PACIFIC SMILES GROUP

Pacific Smiles Group

Annual Report 2013

Celebrating 10 Years

Celebrating 10 Years

Contents

Dr Alex Abrahams & Dr Alison Hughes

> “We genuinely aim to generate smiles for life, not only for our patients, but for all stakeholders, including dentists, employees, colleagues and associates and of course, our fellow shareholders.”

Message from the Founders

Time flies when you're having fun, and given how quickly the first ten years of Pacific Smiles Group seems to have gone by, there's no doubt that both of us have thoroughly enjoyed the journey. We continue to enjoy it every day and this has been an important aspect of the prevailing culture at our great organisation. We genuinely aim to generate smiles for life, not only for our patients, but for all stakeholders, including dentists, employees, colleagues and associates and of course, our fellow shareholders.

As founders, we are justifiably proud of the organisation reaching the significant milestone of ten years in business. From three Dental Centres in the Hunter in 2003 to thirty-four Dental Centres across New South Wales, the ACT, Victoria and Queensland in 2013, the growth and expansion has already exceeded our initial expectations. Yet we feel like we're just getting started! There are so many more opportunities to build on our successful foundations.

In our celebratory tenth year of operations, it was pleasing to achieve a record financial performance, despite subdued consumer sentiment and the cessation of a major government funding initiative for the dental services industry. The government program contributed to outstanding performance in the first half of the year and its termination impacted negatively on patient demand in the second half.

Economic sentiment is cyclical, government programs come and go. Regardless, Pacific Smiles Group consistently focuses on exceeding the expectations of dentists and patients, our two customer groups. Our service culture, expressed as A Perfect Patient Experience (APPEx®) is our point of difference and sustainable competitive advantage in an increasingly crowded provider market. So it was at the start, so it is today and so it will be tomorrow.

Robert
Cameron AO

“Pacific Smiles Group is a company that is successfully balancing the dual commitments of performance and compliance, exhibiting a strong culture of good corporate social responsibility.”

Chairman’s Report

The 2013 financial year commenced with the 2012 Authorised Sale through which TDM Asset Management joined our share register and Ben Gisz, one of their principals, joined our Board. The relationship has been value-adding from the start and is one of many contributors to the achievement of a record Net Profit Before Tax of $9.1 million. This was an improvement of 39% over the previous year’s record result.

As Chairman, I am obviously very pleased with the robust financial performance, but I am equally proud of the positive progress that the company is making on multiple fronts, including operational efficiencies, business development, strategic collaboration, risk management, clinical and corporate governance, and health and safety. Pacific Smiles Group is a company that is successfully balancing the dual commitments of performance and compliance, exhibiting a strong culture of good corporate social responsibility.

Despite some economic and government funding challenges to the business during the year, the patient volumes at the established Pacific Smiles Dental Centres and nib Dental Care Centres held up quite well and according to anecdotal evidence, better than many others in the industry. Our over-the-counter billings for the year was a record high $95 million, but there was a skew to the first half of the year when the Federal Government’s Chronic Disease Dental Scheme was operating.

The management actions in relation to the termination of the Chronic Disease Dental Scheme will be covered in the Managing Director’s report, but suffice to say, my fellow Board members and I were pleased with management’s anticipation and response to one of the most significant changes to dental funding seen in Australia.

Expansion has continued at a solid pace, benefiting from the highly systematic approach that management has developed and honed over many years. Three new Pacific Smiles Dental Centres were opened during the year at Bendigo in regional Victoria, Bateau Bay on the Central Coast of New South Wales and at Belmont on the shores of Lake Macquarie, also in New South Wales. A number of other opportunities were scoped out for commencement in the current year.

The Board has declared a final dividend of $0.05 per share on the basis of the very successful year. Total dividends in relation to the 2013 financial year are $0.075, representing a payout ratio of 56% on the statutory net profit after tax. The total dividends paid during the financial year were up over 100% on last year.

We continue to work towards a liquidity event on behalf of all shareholders and I thank you for your continued support.

John Gibbs

Managing Director's Report

The 2013 financial year was truly a year of two very different halves. Early in the financial year, the Federal Government announced the impending closure of the Chronic Disease Dental Scheme, precipitating a rush of eligible patients seeking treatment before the cut-off date at the end of November. This had the effect of bringing forward significant volumes of much needed dental treatment, thereby generating subdued demand conditions in the short term following. Given that the Chronic Disease Dental Scheme was funding about 15% of the total private dental services market in Australia, it is hardly surprising that the impact was so significant.

Fortunately, our long-term commitment to quality patient care and customer service bolstered patient loyalty and lessened the impact on the Dental Centres operated by Pacific Smiles Group, compared with the wider market. That is not to suggest that our second half was not materially impacted, but demand conditions had improved towards the end of the financial year, despite the absence of any meaningful Federal government funding program.

Subdued economic sentiment is possibly the more potent and immediate influence on patient demand for discretionary dental services. While participation in ancillary private health insurance has held up well in the face of the changes to the private health insurance rebate, insurance members and customers are somewhat less inclined to seek treatments and services, other than those that they deem to be urgent or non-discretionary.

Despite the challenges, we continue to enjoy success with new Dental Centres, particularly in our established geographic clusters where our brand and reputation for quality are well known.

"Almost 400,000 appointments were attended across our growing network of Dental Centres, producing a record $95m of over-the -counter patient billings."

Business Performance

The 2013 financial year produced another solid result for Pacific Smiles Group. Our Net Profit After Tax of $6.1 million was up 34% on the previous year, quite an achievement in this rapidly changing market. The approach to accounting for commercial property leases was revised to fully comply with IFRS, and one onerous lease contract was provided for. These non-cash adjustments increased expenses in 2013, but will lessen reported expenses in future periods.

Almost 400,000 appointments were attended across our growing network of Dental Centres, producing a record $95m of over-the-counter patient billings. Strong growth compared to the previous year was evident across all of our operating regions, underscoring the scalability of the Pacific Smiles Group business model. Success builds upon success and there are opportunities being scoped in multiple of our operating regions.

One of the most pleasing aspects of our financial performance this year was cost management, both at head office and in the Dental Centres. The termination of the Chronic Disease Dental Scheme, combined with subdued consumer sentiment, triggered an unprecedented focus on costs across the whole dental industry and Pacific Smiles Group was no exception. All opportunities to reduce the cost base without compromising quality or care or the capacity for future expansion, were scrutinised and many useful initiatives were actioned.

Speaking of quality and care, Pacific Smiles Group is the pioneer of the use of post-visit surveys and the customer loyalty metric known as the Net Promoter Score in the dental services industry in Australia. In the 2013 financial year, it was very encouraging to see an already impressive result improve by a further 7% to positive 67 across our network. By Australian and international standards across numerous industries, this is an exceptionally high Net Promoter Score, validating our focus on patient care and customer service under our APPEx® (A Perfect Patient Experience) program.

