority Offer Applicants must use the specific biller code and unique Customer Reference Number (CRN) generated by the online application.

Priority Offer Applicants who have completed the online application but do not make a BPAY® payment will render the online application incomplete and will therefore not be accepted into the Priority Offer.

Applications for Shares may be made on an Application Form attached to or accompanying this Prospectus or in its paper copy form which may be downloaded in its entirety from Pacific Smiles' website, www.pacificsmilesgroup.com.au. Application forms must be completed in accordance with the instructions set out in the Application Form. Applicants may apply for Shares via cheques, bank drafts or money orders.

7 Details of the Offer (continued)

By making an application, you declare that you were given access to this Prospectus (or any replacement Prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

7.5.3 Allocation policy under the Priority Offer

Allocations under the Priority Offer will be at the absolute discretion of the Company, provided that those allocations (in aggregate) do not exceed \$4.5 million.

7.6 Underwriting arrangements

The Offer is fully underwritten by the Lead Manager. The Lead Manager and the Company have entered into an Underwriting Agreement under which the Lead Manager has been appointed as arranger, manager and underwriter of the Offer. The Lead Manager agrees, subject to certain conditions and termination events, to underwrite applications for all Shares under the Offer. The Underwriting Agreement sets out a number of circumstances under which the Lead Manager may terminate the agreement and the underwriting obligations. A summary of certain terms of the agreement and underwriting arrangements, including the termination provisions, is provided in Section 9.6.3.

7.7 Escrow arrangements

All of the Existing Shares held or controlled at Listing by the Escrowed Shareholders (other than any Shares purchased by them under the Offer) will be subject to voluntary escrow arrangements, under which Shares they hold (or otherwise control) will be escrowed until three business days after the date on which Pacific Smile's full-year results for the period ending 30 June 2015 are released to the ASX.

In aggregate, approximately 94.7 million Shares will be the subject of these escrow arrangements. This will represent approximately 62.3% of all of the Shares in issue following the Offer.

Each of these Escrowed Shareholders has agreed to enter into an escrow deed in respect of their escrowed Shareholding retained following the Offer, which prevent them from disposing of the Escrow Shares for the applicable escrow period. The restriction on 'disposing' is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Escrow Shares, encumbering or granting a security interest over the Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of any of the Shares or agreeing to do any of those things.

All of the Escrowed Shareholders may be released early from these escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a takeover bid in relation to its Shares if holders of at least half of the Shares the subject of the bid that are not held by the Escrowed Shareholders have accepted the takeover bid;
- the Shares held by the Escrowed Shareholders to be transferred or cancelled as part of a merger by scheme of arrangement under Part 5.1 of the Corporations Act; or
- in order to transfer (in one or more transactions) any or all escrowed Shares to an affiliate of the Shareholder provided such affiliate agrees to be bound by the voluntary escrow arrangements for the term of those arrangements.

During the escrow period, the Escrowed Shareholders whose Shares are subject to escrow, may deal in any of their Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

The number of Shares in respect of which the Escrowed Shareholders have agreed to enter into voluntary escrow arrangements with the Company are set out in the table below.

Name of escrowed party	Shares held in escrow	Shares held in escrow (% post-Completion)
Management Shareholders (including Dr Alex Abrahams)	63,706,053	41.9%
TDM Asset Management ⁶	24,387,726	16.0%
Non-Executive Director Shareholders	6,622,221 ⁷	4.4%
Other Existing Shareholders	–	–
New Shareholders pursuant to the Offer	–	–
Total	94,716,000	62.3%

6. Upon Completion of the Offer, TDM Asset Management and its clients are expected to hold in aggregate 24,387,726 Shares. TDM Asset Management manages and controls Shares held by its clients under its investment management arrangements and will be subject to escrow restrictions in respect of these Shares.

7. This includes the approximately 1,500,000 Shares to be issued to Grant Bourke under the Priority Offer on Completion. Grant has provided a firm commitment to subscribe for these Shares under the Priority Offer.

7.8 Potential effect of the fundraising on the future of the Company

The Board believes that on Completion of the Offer, the Company will have sufficient funds available from the cash proceeds of the Institutional Offer, Broker Firm Offer, the Priority Offer and the banking facilities to fulfil the purposes of the Offer and meet the Company's stated business objectives.

7.9 Control implications of the Offer

The Board does not expect that any Shareholder will control the Company on Completion of the Offer.

7.10 Working capital

The Board is of the opinion that following Completion of the Offer, the Company will have sufficient working capital to carry out its stated objectives.

7.11 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants who apply for Shares using an Application Form.

Investors who buy or sell Shares on ASX may be subject to brokerage and other transaction costs. Under current legislation, there is no stamp duty payable on the sale or purchase of shares on ASX.

7.12 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act laws and any other applicable securities laws.

Each Applicant in the Broker Firm Offer and each person to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States;
- it has not and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

Each Applicant under the Institutional Offer will be required to make additional certain additional representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.13 ASX listing, registers and holding statements and deferred settlement trading

7.13.1 Application to ASX for listing of Pacific Smiles and quotation of Shares

The Company will apply for admission to the official list of ASX and quotation of the Shares on ASX. The Company's ASX code is expected to be "PSQ".

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the official list is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received by the Company will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with ASX Listing Rules, subject to any waivers obtained by the Company from time to time.

7 Details of the Offer (continued)

7.13.2 CHES and issuer sponsored holdings

The Company will apply to participate in ASX's Clearing House Electronic Sub-register System (CHES) and will comply with ASX Listing Rules and ASX Settlement Operating Rules. CHES is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

7.13.3 Deferred trading

It is expected that trading of the Shares on the ASX will commence on or about Friday, 21 November 2014, initially on a deferred settlement basis.

Trading will continue on a deferred settlement basis until Pacific Smiles has advised the ASX that holding statements have been dispatched to Shareholders (which will occur on or about Monday, 24 November 2014).

Normal settlement trading (that is, trading on a T+3 settlement basis) is expected to commence on or about Tuesday, 25 November 2014.

It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk.

Pacific Smiles, the Lead Manager and the Share Registry disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the Pacific Smiles Group Information Line, by a Broker or otherwise.



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KPMG Transaction Services

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The Directors of Pacific Smiles Group Limited and
Pacific Smiles SaleCo Limited
PO Box 2246
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3 November 2014

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by Pacific Smiles Group Limited ("Pacific Smiles") and Pacific Smiles SaleCo Limited ("SaleCo") to prepare this report for inclusion in the prospectus to be dated 3 November 2014 ("Prospectus"), and to be issued by Pacific Smiles and SaleCo, in respect of the proposed initial public offering of the shares in Pacific Smiles and listing on the ASX ("the Transaction").

Expressions defined in the Prospectus have the same meaning in this report, unless otherwise specified.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical and forecast financial information described below and disclosed in the Prospectus.

The pro forma historical and forecast financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG. KPMG is 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.

Pro Forma Historical Financial Information

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the pro forma historical financial information of Pacific Smiles (the responsible party) included in the Prospectus.

The pro forma historical financial information has been derived from the historical financial information of Pacific Smiles, after adjusting for the effects of pro forma transactions and/or adjustments described in Section 4.2.2 of the Prospectus. The pro forma historical financial information consists of Pacific Smiles':

- pro forma historical consolidated income statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;
- pro forma historical consolidated statements of cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014; and
- pro forma historical consolidated statement of financial position as at 30 June 2014,

and related notes as set out in Section 4 of the Prospectus (collectively the "Pro Forma Historical Financial Information"). The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in Section 4 of the Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent Pacific Smiles' actual or prospective financial position, financial performance, and/or cash flows.

The Pro Forma Historical Financial Information has been compiled by Pacific Smiles to illustrate the impact of the Transaction on Pacific Smiles' financial position as at 30 June 2014, financial performance and cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014. As part of this process, information about Pacific Smiles' financial position, financial performance and cash flows has been extracted by Pacific Smiles from Pacific Smiles' audited financial statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014.

