Pacific Smiles Group
ANNUAL REPORT 2014

pacificsmilesgroup.com.au

PACIFIC SMILES GROUP


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Each year, Pacific Smiles Group reports to the federal government on our EEO policies and initiatives. This report is a requirement under the Workplace Gender Equality Act 2012 (Act).

As part of our strategic goal to achieve Employer of Choice Status Pacific Smiles Group is committed to supporting gender equity in the workplace and to achieving goals with regard to career advancement, earnings and access to family friendly policies and flexible work. To access a copy of the report please contact our Human Resources Manager.

In accordance with the requirements of the Act, we can inform you that on 27 May 2014, Pacific Smiles Group lodged its annual public report with the Workplace Gender Equity Agency.

Message from the Founders

Dr Alex Abrahams & Dr Alison Hughes

As founders, executives and shareholders of Pacific Smiles Group, we could not be happier with the performance and achievements of the Company this year. The foundation objectives of delivering exceptional care to patients and outstanding customer service to our two customer groups - patients and dentists, are as central to our services today as they were when we started Pacific Smiles Group in 2003. The Pacific Smiles 'care culture' provides us with a real point of difference in a competitive market place.

Pacific Smiles Group has always been prepared to invest in the people, systems and structures necessary to project and embed this culture across an expanding network of branded dental centres. As we have continued to roll out new dental centres, we have seen improving margins as the capable and experienced management team deliver on our goal of being Australia's leading branded dental centre operator. We expect to continue to leverage that experience and the investment, as we expand our branded network further, without commensurate increases in head office and other costs.

On this point, it is important to note the difference between Pacific Smiles Group and most other dental groups in Australia. Our strong focus on consistent operations, positioning and culture is served best via a roll-out strategy which involves the development of new centres. Most large dental corporates in Australia favour the roll-up approach which involves acquisition of existing dental practices and a contractual arrangement with the vendor dentist. We believe that the advantage of the roll-out approach goes far beyond the consistency advantages to competitive advantage, opportunity size and longevity.

That's not to say that the Pacific Smiles team is closed to strategic acquisition opportunities which can add scale and collaboration advantages. One such opportunity was secured in June when we acquired the Dental Eye Care Practices (formerly the ahm Dental and Eye Care Centres) from Medibank Private. This was the largest acquisition in the history of the Company and it added two very large dental centres in Sydney, at Haymarket and Parramatta and one dental centre in Wagga Wagga.

As you will read in the Chairman's Report and the Managing Director's Report, the industry had a challenging year, being the first full year of results following the cessation of the Federal Government's Chronic Disease Dental Scheme which removed at least 15% of expenditure from the Australian dental services market. The fact that Pacific Smiles Group achieved growth during such a period is testament to our business model, our experienced management team and the positive patient care and customer service culture that has been established over many years.

We believe that our culture is a sustainable long-term competitive advantage and we continue to anticipate an exciting future for Pacific Smiles Group.

> "Delivering exceptional care to patients and outstanding customer service to our two customer groups - patients and dentists, are as central to our services today as they were when we started."

Chairman's Report

Robert Cameron AO

The achievement of a 26% increase in Net Profit After Tax compared to last year is very satisfactory in the circumstances of Financial Year 2014. The year featured the dual impact of the cessation of a major government funding scheme midway through the previous year and generally soft trading conditions. Pacific Smiles weathered these challenges very well, underscoring the resilience of our model and the experience of our management team.

As well as business efficiency gains on a number of fronts and improvements in all key financial and operational measures, the team opened three new Pacific Smiles Dental Centres, one new nib Dental Care Centre and successfully acquired three dental centres from Medibank Private, two of which are large format centres. The newly acquired dental centres were immediately rebranded as Pacific Smiles Dental Centres and this acquisition allows Medibank's ahm members to enjoy their policy benefits at all current and future Pacific Smiles Dental Centres, rather than only the three acquired dental centres.

Collaborations with health funds to improve access for their members to quality dental care is a key feature of the Pacific Smiles model and, to this end, the new nib Dental Care Centre in Chatswood is already providing a wonderful service to nib customers on Sydney's north shore and northern beaches. This is the seventh nib Dental Care Centre in a network that stretches from Newcastle to Melbourne.