Business Development

Three new Pacific Smiles Dental Centres were opened during the year, at Bendigo in regional Victoria, Belmont on Lake Macquarie, New South Wales and Bateau Bay on the New South Wales Central Coast. Designed and fitted out to the Pacific Smiles standard blueprint, they were all delivered on time and within approved expenditure budgets. In New South Wales, the new centres are in retail precincts while the Bendigo centre is part of a new and exciting medical precinct that has been developed near the centre of the town.

Extensive research was undertaken during the year into new Dental Centre opportunities within existing clusters and in new geographic zones, many of which are now being assessed.

Additional surgeries were commissioned at a couple of our existing Dental Centres in response to sustained patient demand. This is a very cost and time effective way to increase capacity and Pacific Smiles Group has a number of unfitted surgeries that can be commissioned as patient demand grows.

Other business development initiatives included the launch of the employee and dentist intranet, the development of an on-line induction and training program for employees plus a new staff rostering system.

Outlook

Patient demand has recovered to levels which support our current operations and known future plans. It is not currently at the almost unsustainably strong levels that existed towards the end of the Chronic Disease Dental Scheme, however, a new Federal Government program called the Child Dental Benefits Schedule (CDBS) is marked to commence from January 2014, at which time the underused Medicare Teen Dental Plan will cease.

CDBS will be directed towards 3.4 million children aged 2 to 17 in Family Tax Benefit A households, providing them with government funding over a two year period with which to pay for required dental services from private sector providers. While the total funding under CDBS will be less than under the Chronic Disease Dental Scheme, it will nonetheless encourage and support more Australians to visit the dentist more regularly. It is a much better designed program for children and teens than the Teen Dental Plan.

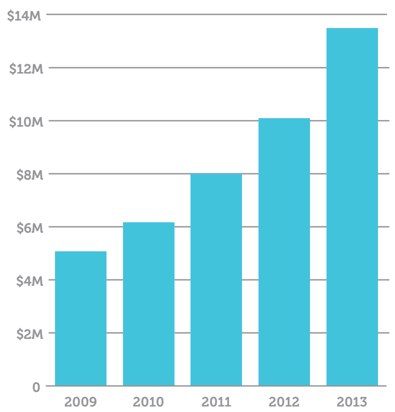
Regardless of the government funding regime, Pacific Smiles Group will continue to develop and operate Dental Centres that appeal to their local communities and which successfully build up a loyal base of patients over time. Numerous initiatives that will help to foster successful growth and drive preference for Pacific Smiles Dental Centres and nib Dental Care Centres are currently being evaluated.

The focus on outer urban and regional localities will continue for the foreseeable future, bolstered by an upturn in the number of dentists graduating from Australian dental schools. Shareholders can rest assured that the experienced and stable management team at Pacific Smiles Group will continue to develop and operate Dental Centres that are as appealing to dentists as they are to patients.

I take this opportunity to thank my fellow Directors, the Executive and Senior Management teams, the Centre Managers and Lead Practitioners and all the employees and dentists throughout Pacific Smiles Group.

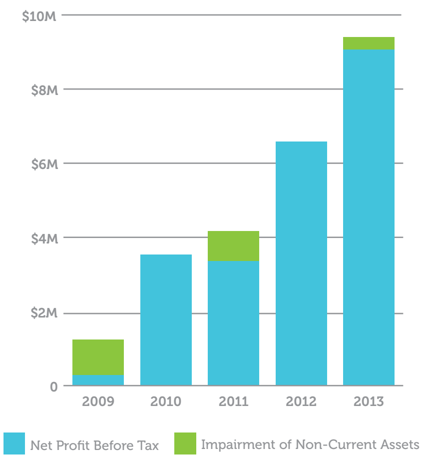
2013 Highlights

EBITDA*

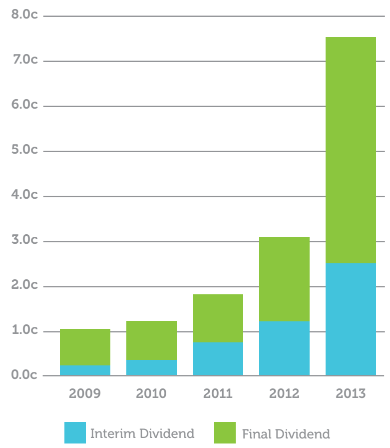


* Excludes impairment of non-current assets

Net Profit Before Tax



Dividends



$95 Million in "over the counter" billings, an increase of 11% on the previous year