The financial statements of Pacific Smiles for the years ended 30 June 2013 and 30 June 2014 were audited by KPMG in accordance with Australian Auditing Standards. The audit opinions issued to members of Pacific Smiles relating to those financial statements were unqualified. The financial statements of Pacific Smiles for the year ended 30 June 2012 were audited by Pacific Smiles' external auditor (which is not a member firm of KPMG) and the audit opinion was unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared or presented fairly, in all material respects, by the directors in accordance with the stated basis of preparation. As stated in Section 4.2 of the Prospectus, the stated basis of preparation is:

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- the extraction of historical financial information, comprising the:
 - the historical consolidated balance sheet as at 30 June 2014;
 - the historical consolidated income statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;
 - the historical consolidated statements of cash flows for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;(together the "Historical Financial Information") from the audited financial statements of Pacific Smiles for the years ended 30 June 2012, 30 June 2013 and 30 June 2014; and
- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and Pacific Smiles' accounting policies, to the Historical Financial Information of Pacific Smiles to illustrate the effects of the adjustments described in Section 4 of the Prospectus.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

Historical financial information

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Historical Financial Information of Pacific Smiles from its audited financial statements for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;

Pro forma adjustments:

- consideration of the pro forma adjustments made to the Historical Financial Information;
- enquiry of directors, management, personnel and advisors of Pacific Smiles;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of Pacific Smiles' accounting policies for consistency of application in the preparation of the pro forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

Forecast Financial Information and directors' best-estimate assumptions

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the:

- Pro forma forecast consolidated income statement for the year ending 30 June 2015;
- Statutory forecast consolidated income statement for the year ending 30 June 2015;
- Pro forma forecast consolidated statement of cash flows for the year ending 30 June 2015; and
- Statutory forecast consolidated statement of cash flows for the year ending 30 June 2015,

of Pacific Smiles (the responsible party) as described in Section 4 of the Prospectus (the "Forecast Financial Information"). The directors' best-estimate assumptions underlying the Forecast Financial Information are described in Section 4.9 of the Prospectus. As stated in Section 4.2 of the Prospectus, the basis of preparation of the Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and Pacific Smiles' accounting policies.

We have performed limited assurance procedures in relation to the Forecast Financial Information, set out in Section 4 of the Prospectus, and the directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions do not provide reasonable grounds for the Forecast Financial Information;
- in all material respects the Forecast Financial Information is not:
 - prepared on the basis of the directors' best-estimate assumptions as described in the Prospectus; and
 - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and Pacific Smiles' accounting policies;
- the Forecast Financial Information itself is unreasonable.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted primarily of:

- comparison and analytical review procedures;
- discussions with management and directors of Pacific Smiles of the factors considered in determining their assumptions; and

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- examination, on a test basis, of evidence supporting:
 - the assumptions and amounts in the Forecast Financial Information; and
 - the application of accounting policies used in the Forecast Financial Information.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The directors of Pacific Smiles are responsible for the preparation of:

- the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments made to the historical financial information and included in the Pro Forma Historical Information; and
- the Forecast Financial Information, including the directors' best-estimate assumptions on which the Forecast Financial Information is based and the sensitivity of the Forecast Financial Information to changes in key assumptions.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Historical Financial Information

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in Section 4 of the Prospectus, comprising:

- the pro forma historical consolidated income statements of Pacific Smiles for the years ended 30 June 2012, 30 June 2013 and 30 June 2014;
- the pro forma historical consolidated statements of cash flows of Pacific Smiles for the years ended 30 June 2012, 30 June 2013 and 30 June 2014; and
- the pro forma historical consolidated statement of financial position of Pacific Smiles as at 30 June 2014,

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in Section 4 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and Pacific Smiles' accounting policies.

Forecast Financial Information and the directors' best-estimate assumptions

Based on our procedures, which are not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Forecast Financial Information do not provide reasonable grounds for the Forecast Financial Information; and
- in all material respects, the Forecast Financial Information:
 - is not prepared on the basis of the directors' best-estimate assumptions as described in Section 4.9 of the Prospectus; and
 - is not presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards, and Pacific Smiles' accounting policies; and
- the Forecast Financial Information itself is unreasonable.

The Forecast Financial Information has been prepared by Pacific Smiles management and adopted and disclosed by the directors in order to provide prospective investors with a guide to the potential financial performance of Pacific Smiles for the year ending 30 June 2015.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of Pacific Smiles. Evidence may be available to support the directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in Pacific Smiles, which are detailed in the Prospectus, and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in Section 5 of the Prospectus. The sensitivity analysis described in Section 4.11 of the Prospectus demonstrates the impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Forecast Financial Information will be achieved.

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3 November 2014*

We have assumed, and relied on representations from certain members of management of Pacific Smiles, that all material information concerning the prospects and proposed operations of Pacific Smiles has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed Transaction, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Pacific Smiles and from time to time, KPMG also provides Pacific Smiles with certain other professional services for which normal professional fees are received.

Restriction on use


Without modifying our conclusions, we draw attention to Section 4 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Financial Services Guide

We have included our Financial Services Guide as an Appendix to this report. The Financial Services Guide is designed to assist retail clients in their use of general financial product advice in our report.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'David Willis', is positioned above the printed name.

David Willis
Authorised Representative

8 Investigating accountant's report (continued)

*Pacific Smiles Group Limited and Pacific Smiles SaleCo Limited
Limited Assurance Investigating Accountant's Report and
Financial Services Guide
3 November 2014*

Financial Services Guide Dated 3 November 2014

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) ('**KPMG Transaction Services**'), and David Willis as an authorised representative of KPMG Transaction Services (**Authorised Representative**), authorised representative number 404265.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;

- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by Pacific Smiles Group Limited (Pacific Smiles) to provide general financial product advice in the form of a Report to be included in the Prospectus (Document) prepared by Pacific Smiles in relation to the initial public offering of shares in Pacific Smiles Group Limited and listing on the ASX (Offer).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Pacific Smiles.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by Pacific Smiles, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Offer.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services \$255,000 for preparing the Report. In addition, KPMG entities have performed work in relation to tax advice and due diligence enquiries and Pacific Smiles Group has agreed to pay \$98,000 (excluding GST and disbursements) for these services up to the date of the Prospectus. KPMG Transaction Services

and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to Pacific Smiles for which professional fees are received. Over the past two years professional fees of \$50,000 and \$71,750 have been received from Pacific Smiles. None of those services have related to the transaction or alternatives to the transaction.



nine
Additional
information

9 Additional information

9.1 Incorporation, share capital and corporate structure

The Company was registered in New South Wales on 6 December 2002. On Completion of the Offer, the Company will have approximately 152.0 million Shares on issue, including 32.4 million Shares offered under this Prospectus.

SaleCo was incorporated in Victoria on 24 October 2014.

9.2 Company tax status

The Company will be subject to tax at the Australian corporate tax rate.

9.3 Sale of Shares by SaleCo

SaleCo, a special purpose vehicle, has been established to facilitate the sale of Existing Shares by the Selling Shareholders. As at the Prospectus Date, a number of Existing Shareholders have committed to sell approximately 16.8 million Shares into the Offer via SaleCo.

At or around the Prospectus Date, Existing Shareholders have been or will be provided with the opportunity to enter into deed polls in favour, and for the benefit of, SaleCo under which they irrevocably offer to sell to SaleCo a specified portion of their Existing Shares, which will be sold by SaleCo into the Offer, free from encumbrances and third party rights and conditional on (among other things) the Underwriting Agreement not having being terminated as at the date of settlement of the Offer.

The Existing Shares which SaleCo acquires from the Selling Shareholders will be transferred to Successful Applicants at the Offer Price. The price payable by SaleCo for these Existing Shares is the Offer Price. The Company will also issue New Shares to Successful Applicants under the Offer.

SaleCo has no material assets, liabilities or operations other than its interests in and obligations under the Underwriting Agreement and the deed polls described above. The directors of SaleCo are Robert Cameron AO, John Gibbs and Ben Gisz, who are also Directors of the Company. Robert Cameron AO is the sole shareholder of SaleCo. The Company has agreed to provide such resources and support as are necessary to enable SaleCo to discharge its functions in relation to the Offer and has indemnified SaleCo in respect of costs of the Offer. The Company has indemnified SaleCo and the shareholder and officers of SaleCo for any loss which they may incur as a consequence of the Offer.

9.4 Summary of rights and liabilities attaching to shares and other material provisions of the Company's constitution

General

The rights attaching to ownership of the Shares are detailed in the Constitution of the Company (which may be inspected during normal business hours at the registered office of the Company) and in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The following is a summary of the major provisions of the Constitution. This summary is not intended to be exhaustive and is qualified by the terms of the Constitution. This summary does not constitute a definitive statement of the rights and liabilities of Shareholders.

This summary assumes that Pacific Smiles is admitted to the official list of the ASX (at which time, the Constitution will come into immediate effect).

Voting

At a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each fully paid Share held. On a poll, partly paid Shares confer a fraction of a vote pro-rata to the amount paid up on the Share.

Dividends

Subject to any special terms and conditions of issue, the amount which the Directors from time to time determine to distribute by way of dividend are divisible among the members in proportion to the amounts paid up on the Shares held by them.

Issue of shares

Subject to the Constitution, the Listing Rules and the ASX Settlement Operating Rules, the Directors have the right to issue shares or grant options over unissued shares to any person and they may do so at such times as they think fit and on the conditions they think fit. Such shares may have preferred, deferred or other special rights or special restrictions about dividends, voting, return of capital, participation in the property of the Company on a winding up or otherwise as the Directors think fit.

9 Additional information (continued)

Variation of class rights

The rights attached to any class of shares may, unless their terms of issue state otherwise, be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

Transfer of shares

Subject to the Constitution and to the rights or restrictions attached to any shares or class of shares, holders of Shares may transfer them by a proper transfer effected in accordance with the ASX Settlement Operating Rules or an instrument in writing in any usual form or in any other form that the Directors approve.

The Directors may decline to register a transfer of Shares for reasons including where the transfer is not in registrable form or where the refusal to register the transfer is permitted under the Listing Rules or the ASX Settlement Operating Rules. If the Directors decline to register a transfer the Company must give the party lodging the transfer, written notice of the refusal and the reason for refusal.

Small holdings

The Directors may sell the Shares of a Shareholder if that Shareholder holds less than a marketable parcel of Shares, provided that the procedures set out in the Constitution are followed. A non-marketable parcel of Shares is defined in the Listing Rules and is, generally, a holding of shares with a market value of less than \$500.

General meetings and notices

Subject to the Constitution and to the rights or restrictions attached to any shares or class of shares, each member is entitled to receive notice of and, except in certain circumstances, to attend and vote at general meetings of the Company and receive all financial statements, notices and other documents required to be sent to members under the Constitution or the Corporations Act.

Winding up

Subject to any special or preferential rights attaching to any class or classes of shares, members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the shares held by them, less any amounts which remain unpaid on these shares at the time of distribution.

Proportional takeover provisions

The Constitution contains provisions for shareholder approval in relation to any proportional takeover bid. The provision will lapse unless it is renewed by special resolution of shareholders in general meeting within three years from the date of its adoption.

Directors – appointment and removal

The minimum number of Directors is three and the maximum is to be fixed by the Directors but may not be more than ten unless the Company passes a resolution varying that number. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that any Director who has held office for three or more years or three or more annual general meetings (excluding any managing director) retires at each annual general meeting of the Company. The Directors may also appoint a Director to fill a casual vacancy on the Board in addition to the Directors who will then hold office until the next annual general meeting of the Company.

Directors – voting

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the Chairperson has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.

Directors' remuneration

The Directors, other than Executive Directors, are entitled to be paid by such Directors' fees for their services as the Directors decide, provided that the total fees do not exceed the maximum aggregate sum as may be approved from time to time by Shareholders in general meeting. The Constitution also makes provision for the Company to pay all expenses of Directors in attending meetings and carrying out their duties and for the payment of additional fees for extra services or special exertions. Any change to that maximum aggregate sum needs to be approved by Shareholders.

Alteration of share capital

Subject to the Listing Rules, the Constitution and the Corporations Act, the Company may alter its share capital.

Preference shares

The Company may issue preference shares including preference shares which are liable to be redeemed or convertible to ordinary shares. The rights attaching to preference shares are those set out in the Constitution.

Variation of the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of members present and voting at a general meeting of the Company. The Company must give at least 28 days' written notice of its intention to propose a resolution as a special resolution.

Share buy-backs

The Company may buy back shares in accordance with the provisions of the Corporations Act.

Dividend plan

The Constitution contains a provision allowing Directors to implement a dividend reinvestment plan and a dividend selection plan.

9.5 Performance Rights Plan

The Company intends to establish a Performance Rights Plans (**PR Plan**) prior to, and conditional upon, Completion of the Offer to assist in the motivation, retention and reward of Senior Management. The PR Plan is designed to align the interests of Senior Management more closely with the interests of Shareholders by providing an opportunity for Senior Management of the Company to receive an equity interest in Pacific Smiles through the granting of performance rights (**PRs**).

Under the PR Plan, PRs will be initially offered to six of the Company's current officers and employees on or around Completion of the Offer, including two Executive Directors (being the Company's Chief Executive Officer, John Gibbs, and Dr Alex Abrahams (a Founder)). Each of these persons will continue to be Directors at the time of Listing.

It is currently intended that approximately 2,250,000 Performance Rights (representing approximately 1.5% of the Company's issued share capital) will be granted around the time of Completion of the Offer.

Those PRs to be granted on or around Completion of the Offer will vest after four years (**Performance Period**), conditional on the achievement of relevant performance and service conditions measured from the anticipated Listing date to 30 June 2017. Vesting of the PRs will be subject to:

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

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

The other key terms of the PR Plan are as follows:

Feature	Description
Administration	The PR Plan is administered by the Board. The Board may appoint a third party manager to administer the PR Plan.
Eligibility	Participation in the PR Plan is by invitation. The Board may determine which full or part-time employees of the Company, or a subsidiary of the Company, are eligible.
Award	A PR will vest on satisfaction of the applicable performance, service or other vesting conditions specified at the time of the grant. While the PR Plan rules provide the flexibility for the Company to issue options, the grant to be made at Completion of the Offer will consist of PRs.
Change of Control	In the event of a change in control of the Company, unvested PRs and options will vest on a pro-rata basis based on the proportion of the performance period which has elapsed at the date of the change of control. The Board has discretion as to how to treat remaining unvested performance rights.
Performance Rights	Each PR carries the conditional right to receive a Share, by issue or transfer, upon vesting (subject to the Offer).
Performance Period	The performance period will be specified in the Offer, and is four years from the date of Listing in respect of the initial PRs issued on or around Completion of the Offer.
Shares	Unless otherwise specified in an offer made under the PR Plan, Shares issued or transferred under the PR Plan will rank equally with all existing Shares from the date of issue or transfer.
New Issues	Performance Rights and/or Options do not confer on a participant the right to participate in new issues of Shares or other securities in the Company, including by way of bonus issues, rights issues or otherwise.

9 Additional information (continued)

Feature	Description
Limitations	The number of Shares to be received upon the exercise of PRs and/or Options under the PR Plan, when aggregated with the number of Shares which would be issued were each outstanding offer under this plan and any other employee equity scheme accepted or exercised, and the number of Shares issued under such as scheme during the previous five years (excepting offers made and performance rights granted under certain circumstances), may not exceed 5% of the total number of issued Shares at the time of the invitation.
Trustee	Pacific Smiles may appoint a trustee to do such things as considered appropriate to enable the implementation of the PR Plan, including to acquire and hold Shares or other securities of the Company, on behalf of Participants, for transfer to future Participants or otherwise for the purposes of the PR Plan.
Quotation	The Company will apply for official quotation of any Shares issued under the PR Plan upon the exercise of any vested option or the vesting of any PR, in accordance with the Listing Rules.
Amendments	Pacific Smiles may vary, amend, terminate or suspend the PR Plan at any time, provided that such action does not adversely affect or prejudice rights of participants holding Performance Rights and/or Options at that time. Such amendments may be given retrospective effect.
Other Terms	The PR Plan contains other terms relating to the administration, transfer, termination and variation of the PR Plan.