+ 39% Net Profit Before Tax increase

389 Thousand Patient Appointments this year

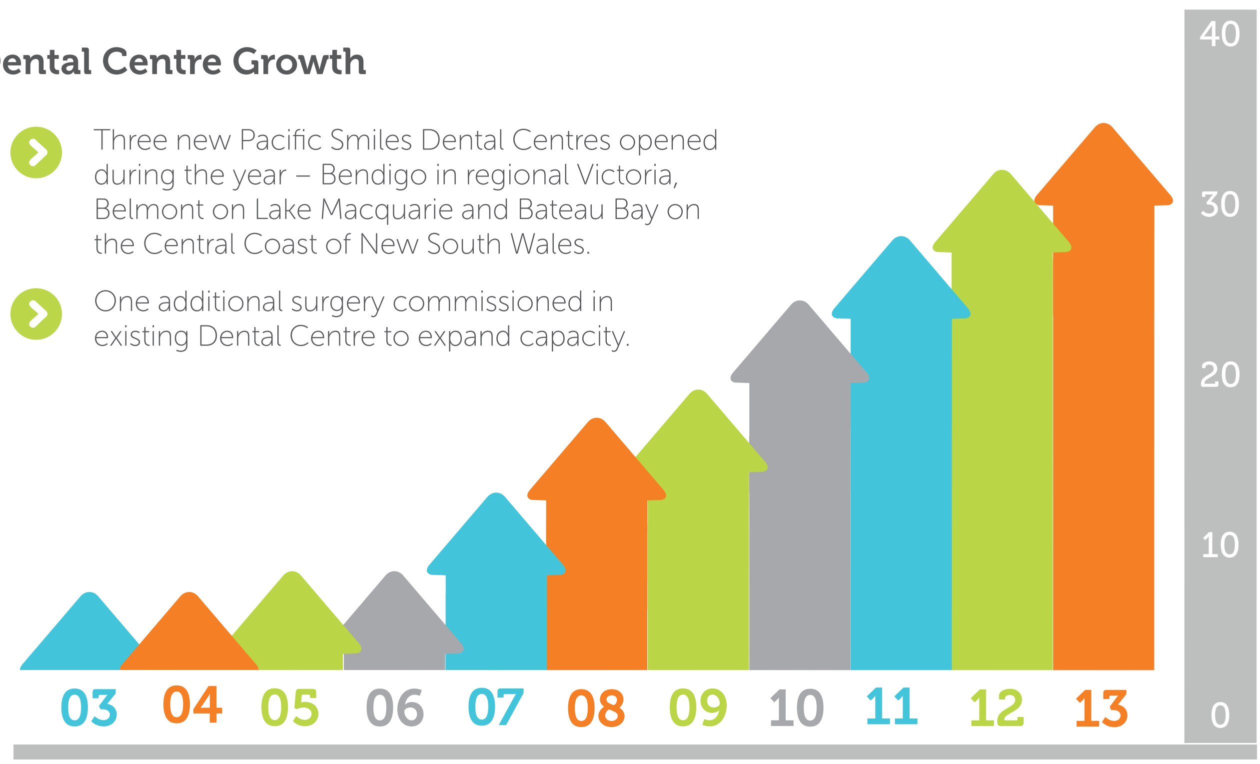
+ 30% EBITDA increase

7.5 cps Full year dividends totalling 7.5 cents per share (fully franked), representing a payout ratio of 56% of FY 2013 statutory NPAT

Our Dental Centres

Dental Centre Growth

- Three new Pacific Smiles Dental Centres opened during the year – Bendigo in regional Victoria, Belmont on Lake Macquarie and Bateau Bay on the Central Coast of New South Wales.
- One additional surgery commissioned in existing Dental Centre to expand capacity.



FINANCIAL REPORT

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Pacific Smiles Group Limited ("the Company") and the entities it controlled at the end of, or during the year ended 30 June 2013.

Directors from left to right:
Mr Simon Rutherford, Mr Robert Cameron AO, Mr Ben Gisz,
Dr Alex Abrahams, Mr John Gibbs and Mr Lance Wheeldon.

Directors

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

» Mr Robert Cameron AO

» Dr Alexander Abrahams

» Mr John Gibbs

» Mr Simon Rutherford

» Mr Lance Wheeldon

» Mr Ben Gisz appointed as a director on 18 July 2012 - continues in office at the date of this report.

Robert Cameron AO

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

Chairman, appointed in a non-executive capacity in 2003
Member of the Remuneration Committee

Bob Cameron 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, Chairman of Hunter Valley Training Company, a director of Mining Education Australia, a director of the University of NSW Foundation and a Trustee of the Museum of Applied Arts and Sciences. Bob has been honoured with an Order of Australia, as part of the Queen's Birthday Honours List in 2012.

Alexander Abrahams

BDS (Syd Uni), AIMM

Founder and Executive Director – Strategy and Business Development, appointed in 2002

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

John Gibbs

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

Managing Director and Chief Executive Officer, appointed in 2008

John commenced employment as General Manager in 2004. He has a background of experience in the establishment and management of private health facilities and the development of private medical markets. He has established new private hospitals for Australian and international investors in the Asia-Pacific region and has participated in redevelopments in Australia. John has undergraduate and postgraduate Business and Marketing Degrees.

Simon Rutherford

B. Comm., CA, FAICD

Non-Executive Director, appointed in 2003
Chairman of the Remuneration Committee & Member of the Audit and Risk Committee

Simon is a Chartered Accountant and Partner with Lawler Partners. He is a director of Lawler Corporate Finance Pty Limited, and specialises in strategy, structuring, business sales, mergers and acquisitions. In this role Simon has assisted various companies with capital raising, listing requirements and initial public offers. Simon is a Director of the Trustee of Canyon Property Trust and is involved with various syndicated investments. He also sits on a number of other Boards and boards of management.

Lance Wheeldon

BAppSc

Non-Executive Director, appointed in 2003
Member of the Audit and Risk Committee

Lance is currently the CEO, Company Secretary and Executive Director of Hunter Valley Private Hospital and has led the significant development and expansion of this facility for over ten years. He also has extensive prior experience in multi-site networks as an Operations Manager in the pathology sector. Lance has a Bachelor of Applied Science degree and broad management experience in project management, mergers, information technology, organisational structures, workplace safety and human resource management.

Ben Gisz

B.Comm., CA, FFin, CFA

Non-Executive Director, appointed in 2012
Chairman of the Audit and Risk Committee

Ben is a Partner at TDM Asset Management, a Sydney based private investment firm. Ben has extensive financial markets experience, including prior roles in private equity investing, investment banking and equities research. Ben holds a Bachelor of Commerce degree from the University of Sydney and is a Fellow of the Financial Services Institute of Australasia. Ben is also a Chartered Accountant and a CFA Charter holder.

Directors' Report

Company Secretary

The company secretary is Jane Coleman B.Comm, MBA, CA, GAICD. Jane was appointed to the position of Company Secretary during 2006, and also holds the position of Chief Financial Officer within the Group. Jane is a Chartered Accountant. Before joining the Company, Jane worked in senior roles within a global chartered accounting firm, and within the health, finance and health insurance industries. Jane has also held several external board positions.

Principal Activities

Pacific Smiles Group continues to be an operator of Dental Care Centres at which independent and employed practitioners practice and provide clinical treatments and services to patients.

Review of Operations

The Group's net profit for the financial year after providing for income tax amounts to $6,137,358 (2012: $4,577,226). Commentary on financial performance and other developments during the year are provided in the Group's Annual Report.

Dividends

Dividends paid to members during the financial year were $1,979,560 (2012: $887,514).

Likely Developments and Expected Results of Operations

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

Meetings of Directors

The numbers of meetings of the Company's Board of Directors held during the year ended 30 June 2013, and the attendances by each Director were:

	Full Meetings of Directors		Meetings of Committees			
			Audit and Risk		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Robert Cameron	13	13	-	-	2	2
John Gibbs	13	12	-	-	-	-
Alex Abrahams	13	13	-	-	-	-
Ben Gisz	11	11	2	2	-	-
Simon Rutherford	13	12	2	2	2	2
Lance Wheeldon	13	13	2	2	-	-
Hamish Corlett*	1	1	-	-	-	-

* Hamish Corlett served as an Alternate Director for Ben Gisz on one occasion
- Not a member of the relevant Committee

Directors' Report

Matters Subsequent to the End of the Financial Year

Subsequent to the end of the financial year, the Directors declared a final dividend of 5.0 cents per share in relation to the financial year ended 30 June 2013. The dividend, which totalled $2,273,223, was paid in October 2013.

The bank bill liability of $3,000,000 at the end of the financial year was repaid in full in September 2013.

No other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or
(b) results of those operations in future financial years, or
(c) Group's state of affairs in future financial years.

Shares Under Option

Details of shares under option are disclosed at Note 18 of the accompanying financial report.

Environmental Regulation

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

Insurance of Officers and Auditors

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

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 16.

Auditor

In accordance with approval by a General Meeting of the members of the Company and the Corporations Act 2001, KPMG was appointed as auditor, replacing Cutcher & Neale, on 4 June 2013.

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

Alexander Abrahams
Director

Greenhills

28 October 2013

Auditor's Independence Declaration

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

To: the directors of Pacific Smiles Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

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

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

KPMG

Chris Allenby
Partner

Sydney

28 October 2013

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

	NOTES	2013	(Restated)* 2012
		$	$
REVENUE	2	60,073,808	55,640,925
Direct expenses		(6,306,008)	(7,256,480)
Gross profit		53,767,800	48,384,445
Other income	3	1,543,309	923,604
Expenses			
Consumable supplies expenses		(5,503,446)	(5,354,025)
Employee expenses	4	(23,640,307)	(22,411,891)
Occupancy expenses	4	(6,034,613)	(4,999,695)
Marketing expenses		(1,056,328)	(1,438,105)
Administration and other expenses	4	(6,155,195)	(4,903,824)
Depreciation and amortisation expense	4	(3,601,405)	(3,287,702)
Net finance costs	4	(194,471)	(359,662)
Profit before income tax		9,125,344	6,553,145
Income tax expense	5	(2,987,986)	(1,975,919)
Profit for the year		6,137,358	4,577,226
Other comprehensive income		-	-
Total comprehensive income for the year		6,137,358	4,577,226

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

* See Note 1(v)

Consolidated Statement of Financial Position

AS AT 30 JUNE 2013

	NOTES	2013	(Restated)* 2012
ASSETS		$	$
Current Assets			
Cash and cash equivalents	7	9,768,728	4,654,737
Receivables	8	469,763	565,478
Inventories	9	1,602,000	1,522,999
Other	10	94,839	297,903
Total Current Assets		11,935,330	7,041,117
Non-Current Assets			
Property, plant and equipment	11	18,586,036	18,816,194
Intangible assets	12	7,841,104	8,978,570
Deferred tax assets	13	2,037,719	1,564,408
Total Non-Current Assets		24,464,859	29,359,172
Total Assets		40,400,189	36,400,289
LIABILITIES			
Current Liabilities			
Payables	14	6,321,264	6,365,284
Borrowings	15	3,350,696	5,950,282
Current tax liabilities	16	1,703,310	910,831
Provisions	17	1,622,478	1,540,672
Total Current Liabilities		12,997,748	14,737,069
Non-Current Liabilities			
Borrowings	15	621,044	971,740
Provisions	17	1,943,837	1,265,534
Total Non-Current Liabilities		2,564,881	2,237,274
Total Liabilities		15,562,629	16,974,343
Net Assets		24,837,560	19,425,946
EQUITY			
Contributed equity	18	12,609,165	11,355,349
Retained profits		12,228,395	8,070,597
Total Equity		24,837,560	19,425,946

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

* *See Note 1(v)*

Consolidated Statement of Changes in Equity

	NOTES	Contributed equity	Retained profits	Total equity
		$	$	$
Restated total equity at 30 June 2011*		11,262,062	4,380,885	15,642,947
Restated total comprehensive income for the year*		-	4,577,226	4,577,226
Transactions with owners of the Company, recognised directly in equity:				
Movements in contributed equity	18	93,287	-	93,287
Dividends provided for or paid	6	-	(887,514)	(887,514)
		93,287	(887,514)	(794,227)
Consolidated Balance at 30 June 2012		11,355,349	8,070,597	19,425,946
Total comprehensive income for the year		-	6,137,358	6,137,358
Transactions with owners of the Company, recognised directly in equity:				
Movements in contributed equity	18	1,253,816	-	1,253,816
Dividends provided for or paid	6	-	(1,979,560)	(1,979,560)
		1,253,816	(1,979,560)	(725,744)
Consolidated Balance at 30 June 2013		12,609,165	12,228,395	24,837,560

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

** See Note 1(v)*

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2013

	NOTES	2013	2012
		$	$
Cash flows from operating activities			
Receipts from customers		66,716,518	62,170,334
Payments to suppliers and employees		(52,348,212)	(50,752,687)
		14,368,306	11,417,647
Interest received		131,980	129,791
Interest and finance costs paid		(342,267)	(452,607)
Income taxes paid		(2,668,819)	(2,234,056)
Net cash inflow from operating activities	27	11,489,200	8,860,775
Cash flows from investing activities			
Proceeds from disposal of a business		-	713,488
Payments for property, plant and equipment		(3,198,156)	(7,043,350)
Proceeds from disposal of property, plant and equipment		18,973	17,788
Loans advanced		-	(424,000)
Repayment of loans		-	424,000
Net cash outflow from investing activities		(3,179,183)	(6,312,074)
Cash flows from financing activities			
Proceeds from issue of shares	18	1,253,816	153,323
Share buy back	18	-	(60,036)
Proceeds from borrowings		-	1,121,870
Repayment of borrowings		(2,470,282)	(1,637,040)
Dividends paid	6	(1,979,560)	(887,514)
Net cash inflow / (outflow) from financing activities		(3,196,026)	(1,309,397)
Net increase / (decrease) in cash and cash equivalents		5,113,991	1,239,304
Cash and cash equivalents at the beginning of the financial year	7	4,654,737	3,415,433
Cash and cash equivalents at the end of the financial year	7	9,768,728	4,654,737

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

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Corporate Information

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

Pacific Smiles Group Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and its principal place of business are located at 6 Molly Morgan Drive, Greenhills, NSW.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 12 to 15, which is not part of this financial report.

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

The financial report was authorised for issue by the Directors on 28 October 2013. The Company has the power to amend and reissue the financial report.

(b) Basis of Preparation

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

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

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

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

Critical Accounting Estimates and Judgements
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed, where applicable, in the relevant notes to the financial statements.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. None of these standards or interpretations have been adopted early in the preparation of these financial statements. On assessment of these new standards and interpretations, there is no material identified impact for the Group.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Smiles Group Limited ("Company" or "parent entity") as at 30 June 2013 and the results of all subsidiaries for the year then ended. Pacific Smiles Group Limited and its subsidiaries together are referred to in this financial report as the "Group" or the "consolidated entity".

Subsidiaries are all those entities over which the Group 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 Group controls another entity.

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

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

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

(d) Segment Reporting

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

(e) Revenue Recognition

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

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

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

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

(f) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretations. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transactions affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

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

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

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

(h) Business Combinations

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

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

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.

(i) 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.

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

(j) Cash and Cash Equivalents

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

(k) Receivables

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

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

(l) Inventories

Inventories held for sale and stores of consumable supplies are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of actual costs.

1. Summary of Significant Accounting Policies (continued)

(m) Property, Plant and Equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(i).

(n) 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 between three and ten years.

(o) Payables

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

(p) Borrowings

Borrowings are measured at amortised cost. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

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

(q) Employee Benefits

(i) 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.