9.6 Material contracts

9.6.1 nib Health Funds Dental Relationship and Marketing Agreement

Pacific Smiles entered into a 15 year dental relationship and marketing agreement with nib Health Funds Limited (nib) on 15 May 2012 which expires on 1 May 2027 (**nib Agreement**). The purpose of the nib Agreement is to (among other things) establish a strategic alliance between nib and Pacific Smiles for the provision of high quality dental services to nib customers.

Pacific Smiles operates both nib branded and non-nib branded dental centres under the provisions of the nib Agreement. The nib Agreement applies to the Pacific Smiles dental centres listed in the agreement and to future dental centres as agreed to by the parties. Under the Agreement, nib is granted a right of first refusal where Pacific Smiles or a Related Body Corporate contemplates entering into an arrangement to own and/or operate a new dental centre under the brand of another private health insurer. The right of first refusal applies to the new centre if it is located within a stipulated geographical area where there is a significant number of nib customers, but otherwise does not apply if the centre is not intended to be branded under the name of any other private health insurer.

Pursuant to the nib Agreement, nib agrees to offer comprehensive nib preferred provider agreements to dentists conducting their practice at nib branded Pacific Smiles centres. In addition, nib agrees not to enter into preferred provider agreements with other dentists that would result in lower out-of-pocket expenses for nib customers (without Pacific Smiles' consent).

At non-nib branded Pacific Smiles centres, the agreement provides for nib to offer non-exclusive nib preferred provider agreements to dentists who practise at these centres. Pacific Smiles agrees to manage the relationship with the dentist, who contracts Pacific Smiles services and facilities under the terms of a Service and Facility Agreement, on behalf of nib.

The parties also agreed to conduct minimum marketing activities such as listing the relevant Pacific Smiles centres on nib's website as a nib preferred provider and by providing marketing material to nib customers in the catchment area of the nib branded centres.

Pacific Smiles may elect to convert a nib branded centre into a non-nib branded centre where the nib member-sourced revenue at that centre fails to meet certain KPIs, provided that Pacific Smiles has met its own performance benchmarks in respect of that centre and the centre is not branded with the brand of any other private health insurer.

The nib Agreement does not have a change of control provision that will be triggered by the Offer, however, nib may terminate the Agreement if a private health insurer other than nib acquires 20% or more of the issued shares in Pacific Smiles, or if more than one such private health insurers acquire at least 5% of the shareholding of Pacific Smiles and cumulatively hold 30% or more of the issued shares in Pacific Smiles. The agreement may be terminated as a result of usual matters such as an insolvency event or a party ceasing to conduct business. In addition, particular centres may be excised from the nib Agreement by either party in the event of a breach of material term by the other party in relation to that Centre.

9.6.2 Medibank Exclusive Business Relationship Agreement

Pacific Smiles is party to an exclusive business relationship agreement with Medibank, with a prospective end date of 13 June 2024 and an option to extend the agreement for a further five years in favour of Pacific Smiles provided that certain requirements are met.

Under the agreement, Pacific Smiles is appointed as the exclusive ahm preferred provider of dental services at all Pacific Smiles locations that do not exclusively carry the branding of another private health insurer, and within a 20 kilometre radius of those locations. Further, Pacific Smiles has a right of first refusal in circumstances where Medibank wishes to establish an ahm dental relationship or enter into an ahm provider agreement outside of those parameters. The agreement will apply to future dental centres that Pacific Smiles acquires or establishes that are not branded under the name of another private health insurer.

As an ahm preferred provider of dental services, Medibank offers ahm provider agreements to all dental practitioners practicing at Pacific Smiles dental centres covered by the agreement on an exclusive basis. Additionally, Medibank offers practitioners operating from all Pacific Smiles dental centres non-exclusive Medibank Members Choice Provider Agreements subject to an objective test. Pacific Smiles works with Medibank to encourage dental practitioners practicing at locations under the agreement to participate in preferred provider agreements, and ensures their compliance with the terms of those agreements.

If Pacific Smiles or Medibank materially breaches the agreement and fails to remedy that breach within 30 days of receiving notice requiring them to rectify the breach, the other party may terminate the agreement. If the breach is material and not capable of being rectified, the other party may terminate the agreement immediately.

If no practitioner holds a provider agreement with either ahm or Medibank at a particular location, Medibank may excise that location from the agreement. Medibank may also excise a location if that location fails to meet the service standards imposed by Medibank.

If more than 20% of the issued share capital in Pacific Smiles is acquired by a private health insurer, or an entity which is a related body corporate of a private health insurer which itself has an interest in the provision of private health insurance, Medibank may terminate the agreement immediately upon giving notice.

The agreement includes an obligation on the parties to conduct mutually beneficial marketing activities to encourage certain ahm and Medibank members in defined catchments around each of the Pacific Smiles Dental Centres, to benefit from their extras cover by attending one of the participating dentists.

9.6.3 Underwriting Agreement

Pacific Smiles, SaleCo and the Lead Manager have entered into an underwriting agreement on or about the Prospectus Date (Underwriting Agreement) pursuant to which the Lead Manager agrees to arrange, manage and underwrite the Offer.

Fees, costs and expenses

Based on the Offer being completed successfully, Pacific Smiles must pay to the Lead Manager an underwriting fee in the amount of \$862,500 and a management fee of \$287,500 (exclusive of any applicable GST).

The underwriting fee and the management fee is payable to the Lead Manager by 5.00pm on the day of settlement for the Offer (Settlement Date). Pacific Smiles must also pay or reimburse the Lead Manager in relation to all reasonable costs, charges or expenses of and incidental to the Offer.

Termination events not limited to materiality

If any of the following events occurs, the Lead Manager may terminate its obligations under the Underwriting Agreement on or before the Settlement Date:

- **(disclosures)** a statement contained in the Offer Documents or Public Information is or becomes misleading or deceptive, or a matter required to be included by Australian law is omitted from the Offer Documents;
- **(new circumstances)** there occurs a new circumstance that arises after the Prospectus is lodged that would have been required to be included in the Prospectus if it had arisen before lodgement;
- **(supplementary prospectus)**
 - Pacific Smiles and SaleCo are required to issue a supplementary prospectus to comply with section 719 of the Corporations Act; or
 - Pacific Smiles and SaleCo lodges a supplementary prospectus with ASIC in a form that has not been approved by the Lead Manager in circumstances required by the Underwriting Agreement or the supplementary prospectus otherwise fails to comply with the requirements specified in the Underwriting Agreement;
- **(listing and quotation)** approval is refused or not granted, or approval is granted subject to conditions other than customary conditions or conditions that are acceptable to the Company and the Lead Manager, acting reasonably, for:
 - Pacific Smiles' admission to the official list of the ASX on or before the date by which the ASX is to have confirmed quotation of the Shares; or
 - the quotation of all of the Shares, including the Shares issued under the Offer, on the ASX or for the Shares, to be cleared through CHESS on or before the date on which normal trading of the Shares commences,or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions or conditions that are acceptable to the Company and the Lead Manager, acting reasonably) or withheld;