(ii) Long-term Obligations

The Group'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 Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(r) Provisions

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

Onerous Contracts

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

(s) Dividends

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

(t) 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.

u) Parent Entity Financial Information

The financial information for the parent entity, Pacific Smiles Group Limited, disclosed in Note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

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

(ii) Tax consolidation legislation

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies (continued)

(v) Correction of Error – Accounting for Operating Leases

In the Group's financial statements up until the year ended 30 June 2012, the costs in relation to non-cancellable operating leases for premises were charged to profit and loss as expense when the payment obligation occurs. This resulted in matching of the operating lease expenses with the pattern of payments required under the various leases.

During the year ended 30 June 2013, the Group reviewed it's accounting policy for operating leases, and determined that it was not in line with all of the requirements of the relevant Australian Accounting Standard.

The Group's financial statements for the year ended 30 June 2013 reflect the revised accounting policy described in Note 1(g). In summary, 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.

The error has also been corrected retrospectively by restating each of the affected financial statement line items for the prior periods as follows:

	30 June 2012	Increase/ (Decrease)	1 July 2012 (Restated)	30 June 2011	Increase/ (Decrease)	1 July 2011 (Restated)
	$	$	$	$	$	$
Balance sheet (extract)						
Deferred Tax Assets	1,282,124	282,284	1,564,408	998,976	209,113	1,208,089
Current Provisions	(1,432,871)	(77,801)	(1,510,672)	(1,348,062)	(55,222)	(1,403,284)
Non-current Provisions	(402,387)	(863,147)	(1,265,534)	(306,549)	(641,824)	(948,373)
Net Assets	20,084,611	(658,665)	19,425,946	16,130,880	(487,933)	15,642,947
Retained Earnings	8,729,262	(658,665)	8,070,597	4,868,818	(487,933)	4,380,885
Total Equity	20,084,611	(658,665)	19,425,946	16,130,880	(487,933)	15,642,947

The net profit for 2012 changed as follows:

	2012	Profit Increase/ (Decrease)	2012 (Restated)
	$	$	$
Income Statement (extract)			
Other Income	938,971	(15,367)	923,604
Occupancy Expenses	(4,771,159)	(228,536)	(4,999,695)
Profit Before Income Tax	6,797,048	(243,903)	(6,553,145)
Income Tax Expense	(2,049,090)	73,171	(1,975,919)
Profit for the Year	4,747,958	(170,732)	(4,577,226)

Income Statement and Balance Sheet items other than those mentioned above were not affected by the retrospective correction to the accounting for operating leases.

Notes to the Consolidated Financial Statements

	2013	2012
	$	$
2. Revenue		
Services rendered	59,742,649	53,828,157
Sale of goods	331,159	1,812,768
	60,073,808	55,640,925
3. Other Income		
Rents	766,165	588,715
Government subsidies	255,324	287,683
Sundry income	41,820	47,206
Reversal of liability for contingent consideration not payable	480,000	-
	1,543,309	923,604
4. Expenses		
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	2,361,277	2,345,586
Leasehold improvements	942,783	690,148
Total Depreciation	3,304,060	3,035,734
Amortisation		
Rights and licences	297,345	251,968
Total Amortisation	297,345	251,968
Net loss on disposal of non-current assets	105,280	38,634
Impairment loss/(write-back) on write-down of assets to recoverable amount		
Receivables – other entities	30,783	(3,898)
Inventories	-	(26,806)
Property, plant and equipment	-	(2,719)
Goodwill	360,121	-
Goodwill – contingent purchase consideration not payable	480,000	-
Rental expenses relating to operating leases	4,960,588	4,391,522
Provision for onerous lease contracts	415,131	-
Net finance costs		
Interest and finance charges paid/payable	344,960	489,453
Interest received/receivable	(150,489)	(129,791)
Total net finance costs	194,471	359,662
Defined contribution superannuation plans expense	1,864,385	1,762,891

Notes to the Consolidated Financial Statements

5. Income Tax Expense

	2013	2012
	$	$
Current tax	3,461,297	2,379,600
Deferred tax (note 13)	(473,311)	(403,681)
	2,987,986	1,975,919
Profit before income tax expense	9,125,344	6,553,145
Income tax calculated at 30% (2012: 30%)	2,737,603	1,965,943
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation of intangibles	88,620	72,090
Impairment loss – non-current assets	108,036	(816)
Sundry items	53,727	(61,298)
Income tax expense	2,987,986	1,975,919

6. Dividends

	Parent Entity 2013	Parent Entity 2012
	$	$
(a) Interim and final dividends totalling 4.5 cents (2012: Interim and final dividends totalling 2.1 cents) per share, fully franked based on tax paid @ 30%	1,979,560	887,514
(b) Franking credits available for subsequent financial years based on a tax rate of 30% (2012: 30%)	8,360,956	5,893,584

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

The impact on the franking account of the dividend declared by the directors and paid since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $974,238.

Notes to the Consolidated Financial Statements

	2013 $	2012 $
7. Cash and Cash Equivalents		
CURRENT		
Cash at bank and in hand	9,768,728	4,654,737
8. Receivables		
CURRENT		
Trade debtors – other entities	97,534	86,106
Provision for impairment – other entities	(33,478)	(14,350)
	64,056	71,756
Sundry debtors	405,707	493,722
	469,763	565,478
9. Inventories		
CURRENT		
Inventories – at cost	1,602,000	1,522,999
10. Other Assets		
CURRENT		
Prepayments	32,276	170,381
Other	62,563	127,522
	94,839	297,903
11. Property, Plant and Equipment		
NON-CURRENT		
Leasehold improvements – at cost	16,846,026	15,166,137
Less accumulated depreciation and impairment	(5,564,120)	(4,632,313)
	11,281,906	10,533,824
Plant and equipment – at cost	17,967,563	17,309,691
Less accumulated depreciation and impairment	(10,663,433)	(9,027,321)
	7,304,130	8,282,370
Total property, plant and equipment	18,586,036	18,816,194

11. Property, Plant and Equipment (continued)

Movements in Carrying Amounts

2013	Leasehold improvements	Plant and equipment	Total
	$	$	$
Carrying amount at the beginning of the year	10,533,824	8,282,370	18,816,194
Additions	1,746,595	1,451,561	3,198,156
Disposals	(46,879)	(77,375)	(124,254)
Depreciation expense	(951,634)	(2,352,426)	(3,304,060)
Carrying amount at the end of the year	11,281,906	7,304,130	18,586,036

2012	Leasehold improvements	Plant and equipment	Total
	$	$	$
Carrying amount at the beginning of the year	7,814,196	7,101,429	14,915,625
Additions	3,421,365	3,621,985	7,043,350
Disposals	(14,308)	(95,458)	(109,766)
Depreciation expense	(690,148)	(2,345,586)	(3,035,734)
Impairment reversal/(loss)	2,719	-	2,719
Carrying amount at the end of the year	10,533,824	8,282,370	18,816,194