9 Additional information [continued]

- **(market fall)** the S&P/ASX All Ordinaries Index falls to a level that is 90% or less of the level as at the close of trading on the date of the Underwriting Agreement and is at or below that level at the close of trading:
 - for two consecutive business days during any time after the date of the Underwriting Agreement; or
 - on the business day immediately prior to the Settlement Date;
- **(notifications)** any of the following notifications are made in respect of the Offer (other than a notification or hearing that is not made public and that is withdrawn after two business days or prior to 8.00am on the Settlement Date, whichever is earlier):
 - ASIC issues an order (including an interim order) under section 739 of the Corporations Act;
 - ASIC holds a hearing under section 739(2) of the Corporations Act;
 - an application is made by ASIC for an order under Part 9.5 in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Act 2001* (Cth) in relation to an Offer Document;
 - any person (other than the Lead Manager) who has previously consented to the inclusion of its name in the Prospectus withdraws its consent; or
 - any person (other than the Lead Manager) gives a notice under section 730 of the Corporations Act in relation to the Prospectus;
- **(certificate not provided)** Pacific Smiles or SaleCo does not provide a closing certificate as and when required by the Underwriting Agreement;
- **(withdrawal)** Pacific Smiles or SaleCo withdraws the Offer;
- **(applications and proceedings)** any person makes an application under Part 9.5, or to any Government Agency, in relation to the Prospectus or the Offer or ASIC commences or gives notice of an intention to hold any investigation, proceedings or hearing in relation to the Offer or Prospectus;
- **(change in management)** a change in the chief executive officer or chief financial officer of the Company occurs or Alex Abrahams is no longer employed by the Company;
- **(prosecution)** any of the following occur:
 - a director or prospective director, the chief financial officer or chief financial officer of the Company or SaleCo engages or has engaged in any fraudulent conduct or activity or is charged with an indictable offence; or
 - any Government Agency commences any public action against the Company, SaleCo or any other Group member or any of the directors or prospective directors of the Company and SaleCo in their capacity as an officer of the Company, or announces it intends to take such action; or
 - any director or prospective director of the Company or SaleCo is disqualified from managing a corporation under the Corporations Act; or
 - any member of the Group engages in fraudulent conduct or activity, whether or not in connection with the Offer;
- **(unable to issue or transfer)** the Company and SaleCo are prevented from issuing or transferring (as applicable) the Shares, within the time required by the timetable included in the Underwriting Agreement, the Offer Documents, the Listing Rules, the ASX Settlement Operating Rules or by applicable laws, an order of a court of competent jurisdiction or a Government Agency;
- **(timetable)** the Offer is not conducted in accordance with the timetable or any event specified in the timetable is delayed by more than two business days without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld or delayed);
- **(change to Company or SaleCo)** other than as disclosed in the Prospectus, Pacific Smiles or SaleCo:
 - alters the issued capital of Pacific Smiles or SaleCo; or
 - disposes or attempts to dispose of a substantial part of the business or property of Pacific Smiles or SaleCo, without the prior written consent of the Lead Manager;
- **(insolvency events)** Pacific Smiles becomes insolvent, or there is an act or omission which is likely to result in any member of the Group becoming insolvent;
- **(ASX Waivers and ASIC Modifications)** ASX withdraws, revokes or amends the ASX Waivers or ASIC withdraws, revokes or amends the ASIC Modifications;
- **(Restriction Agreements)** a representation or warranty or an undertaking in the Underwriting Agreement relating to the Restriction Agreements is breached, becomes not true or correct or is not performed.

Termination Events limited to materiality

If any of the following events occur at any time before 10.00am on the Settlement Date (or such other time specified in the Underwriting Agreement), the Lead Manager may terminate its obligations under the Underwriting Agreement if in the reasonable opinion of the Lead Manager the event has or is likely to have a materially adverse effect on: the marketing, outcome, success or settlement of the Offer, or on the ability of the Lead Manager to market, promote or settle the Offer, or the willingness of investors to subscribe for the Shares or the likely price at which the Shares will trade on the ASX; or could give rise to a liability of the Lead Manager under any applicable law or has given or would be likely to give rise to a contravention by the Lead Manager or the Lead Manager being involved in a contravention of the Corporations Act or any applicable laws.

- **(disclosures in the due diligence report)** the due diligence report, or verification material, or any other information supplied by or on behalf of Pacific Smiles or SaleCo to the Lead Manager concerning Pacific Smiles or SaleCo or in relation to the Offer is or becomes false, misleading or deceptive, or likely to mislead or deceive, including by way of omission;
- **(hostilities)** hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, the United Kingdom, Indonesia, the People's Republic of China, South Korea, Japan, North Korea or any member state of the European Union or a major terrorist act is perpetrated against any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world;
- **(change of law)** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia a new law or the Reserve Bank of Australia, or any Commonwealth or State authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);
- **(default)** Pacific Smiles or SaleCo defaults on one or more of its obligations under the Underwriting Agreement;
- **(representations and warranties)** a representation, warranty, or undertaking contained in the Underwriting Agreement on the part of Pacific Smiles or SaleCo is breached, becomes not true or correct or is not performed;
- **(certificate incorrect)** any closing certificate provided by Pacific Smiles or SaleCo to the Lead Manager is false, misleading, or deceptive (including by way of omission);
- **(Adverse Effect)** there is, or is likely to be, in the reasonable opinion of the Lead Manager, an Adverse Effect, when compared to the position disclosed in the Offer Documents or the Public Information;
- **(Government Enquiry or action)** any Government Agency (other than ASX or ASIC) commences or gives notice of an intention to hold any Enquiry;
- **(disruption in financial markets)** any of the following occurs:
 - a general moratorium on commercial banking activities in Australia, the United Kingdom, the United States, Hong Kong or any member state of the European Union is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
 - any adverse effect on the financial markets in Australia, the United Kingdom, the United States, Hong Kong or any member state of the European Union, or in foreign exchange rates or any development involving prospective changes in political, financial or economic conditions in any of those countries; or
 - trading in all securities quoted or listed on the ASX, New York Stock Exchange, Hong Kong Stock Exchange or London Stock Exchange is suspended or limited in a material respect for one day on which that exchange is open for trading.

Conditions, representations, warranties and undertakings

The Underwriting Agreement contains common representations, warranties and undertakings provided by Pacific Smiles to the Lead Manager relating to matters such as the conduct of the parties, the conduct and outcome of the due diligence process, information provided to the Lead Manager, financial information, material contracts, licences, compliance with ASX Listing Rules and laws, information contained in this Prospectus and the conduct of the Offer.

The undertakings provided by Pacific Smiles include that Pacific Smiles will not, during the period following the date of the Underwriting Agreement until 120 days after completion of the Offer, allot or agree to allot, or indicate in any way that it may or will allot or agree to allot, any Shares or other equity securities other than in relation to the Offer or the issue of performance rights or options under the Performance Rights Plan, or reduce, reorganise or otherwise alter its capital structure without the prior written consent of the Lead Manager, or until 120 days after the completion of the Offer dispose or agree to dispose of the whole or a substantial part of its business or property except as disclosed in this Prospectus, or change Pacific Smiles' constitution except with the prior written consent of the Lead Manager other than as disclosed in this Prospectus.

In addition, the Underwriting Agreement contains common conditions precedent to the Lead Manager's obligations, including the entry by Escrowed Shareholders into the Voluntary Escrow Deeds (and those deeds not having been breached or terminated).

Indemnity

Subject to certain exceptions, Pacific Smiles indemnifies the Lead Manager and persons associated with the Lead Manager against certain liabilities which relate to or arise from the Underwriting Agreement, this Prospectus (or any related document) or the Offer.

9 Additional information [continued]

9.6.4 CBA Debt Facility

Pacific Smiles has existing debt financing with Commonwealth Bank under which it has drawn total borrowings of \$9.6 million as at 30 June 2014. The key terms of the debt facility arrangements are set out in Section 4.5.2.

9.7 Regulatory relief

ASIC exemptions and relief

ASIC has granted the following exemptions from, and modifications to, the Corporations Act:

- an exemption pursuant to s 741(1)(a) of the Act from compliance with s 734(2) (Restrictions on advertising and publicity) to allow the Company to communicate with its employees and shareholders of the Company in relation to the Offer, on the terms, and subject to the conditions, set out in the relief instrument;
- relief from section 606 of the Corporations Act applying to the Company to prevent it acquiring a relevant interest in 20% or more of the Shares by virtue of the voluntary escrow deeds, on certain conditions, as well as modification of section 671B to require the Company to make substantial holding disclosure of the relevant interest it would have acquired, but for relief, as a result of the voluntary escrow deeds;
- relief under sections 911A(2)(l), 992B(1)(a) and 1020F(1)(a) of the Corporations Act to effectively extend the benefit of ASIC Class Order 03/184 to the Performance Rights Plan. This provides the Company with conditional relief from the requirement to issue disclosure documentation in connection with the grant of Performance Rights, as well as relieving the Company from the operation of the licensing, advertising, securities hawking and managed investment scheme provisions of the Corporations Act for offers of Performance Rights under the Performance Rights Plan in accordance with ASIC's conditions. As a result of granting this relief, Shares issued by the Company upon vesting of a Performance Right granted under the Performance Rights Plan will not be subject to the on-sale restrictions of the Corporations Act.

ASX waiver

ASX has provided in-principle advice to the Company that it will likely (upon receipt of its listing application) grant a waiver from Listing Rule 1.1, Condition 11, in relation to Performance Rights and/or Options issued under the Company's Performance Rights Plan with a nil exercise price.

9.8 Australian Tax Considerations

The comments below provide a general summary of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus and hold their Shares on capital account for Australian income tax purposes. The categories of Shareholders are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds.

These comments do not apply to Shareholders that hold their Shares on revenue account or as trading stock, or to non-Australian tax resident Shareholders. They also do not apply to Shareholders that are banks, insurance companies or taxpayers that carry on a business of trading in Shares. These Shareholders should seek independent professional advice.

These comments also do not consider the consequences of Division 230 of the Income Tax Assessment Act 1997 (the Taxation of Financial Arrangements or "TOFA" regime). Shareholders who are subject to TOFA should obtain their own tax advice as to the implications under the TOFA regime (if any).

The comments below are based on the tax laws in force as at the date of this Prospectus. The tax consequences discussed below may alter if there is a change to the tax law after the date of this Prospectus. They do not take into account the tax law of countries other than Australia.

Australian tax laws are complex. The summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. The precise implications of ownership or disposal of the Shares by Shareholders will depend upon each Shareholder's specific circumstances. It is strongly recommended that Shareholders obtain specialist taxation advice on the consequences of acquiring, holding or disposing of the Shares, taking into account their own specific circumstances.

9.8.1 Dividends paid on Shares

Australian resident individuals and complying superannuation entities

Dividends paid by the Company will constitute assessable income of an Australian tax resident Shareholder.

Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is received, together with any franking credit attached to that dividend. Such Shareholders should be entitled to a tax offset equal to the franking credit attached to the dividend. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, the Shareholder should be entitled to a tax refund.

Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and the associated franking credit in their assessable income, and are entitled to a tax offset equal to the franking credit. The franking credit is also credited to the Corporate Shareholder's franking account.

Excess franking credits received by Corporate Shareholders cannot give rise to a refund, however may be converted into carry forward tax losses.

Trusts and partnerships

Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend and associated franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a proportionate share of any tax offset arising due to the franking credit, based on the beneficiary's or partner's share of the net income of the trust or partnership.

Shares held at risk

The benefit of franking credits can be denied where the Shareholder is not a 'qualified person' in which case the Shareholder will not be entitled to a tax offset for franking credits. Broadly, to be a 'qualified person', the holding period rule and, if necessary, the related payment rule must be satisfied.

To be a qualified person, a Shareholder must satisfy the 'holding period' rule and 'related payments' rule. This requires that a Shareholder hold the Shares "at risk" for a continuous period of not less than 45 days (excluding the days of acquisition and disposal) and that the benefit of the dividend is not passed on within 45 days. This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000.

Dividend washing

The Australian Government has enacted a specific integrity rule in the tax law to address 'dividend washing' arrangements. Under a dividend washing arrangement a shareholder in a company holds a parcel of shares which they sell on the ordinary market on an ex-dividend basis then purchases a substantially identical parcel of shares on a special market, which include the rights to receive a dividend. The acquirer may be either the shareholder or a related party. For franked distributions made on or after 1 July 2013 under a dividend washing arrangement the tax offset associated with the distribution on the acquired share will not be available, and will not be included in the purchaser's assessable income.

The integrity rule does not apply to individuals who receive \$5,000 or less in franking credits in the relevant income year, although general anti-avoidance rules may still apply.

Shareholders should seek professional advice to determine if the aforementioned rules apply.

9.8.2 Disposal of Shares

The disposal of a Share by a Shareholder is a capital gains tax ("CGT") event. A capital gain will arise where the capital proceeds received on disposal exceeds the CGT cost base of the shares. The CGT cost base of the share is broadly the amount paid to acquire the share plus any transaction/incidental costs.

The CGT discount may be available on the capital gain for Shareholders that are individuals, trustees, partners (based on their share) or complying superannuation entities provided the particular Shares are held for more than 12 months prior to sale. Any current year or carry forward capital losses should offset the capital gain first before the CGT discount can be applied.

The CGT discount for individuals and trusts is 50% and for complying superannuation entities is 33½%. In relation to trusts, the rules are complex, but the benefit of this discount may be passed on to beneficiaries of the trust that become entitled to the capital gain.

A company is not entitled to a CGT discount.

A capital loss will be realised where the capital proceeds on disposal are less than the CGT reduced cost base of the Shares. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income.

9.8.3 Tax file numbers

A Shareholder is not required to provide their tax file number (TFN) to the Company. However, if TFN or exemption details are not provided, Australian tax may be required to be deducted by the Company from distributions at the top marginal tax rate plus the Medicare levy.

A Shareholder that holds Shares as part of an enterprise may quote its Australian Business Number rather than its TFN.

9.8.4 Australian Goods and Services Tax (GST)

No GST should be payable by Shareholders in respect of their acquisition of Shares. An Australian resident Shareholder that is registered for GST will not generally be entitled to claim full input tax credits in respect of GST on expenses they incur that related to the acquisition or disposal of the Shares (e.g. lawyers', accountants' and brokerage fees).

Shareholders should seek their own advice on the impact of GST in their own particular circumstances.

9 Additional information (continued)

9.8.5 Stamp duty

No stamp duty should be payable by Shareholders on the acquisition of Shares.

9.9 Subsidiary company information

The Company has the following wholly owned subsidiaries:

- Dentist Smiles Group Pty Ltd (an entity which employs a small number of dentists and engages locum contractors at Pacific Smiles centres);
- Dental Assistant Training Solutions Pty Ltd (entity which is a Registered Training Program and which administers training programs in respect of dental assistants);
- Pacific Medical Care Pty Ltd (a dormant, non-trading entity); and
- Pacific Eyes Pty Ltd (a dormant, non-trading entity).

9.10 Expenses of the Offer

If the Offer proceeds, the total estimated costs in connection with the Offer (including advisory, legal, accounting, tax, listing and administrative fees, the Lead Manager's management fees, Prospectus design and printing, advertising, marketing, Share Registry and other expenses) are currently estimated to be A\$3.0 million. This amount will be paid by the Company.

9.11 Legal proceedings

So far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of the Company.

9.12 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in New South Wales and each Applicant submits to the exclusive jurisdiction of the courts of New South Wales.