	2013	2012
	$	$

12. Intangible Assets

	2013 $	2012 $
NON-CURRENT		
Goodwill	9,733,313	9,733,313
Less accumulated amortisation and impairment	(1,892,209)	(1,052,088)
	7,841,104	8,681,225
Rights and licences	680,000	991,221
Less accumulated amortisation and impairment	(680,000)	(693,876)
	-	297,345
Total intangible assets	7,841,104	8,978,570

Movements in Carrying Amounts

2013	Goodwill	Rights and licenses	Total
	$	$	$
Carrying amount at the beginning of the year	8,681,225	297,345	8,978,570
Amortisation expense	-	(297,345)	(297,345)
Contingent consideration not payable	(480,000)	-	(480,000)
Impairment expense	(360,121)	-	(360,121)
Carrying amount at the end of the year	7,841,104	-	7,841,104

2012	Goodwill	Rights and licenses	Total
	$	$	$
Carrying amount at the beginning of the year	8,681,225	1,104,465	9,785,690
Disposals	-	(555,152)	(555,152)
Amortisation expense	-	(251,968)	(251,968)
Carrying amount at the end of the year	8,681,225	297,345	8,978,570

Impairment Losses - Goodwill

During the financial year, the Group recorded an impairment loss of $360,121 relating to the write down of goodwill assets at two of its Dental Centres.

The impairment assessments were made on the basis of the assets' expected value in use. Discounted cash flow forecasts were reviewed for each business unit, and the carrying value of the business assets exceeded their recoverable amount.

Contingent Consideration Not Payable

During the financial year, the Group wrote down the value of goodwill associated with a business acquisition undertaken in 2011 by $480,000. This amount represented contingent consideration. Under the contract for the acquisition of the business, the sum was payable if certain conditions were met over the two years following acquisition. Not all of the conditions for payment were met, and hence the amount did not become payable. A liability for deferred consideration had been recognised and it has been reversed during the financial year. The reversal of this liability of $480,000 is reflected in Other Income (Note 3). The carrying value of the goodwill related to this particular business has also been written down by $480,000, with this amount being reflected in Impairment Losses (Note 4).

	2013	2012
	$	$

13. Deferred Tax Assets

NON-CURRENT

The balance comprises temporary differences attributable to:		
Provision for doubtful debts	10,043	4,305
Depreciation of property, plant and equipment	715,772	565,834
Accrued expenses	242,010	161,407
Provisions	1,069,894	832,862
Net deferred tax assets	2,037,719	1,564,408

Movements:

Restated balance at the beginning of the year	1,564,408	998,976
Credited (charged) to the income statement	473,311	403,681
Reversal of deferred tax assets on disposal of business	-	(47,362)
Balance at the end of the year	2,037,719	1,564,408

14. Payables

CURRENT

Trade payables and accruals – related entities	40,241	-
Trade payables and accruals – other entities	6,281,023	6,365,284
	6,321,264	6,365,284

Notes to the Consolidated Financial Statements

	2013	2012
	$	$

15. Borrowings

	2013 $	2012 $
CURRENT		
Secured:		
Bank bills	3,000,000	4,500,000
Bank loans	290,696	850,282
	3,290,696	5,350,282
Unsecured:		
Other loans	60,000	600,000
Total	3,350,696	5,950,282
NON-CURRENT		
Secured:		
Bank loans	621,044	911,740
Unsecured:		
Other loans	-	60,000
Total	621,044	971,740

Security

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

Financing Arrangements

Access was available at balance date to the following lines of credit:

	2013 $	2012 $
Total bank borrowings facilities	13,500,000	13,500,000
Used at balance date	(5,016,775)	(7,316,909)
Unused at balance date	8,483,225	6,183,091

Covenants attaching to bank borrowings were complied with during the year.

16. Current Tax Liabilities

	2013 $	2012 $
CURRENT		
Income tax payable	1,703,310	910,831

17. Provisions

	2013	2012
	$	$
CURRENT		
Employee benefits	1,389,485	1,432,871
Straight-line operating lease adjustment	88,907	77,801
Onerous contracts	144,086	-
	1,622,478	1,510,672
NON-CURRENT		
Employee benefits	579,056	402,387
Straight-line operating lease adjustment	1,093,736	863,147
Onerous contracts	271,045	-
	1,943,837	1,265,534

Movements:	Employee Benefits	Straight-line Lease Adjustment	Onerous Contracts	Total
	$	$	$	$
Restated balance at the beginning of the year	1,835,258	940,948	-	2,776,206
Additional provisions made	1,760,572	319,496	415,131	2,495,199
Amounts used	(1,627,289)	(77,801)	-	(1,705,090)
Balance at the end of the year	1,968,541	1,182,643	415,131	3,566,315

18. Contributed Equity

(a) Share Capital – No. of Shares	2013	2012
Ordinary shares – fully paid	43,641,151	42,241,151
Ordinary shares – partly paid	1,823,314	-
	45,464,465	42,241,151

Share Capital - $ of shares	2013	2012
Ordinary shares – fully paid	12,545,349	11,355,349
Ordinary shares – partly paid	63,816	-
	12,609,165	11,355,349

18. Contributed Equity (continued)

(b) Movements in Ordinary Share Capital

Date	Details	Number of Shares	Issue Price	$
30 June 2011	Opening Balance	42,291,181		11,262,062
30 November 2011	Share buy back	(50,030)	$1.20	(60,036)
Year to 30 June 2012	Calls on unpaid amounts of partly paid shares	-	-	153,323
30 June 2012	Balance	42,241,151		11,355,349
28 March 2013	Share issues on exercise of options	1,325,000	$0.85	1,126,250
28 March 2013	Share issue – partly paid	1,823,314	$1.55	18,233
8 April 2013	Amounts paid up on partly paid shares	-	-	45,583
27 June 2013	Share issue on exercise of options	75,000	$0.85	63,750
30 June 2013	Balance	45,464,465		12,609,165

(c) Ordinary Shares

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

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

(d) Share Options

Unissued ordinary shares of the Company under option at the date of this report are set out below.

Date Options Granted	Exercise Date	Issue Price of Shares	Number Under Option
September 2008	September 2013	$1.00	250,000

	2013	2012
	$	$

19. Remuneration of Auditors

Audit of the annual financial report under the Corporations Act 2001		
Cutcher & Neale	3,000	33,500
KPMG	50,000	-
	53,000	33,500

20. Contingencies

Bank guarantees	1,105,035	1,054,887

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

21. Commitments

(a) Capital Commitments

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

Property, plant and equipment		
Payable within one year	-	268,818

(b) Operating Lease Commitments

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

Payable within one year	4,840,943	4,603,690
Payable later than one year but not later than five years	17,268,686	17,084,374
Payable later than five years	17,371,522	20,045,136
	39,481,151	41,733,200

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

22. Related Party Transactions and Disclosures

(a) Directors

The names of persons who were directors of the Company at any time during the financial year were as follows:

Robert Cameron

John Gibbs

Alex Abrahams

Ben Gisz

Simon Rutherford

Lance Wheeldon

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2013 and 2012 is set out below. The key management personnel are all the directors of the Group and the executive managers within the Group who report directly to the Board or Chief Executive Officer, and have prime responsibility for significant functional areas within the Group. These personnel are deemed to have the greatest authority for the strategic direction and management of the Group.