9.13 Consents to be named and statement of disclaimers of responsibility

Written consents to the issue of this Prospectus have been given and, at the time of lodgement of this Prospectus with ASIC, had not been withdrawn by the following parties:

- CBA Equities Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Lead Manager to the Offer in the form and context in which it is named;
- Bell Potter Securities Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Manager to the Offer in the form and context in which it is named;
- Gilbert + Tobin has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian legal adviser (other than in relation to taxation matters) to the Company and SaleCo in relation to the Offer in the form and context in which it is named;
- KPMG Transaction Services has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company in the form and context in which it is named and to the inclusion of its Investigating Accountant's Report on the Financial Information in the form and context in which it appears in this Prospectus; and
- KPMG has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as auditor and provider of due diligence services to the Company, in relation to the Financial Information in the form and context it is so named;
- Link Market Services has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Share Registry of the Company in the form and context in which it is named;
- nib Health Funds Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in the form and context in which it is named;
- Medibank Private Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in the form and context in which it is named;
- Geotech Information Services Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in relation to the inclusion of statements made by it or based on statements made by it in Section 3 in the form and context in which they are included; and
- IBISWorld Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in relation to the inclusion of statements made by it or based on statements made by it in Section 2 in the form and context in which they are included.

9.14 Statement of directors

This Prospectus is authorised by each director of the Company and SaleCo who consents to its lodgement with ASIC and its issue.

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Summary of significant accounting policies

10 Summary of significant accounting policies

(a) Basis of preparation

Statement of compliance

The principal accounting policies adopted in preparation of the Financial Information included in Section 4 of this Prospectus are set out below. These accounting policies are consistent with the last audited general purpose financial report of Pacific Smiles for the year ended 30 June 2014. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Financial Information has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

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

Historical cost convention

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

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company'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 are disclosed, where applicable, in the relevant notes to the financial statements.

(b) Principles of consolidation

The Financial Information incorporates the assets and liabilities of all subsidiaries of Pacific Smiles Group Limited for each applicable year. Pacific Smiles Group Limited and its subsidiaries together are referred to in the Financial Information as "Pacific Smiles" or the "Company".

Subsidiaries are all those entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. The acquisition method of accounting is used to account for business combinations by the Company.

Intercompany transactions, balances and unrealised gains on transactions between Pacific Smiles' companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Company.

(c) Segment reporting

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

(d) Revenue recognition

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

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

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

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

(e) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transactions affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

(f) Leases

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

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

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

(g) Business combinations

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

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

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

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets, including those that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Cash inflows considered for the purposes of impairment testing are discounted to present value.

10 Summary of significant accounting policies (continued)

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

(i) 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.

(j) Receivables

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

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

Subsequent recoveries of amounts previously written off are credited against other expenses in profit and loss.

(k) Inventories

Inventories held for sale and stores of consumable supplies are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of actual costs.

(l) Property, plant and equipment

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(m) Intangible assets

(i) Goodwill

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

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

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

(ii) Rights and licences

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

(n) Payables

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

(o) Borrowings

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

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

(p) Employee benefits

Short-term obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The liabilities are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Long-term obligations

The Company's obligation in respect of long service leave is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That liability is measured as the present value of expected future payments to be made in respect of the services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as a current liability in the balance sheet if the Company 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.

(q) Provisions

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

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company 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 Company recognises any impairment loss on the assets associated with that contract.

(r) Dividends

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

(s) Goods and Services Tax (GST)

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

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



eleven Glossary

11 Glossary

Term	Description
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ACN	Australian Company Number
AEST	Australian Eastern Standard Time
AFSL	Australian Financial Services Licence
AML/CTF	Anti-Money Laundering and Counter-Terrorism Financing Act 2006
Applicant	A person who submits an Application
Application	An application for Shares under the Offer described in this Prospectus
Application Form	Each of the paper and electronic application forms attached to, or accompanying this Prospectus upon which an Application may be made
Application Monies	The amount accompanying an Application Form submitted by an investor
ARSN	Australian Registered Scheme Number
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of the ASX, with any modification or waivers which the ASX may grant to Pacific Smiles from time to time
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition)
ASX Settlement Operating Rules	The settlement and operating rules of the ASX
Board	The board of Directors
bps	Basis points
Broker	Any ASX participating organisation selected by the Lead Manager and Pacific Smiles to act as a broker to the Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian resident retail clients of Brokers who have received a firm allocation from their Broker
CAGR	Compound Annual Growth Rate
CBA Debt Facility	The existing debt financing arrangements between Pacific Smiles and Commonwealth Bank, as described in Section 4.5.2
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital Gains Tax
Closing Date	The date on which the Broker Firm Offer and the Priority Offer is expected to close, being 17 November 2014
Company	Pacific Smiles Group Limited (ACN 103 087 449)
Completion of the Offer	Completion of the allotment and transfer of Shares under this Prospectus
Constitution	The constitution of the Company as amended from time to time
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Director	A director of the Company
EBIT	For a relevant period, operating profit before interest expense, tax, abnormal and extraordinary items in that period
EBITDA	For a relevant period, operating profit before interest expense, tax, depreciation, amortisation and abnormal and extraordinary items in that period
Enterprise Value	The market capitalisation of the Company at the Offer Price minus pro forma net cash at 30 June 2014
EPS	Earnings per Share
Escrow Period	The period defined in Section 7.7
Escrowed Shareholders	Means: <ul style="list-style-type: none"> - Management Shareholders; - Director Shareholders; and - TDM Asset Management
Escrow Shares	Has the meaning given in Section 7.7

11 Glossary (continued)

Term	Description
Executive Director	Means a member of the Board who is part of the Senior Management team.
Existing Shareholder	Those persons holding Shares as at the Prospectus Date
Existing Shares	Shares held by all Existing Investors as at the Prospectus Date
Expiry Date	The date that is 13 months after the date of this Prospectus
Exposure Period	The seven day period after the date of lodgement of the Prospectus with ASIC, which ASIC may extend by a further seven days
Financial Information	Financial information as defined in Section 4.1 of this Prospectus
Founders	Means Dr Alex Abrahams and Alison Hughes, being the founders of the Company. Co-Founder means each of Alex or Alison
Forecast Financial Information	Has the meaning given in Section 4.1
Forecast Period	The period from Completion of the Offer until 30 June 2015
FY	The financial year ended/ending 30 June
Government	The Commonwealth Government of Australia
Group	The Company and each of its subsidiaries
GST	Goods and Services Tax
GST Law	GST law as defined in section 195-1 of the <i>A New Tax System (Goods and Services Tax) Act 1999</i>
Historical Financial Information	Has the meaning given in Section 4.1
Independent Director	Means each of Robert Cameron, Simon Rutherford and Grant Bourke, who are free from any business or any other relationship that could materially interfere with or reasonably be perceived to interfere with the independent exercise of the Director's judgement and is able to fulfil the role of an Independent Director for the purposes of the ASX Recommendations
Institutional Investors	<p>Investors who are:</p> <ul style="list-style-type: none"> – persons in Australia who are wholesale clients under Section 761G of the Corporations Act and either “professional investors” or “sophisticated investors” under sections 708(11) and 708(8) of the Corporations Act; or – institutional investors in certain other jurisdictions, as agreed by Pacific Smiles and the Lead Manager, <p>to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any government agency (except one with which Pacific Smiles is willing in its discretion to comply), and provided that in each case such investors are not in the United States</p>
Institutional Offer	The Offer under this Prospectus to certain Institutional Investors to apply for Shares, as described in Section 7.4
Investigating Accountant	KPMG Transaction Services
Investigating Accountant's Report	The report prepared by the Investigating Accountant set out in Section 8
IPO	The initial public offering of Shares in the Company under this Prospectus and Listing
IT	Information Technology
KPMG Transaction Services	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division)
Listing	Admission of the Company to the Official List and the official quotation of its Shares
Listing Rules or ASX Listing Rules	Means the rules of the ASX that govern the admission, quotation and removal of securities from the Official List
Management Shareholder	A member of Senior Management who holds or controls Shares on Completion of the Offer
Medibank	Medibank Private Limited ACN 080 890 259
NPBT	Net profit before tax
New Shares	New Shares to be issued by the Company under the Offer
Non-Executive Director	A member of the Board of Directors who does not form part of Pacific Smiles' Senior Management team
Non-Executive Director Shareholder	A Non-Executive Director who holds or controls Shares on Completion of the Offer
NPAT	Net profit after tax

Term	Description
Offer	The offer of Shares under this Prospectus
Offer Price	A\$1.30 per Share
Official List	The official list of entities that ASX has admitted and not removed
Official Quotation	Means the quotation of the Shares on ASX for trading purposes
Opening Date	The date the Broker Firm Offer and the Priority Offer opens, being 11 November 2014 or such other date determined by the Board
Pacific Smiles Dental Centres	The dental centres operated by Pacific Smiles under the brand Pacific Smiles Dental
Pacific Smiles dental centres	The dental centres operated by the Company, and includes dental centres branded Pacific Smiles Dental and nib Dental Care Centres
Pacific Smiles Dentists	Dentists who engage Pacific Smiles to provide them with services and facilities required to practice clinical dentistry
Patient fees	Fees billed to patients for the provision of dental services by dental practitioners at centres operated by Pacific Smiles, as described in the notes to table 2 in Section 4.3.1
Performance Rights	The performance rights described in Section 9.5
Performance Rights Plan	Means the long term incentive plan to be established by the Company prior to Listing, as described in Section 9.5
Preferred Provider Agreements	The agreements described in Section 2.3.1.
Pre IPO Dividend	The dividend of 1.60 cents per Share as described in Section 6.3.1
Priority Offer	The Offer under this Prospectus to certain Australian resident investors nominated by Pacific Smiles to apply for Shares, as described in Section 7.5
Pro Forma Historical Information	Has the meaning given in Section 4.1
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus was lodged with ASIC, being 3 November 2014
Retail Investor	Means an investor who is an Australian resident who is not in the United States and is not an Institutional Investor or a Broker
Return on Invested Capital (ROIC)	Calculated as EBIT divided by the average of start-of-period and end-of-period Invested Capital, where "Invested Capital" equals Net Assets plus Net Debt / (Cash).
SaleCo	Pacific Smiles SaleCo Limited ACN 602 506 650
Same Centre Patient Fees Growth	Represents the year on year growth in patient fees for Pacific Smiles dental centres that have been in operation for the full twelve month period of the current financial year and the preceding financial year
Selling Shareholders	Means Existing Shareholders who elect to sell Shares to SaleCo
Senior Management	The members of Pacific Smiles management referred to in Section 6.2 and "Senior Manager" means any one of them
Service and Facility Agreement or SFA	Agreements or deeds (as the case may be) which Pacific Smiles enters into with individual dentists or their operating companies in relation to the services and facilities provided to the dentists at dental centres operated by Pacific Smiles, as described in Section 3.6.
Settlement	Settlement of a fully paid ordinary share in the capital of the Company
Share Registry	Link Market Services Limited ABN 54 083 214 537
Share	An ordinary share in the capital of the Company
Shareholder	A holder of Shares from time to time
Shareholding	A holding of Shares
Statutory Forecast Results	Statutory consolidated forecast income statement for FY2015, as described in Section 4
Successful Applicant	An Applicant who is issued or transferred Shares under the Offer
TDM Asset Management	TDM Asset Management Pty Ltd ACN 133 246 330
Underwriting Agreement	The underwriting agreement described in Section 9.6.3
YoY	Year on year

Corporate **directory**

Pacific Smiles registered office

Pacific Smiles Group Limited

Level 1
6 Molly Morgan Drive
Greenhills NSW 2323

Lead manager and underwriter

CBA Equities Limited

Ground Floor, Tower 1
201 Sussex Street
Sydney NSW 2000

Co-manager

Bell Potter Securities Limited

38/88 Philip Street
Sydney NSW 2000

Share registry

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000

Legal adviser

Gilbert + Tobin

Level 37
2 Park Street
Sydney NSW 2000

Investigating Accountant

KPMG Transaction Services

10 Shelley Street
Sydney NSW 2000

Auditor

KPMG

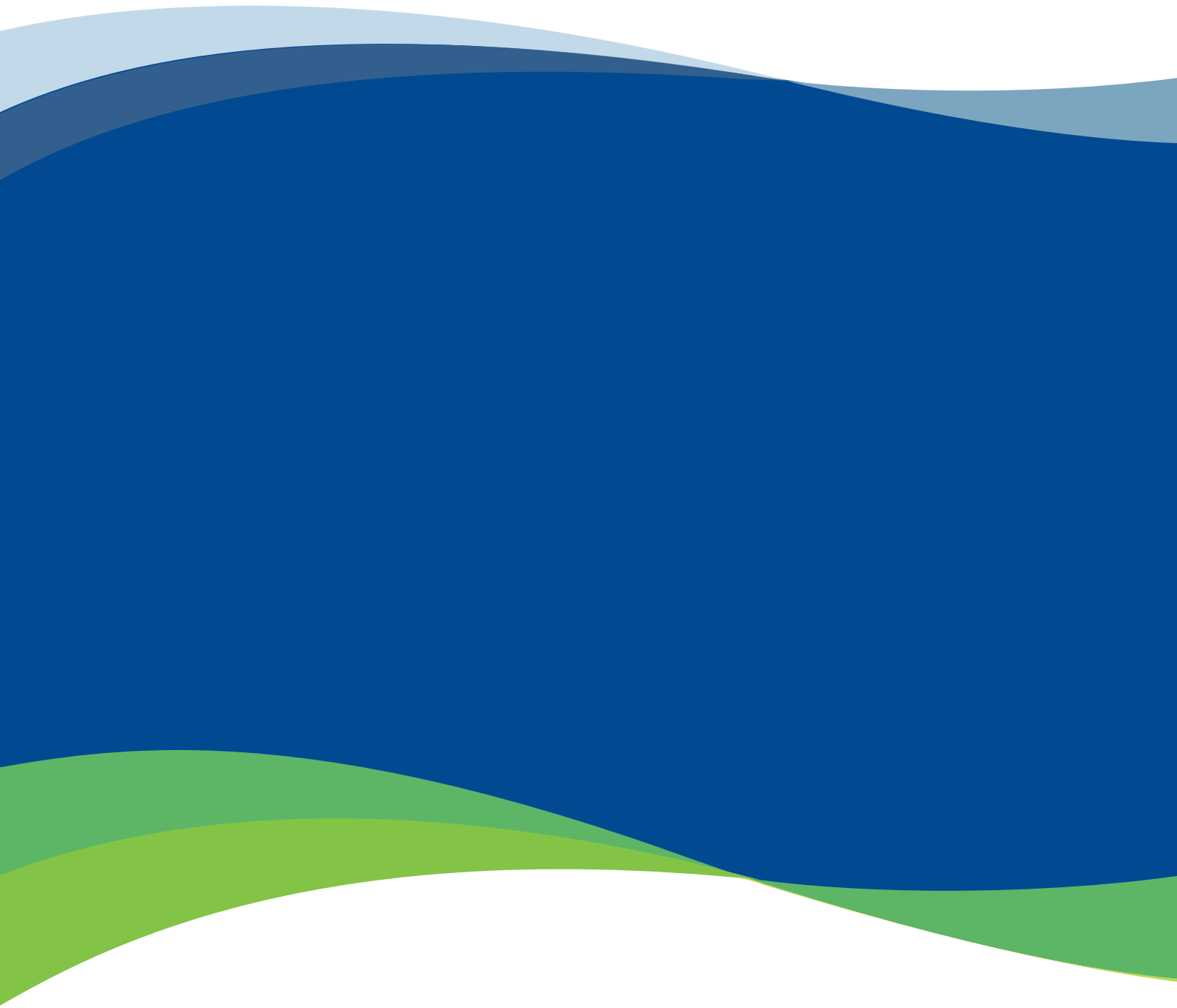
10 Shelley Street
Sydney NSW 2000

Pacific Smiles Group Information Line

1300 657 159 (within Australia)
+61 1 300 657 159 (outside Australia)
between 8.30am and 5.30pm (Sydney Time), Monday to Friday

Company website (online application forms)

www.pacificsmilesgroup.com.au



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