	2013	2012
	$	$
Short-term employment benefits	1,469,112	1,205,114

(c) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, is set out below.

All key management personnel or their related parties held shares in the Company during the financial year, and as such, participated in dividends.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, provided premises rental to the Company during 2013 and 2012 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, provided premises rental to the Company during 2013 and 2012 on normal commercial terms and conditions.

88 Park Avenue Pty Limited ATF the Key Health Unit trust, an entity related to Alex Abrahams, provided premises rental to the Company during 2013 and 2012 on normal commercial terms and conditions.

Susan Abrahams, an individual related to Alex Abrahams, provided premises rental to the Company during 2013 and 2012 on normal commercial terms and conditions.

The Company received fees for the provision of services to Alex Abrahams during 2013 and 2013 under normal terms and conditions of dental service and facility agreements.

The Company received fees for the provision of property management and administration services to Exandal Investments, Bislab Pty Limited and 88 Park Avenue Pty Limited during 2012.

The Company paid fees for management and support services to Just Paddling Pty Limited ATF AJ Abrahams Family Trust during 2013 and 2012. The entity is related to Alex Abrahams. Fees were based on an agreement approved by the Board, which reflects commercial terms and conditions.

The Company paid consultancy fees for specific professional advice and assistance to Lawler Partners during the 2012 year. Lawler Partners is an entity related to Simon Rutherford. Fees paid were based on normal commercial terms and conditions.

22. Related Party Transactions and Disclosures (continued)

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

	2013	2012
	$	$
Subscriptions for new ordinary shares – partly paid	18,233	-
Subscriptions for new ordinary shares – exercise of share options	1,126,250	-
Dividends paid	1,161,602	631,894
Revenues from rendering of services	454,934	464,593
Administration fees received	-	2,038
Rental expense	1,251,616	1,164,502
Consultancy fees paid	-	3,514
Administration and support services	49,764	32,676

23. Subsidiaries

The parent entity within the Group is Pacific Smiles Group Limited. The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c).

Name of Entity	Country of incorporation	Class of shares	Equity holding	
			2013	2012
			%	%
Pacific Smiles Group Limited	Australia			
Dentist Smiles Group Pty Limited	Australia	Ordinary	100	100
Dental Assistant Training Solutions Pty Limited	Australia	Ordinary	100	100
Pacific Eyes Pty Limited *	Australia	Ordinary	100	100
Pacific Medical Care Pty Limited **	Australia	Ordinary	100	100

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

24. Financial Risk Management

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

The Board has overall responsibility for the establishment and oversight of the risk management framework. Senior management develops and monitors risk management policy, and reports regularly to the directors on issues and compliance matters. Risk management principles and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The main risks arising from the Company and Group's financial instruments are identified below.

Market Risk

The Group's exposure to market risk for changes in interest rates relates primarily to its bank debt obligations. All of the Group's bank borrowings at balance date, comprising bank bills and bank-provided equipment loans, attracted fixed interest rates. These loans have been used to partly finance the purchase of durable tangible assets and intangible assets such as goodwill acquired in business acquisitions.

Bank bills totaling $3,000,000 form part of an ongoing loan facility which is reviewed annually with the Bank. The fixed interest rate period on this bill expired in September 2013, and at that time the bill was repaid.

The balance of other non-bank loans is non-interest bearing.

Cash balances in cheque and other on-call accounts earn interest at rates ranging between 0.1% and 2.75% (2012: 0.1% and 3.5%) for the Group, depending upon account balances.

The weighted average interest rate on borrowings at the end of the year was 4.90% (2012: 4.58%) for the Group.

Interest Rate Sensitivity Analysis

	2013	2012
	$	$
Effect on profit before tax and equity:		
1% increase in interest rates	43,251	7,961
1% decrease in interest rates	(43,251)	(7,961)

Credit Risk

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

24. Financial Risk Management (continued)

Liquidity Risk

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

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows to ensure sufficient liquidity is always available to meet liability obligations as they fall due. The Group's Balance Sheet shows an excess of current liabilities over current assets at balance date of $1,062,418. Liabilities have been classified as current where it is probable that they will be settled within twelve months or if there is a contractual obligation that may require settlement within twelve months, regardless of how likely settlement under contractual arrangements is judged to be. The Group's current assets, available financing facilities, and ongoing positive operating cash flows continue to be sufficient to satisfy all payment obligations within the time frames required.

Maturities of Financial Liabilities

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

	Less than 6 months	6 to 12 months	1 to 5 Years	Total Contractual Amounts
	$	$	$	$
Consolidated – 2013				
Bank bills (*)	3,000,000	-	-	3,000,000
Bank loans	182,554	108,142	621,044	911,740
Other loans	60,000	-	-	60,000
Payables and accruals	6,321,264	-	-	6,321,264
	9,563,818	108,142	621,044	10,293,004
Consolidated – 2012				
Bank bills	4,500,000	-	-	4,500,000
Bank loans	507,088	343,194	911,740	1,762,022
Other loans	60,000	540,000	60,000	660,000
Payables and accruals	6,365,284	-	-	6,365,284
	11,432,372	883,194	971,740	13,287,306

* Bank bills totaling $3,000,000 form part of an ongoing bank facility which is reviewed annually with the Bank. The overall facility does not have a fixed expiry date. It is an ongoing line of credit, subject to the Bank's annual review. The particular financial instruments drawn under the facility, such as bank bills, have specified maturity or roll-over dates, but the line of credit is un-termed. The Company anticipates the facility will be reviewed with the Bank during the next twelve months and will continue to be available in the normal course of business. Balances outstanding under the facility have been classified as contractually due within twelve months for the purposes of this disclosure regardless of whether or not repayment is expected within this timeframe. The bank bill liability of $3,000,000 was repaid in full in September 2013.

Fair Value

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

Notes to the Consolidated Financial Statements

25. Segment Information

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

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

26. Events Occurring After the Balance Sheet Date

Subsequent to the end of the financial year, the Directors declared a final dividend of 5.0 cents per share in relation to the financial year ended 30 June 2013. The dividend, which totaled $2,273,223 was paid in October 2013.

The bank bill liability of $3,000,000 at the end of the financial year was repaid in full in September 2013.

27. Notes to the Statement of Cash Flows

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

	2013 $	2012 $
Profit for the year	6,137,358	4,577,226
Depreciation and amortisation	3,601,405	3,287,702
Impairment losses	360,121	(2,719)
Write down of goodwill – contingent consideration not payable	480,000	-
Reverse of liability for deferred consideration not payable	(480,000)	-
Net loss on disposal of non-current assets	105,280	38,633
Change in operating assets and liabilities		
(Increase) decrease in receivables	95,715	401,246
(Increase) decrease in inventories	(79,001)	(234,688)
(Increase) decrease in other operating assets	203,064	(91,974)
(Increase) decrease in deferred tax assets	(473,311)	(403,681)
Increase (decrease) in trade payables	(44,019)	561,063
Increase (decrease) in provisions	790,109	582,424
Increase (decrease) in income tax	792,479	145,543
Net cash inflow from operating activities	11,489,200	8,860,775

28. Parent Entity Financial Information

(a) Summary Financial Information

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

	2013	2012
	$	$
Balance Sheet		
Current assets	12,607,481	7,546,203
Total assets	40,897,987	36,737,384
Current liabilities	12,908,100	14,568,513
Total liabilities	15,463,823	16,805,787
Shareholders' equity		
Issued capital	12,609,165	11,355,349
Retained earnings	12,824,999	8,576,248
	25,434,164	19,931,597
Profit or loss for the year	6,228,310	4,733,867
Total comprehensive income	6,228,310	4,733,867

(b) Contingent liabilities of the parent entity

	2013	2012
	$	$
Bank guarantees	1,105,035	1,054,887

The parent entity did not have any contingent liabilities or financial guarantees as at 30 June 2013 or 30 June 2012, other than bank guarantees.

Directors' Declaration

In the directors' opinion:

a. the financial statements and notes set out on pages 17 to 42 are in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

c. Note 1 confirms that the financial statements comply with International Financial Reporting Standards.

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

Alexander Abrahams
Director

Greenhills

28 October 2013

Independent Audit Report

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Pacific Smiles Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2013, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 30 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Independent Audit Report

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

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

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

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

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

KPMG

Chris Allenby
Partner

Sydney

28 October 2013

Five Year Historical Trends

(Unaudited)

	2013	2012	2011	2010	2009
GENERAL INFORMATION					
Dental					
Number of Centres	34	31	28	25	19
Number of Surgeries	158	150	130	118	104
Eye Care					
Number of Centres	-	-	4	6	7
PROFIT AND LOSS	$'000	$'000	$'000	$'000	$'000
Total Revenue	61,768	56,694	48,617	43,452	39,455
Gross Profit	53,768	48,384	40,670	35,002	29,963
EBITDA (excludes impairment of non-current assets)	13,281	10,198	7,975	6,754	5,013
EBIT	9,320	6,913	3,666	3,988	673
Profit Before Income Tax	9,125	6,553	3,301	3,526	121
Profit/(Loss) After Income Tax	6,137	4,577	1,901	2,407	-553
BALANCE SHEET	$'000	$'000	$'000	$'000	$'000
Total Assets	40,400	36,400	32,001	30,075	26,810
Total Liabilities	15,563	16,974	16,358	16,357	15,615
Total Borrowings	3,972	6,922	7,437	8,914	9,013
Net Assets	24,838	19,426	15,643	13,718	11,195
Contributed Equity	12,609	11,355	11,262	10,564	9,984
Retained Profits	12,228	8,071	4,381	3,154	1,212
CASH FLOWS	$'000	$'000	$'000	$'000	$'000
Cash Flows From Operations	11,489	8,861	7,076	5,869	5,211
Dividends - Fully Franked	1,980	888	674	465	385
RATIOS					
EBITDA / Revenue	21.7%	18.0%	16.4%	15.5%	12.7%
Profit After Income Tax / Revenue	10.0%	8.1%	3.9%	5.5%	-1.4%
Interest Coverage: EBITA / Net Interest	49.5 times	19.9 times	10.9 times	9.2 times	1.7 times
Gearing: Debt / (Debt and Equity)	13.8%	26.3%	32.2%	39.4%	44.6%
Return on Equity: Profit After Income Tax / Total Equity	24.7%	23.6%	12.2%	17.5%	-4.9%
Dividends Per Share	4.50 cents	2.10 cents	1.60 cents	1.15 cents	1.0 cents

The Pacific Smiles Group Story

It's 2003. Beyonce, Guy Sebastian, Eminem and the Black Eyed Peas are dominating the local music charts and Lord of the Rings, The Matrix and Finding Nemo are the box-office movie hits of the year. The Concorde takes off for its final trans-Atlantic flight and a military invasion of Iraq is launched. The iTunes Store opens for business and the first Blu-Ray disc players are available to the public. At Harvard University, a student creates Facemash in his dorm room, which is later to morph into Facebook.

And during this eventful time, something exciting is happening in the Hunter region of New South Wales that will have a profound and lasting impact on the Australian dental scene.

On the 1st of January, Greenhills and East Maitland Dental merged with Lakes Dental Charlestown and Lakes Dental Dora Creek to form Pacific Smiles Group, one of the first so-called dental corporates in Australia. The company founders, Dr. Alex Abrahams and Dr. Alison Hughes, created the company with little fanfare, but big ambitions.

Those ambitions were borne of their vision of a dental group corporate in structure, but not in culture. With a corporate structure to support the group's future expansion and growth combined with a friendly and unpretentious culture centred on patient care and customer service, Pacific Smiles Group was a sure-fire winner from the start.

Many years prior to 2003, Alex and Sue Abrahams believed that dentists should do dentistry and managers should manage. They learnt about practice management and implemented, evaluated and refined systems to support the philosophy. Alison came on board as a keen participant and the formula resulted in the initial success of the original three dental centres for the best outcome for patients, staff and dentists.

A business plan was developed by Alex with help from Dr Genna Levitch in the lead-up to 2003 and many of the guiding principles from that document are still relevant today.

Things moved quickly from the start. A Board of Directors was appointed at commencement and a General Manager joined a year later. The three original Dental Centres became five via an operations agreement with nib for the large nib Dental Care Centres in Newcastle and Sydney. Immediately following were the significant milestones of the first Dental Centre acquisition (Forster) and the first Dental Centre development (Salamander Bay).

A group head office was developed to provide the corporate and administrative employees with a professional workplace. During the first few years, this team had worked out of Dental Centre staff rooms, spare surgeries and for a while, a residential house! In the years that followed, Pacific Smiles Group continued to expand at a rapid pace with a growing family of employees and dentists. Even with such growth and the changes that inevitably accompany it, many of the employees and dentists from the earliest days of Pacific Smiles Group remain with the group today.

As with any organisation over a ten year period, there have been highs, lows and everything in between. Mixed with risks, challenges, successes and a few learning experiences along the way, the journey has been an adventure and there are many chapters yet to come!

PACIFIC SMILES GROUP

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