There is a very positive momentum about Pacific Smiles Group and this is likely to continue with an established pipeline of future new dental centres to be rolled out. Considerable time and effort, including expert input from external consultants, has been applied to the identification of preferred locations for new Pacific Smiles Dental Centres.

Our strong cash flow has allowed us to fund our desired pace of roll-out whilst continuing to maintain a strong balance sheet and pay increasing dividends to shareholders. This year, a special dividend of 22.0 cents per share was paid in June 2014, reflecting this strong cash position and as a reward for our loyal shareholders.

The Board has now declared a final dividend of 7.5 cents per share on the basis of the very successful year. Ordinary dividends in relation to the 2014 financial year were 12.0 cents, representing a payout ratio of 70% on the statutory net profit after tax. The total dividends paid during the financial year were up $2.3 million on last year, or $12.3 million up including the special dividend.

As the Group continues to prepare to be ready for an Initial Public Offering (IPO), possibly as soon as the end of CY2014, I thank all shareholders for your support of Pacific Smiles Group and its Board of Directors.

I also thank my fellow Board members and in particular Lance Wheeldon, a director since the commencement of Pacific Smiles Group, who has decided to retire from the Board. My fellow Directors and I cannot thank Lance enough for his valuable and insightful contributions to the success of this great Company.

> "Our strong cash flow has allowed us to fund our desired pace of roll-out whilst continuing to maintain a strong balance sheet and pay increasing dividends to shareholders."

Managing Director's Report

John Gibbs

Pacific Smiles Group's impressive results for FY2014 were achieved under challenging market conditions. Pacific Smiles has grown, while some others have struggled in the new market conditions since the cessation of the Chronic Diseases Dental Scheme. The ending of that scheme in December 2012 may have been the defining moment of recent times in this industry, but it does not define Pacific Smiles Group or its successful roll-out business model.

Evidence of that may be seen in the record Net Profit After Tax of $7.8 million, which was up by 26% over the previous year. This achievement was on the back of some organic growth of existing dental centres and from successful openings of new dental centres. Cost management was excellent and improvements in this area were embedded in the standard operating platform.

Pacific Smiles Group's strong balance sheet, positive cash flow and improving margins all point to a successful formula for an expanding network of quality dental centres.

In the last few weeks of the year, Pacific Smiles Group acquired three dental centres from Medibank Private in a transaction which added 35 new dental chairs (surgeries) and a substantial uplift in patient fees across our network. Whilst the benefits of this transaction are not reflected in the financial result for FY2014, there was considerable effort devoted to the acquisition during the second half of the year.

Business Performance

There was improvement this year in key metrics, both financial and operational. In particular, we were able to convert subdued growth in Patient Fees for FY2014 of 1.2%, due to the changes to government dental funding in FY2013, into Net Profit After Tax growth of 26%. This was achieved through continued business improvements and the resulting uplift in our margins. This gives us confidence that Pacific Smiles can continue its record of strong profit growth as Patient Fees growth returns to more normal levels.

The Patient Fees increase underpinned an improvement in Total Revenue, which for Pacific Smiles Group predominantly comprises service fees charged to dentists and represents the majority of Gross Profit in our accounts. For FY2014, Gross Profit improved by 3% from the previous year to $55.3 million.

In simple terms, more patients visited the Pacific Smiles Dental Centres in FY2014 than in FY2013, despite the cessation of the Chronic Diseases Dental Scheme. Importantly, the aggregate increase in patient attendances was spread across a mix of dental centres in our network, including long-established mature ones, newer dental centres opened in the last year or two, plus a small number of new openings towards the end of the year.

Ultimately, attendance volumes are determined by patient satisfaction and Pacific Smiles Group can report improving metrics in this respect also. The Net Promoter Score for FY2014, as measured by e-mailed patient surveys, improved from last year's record high. While industry comparisons in Australia are not available, a Net Promoter Score of over 60 is an exceptional result by global standards, justifying the Group's focus on customer service and patient care as the drivers of success. The requisite investments in people, systems, structures, training and initiatives to embed the care culture continue to build a platform for ongoing success.

Without compromising our commitment to customer service and patient care, Pacific Smiles Group has implemented a number of initiatives designed to facilitate ongoing improvements in operating efficiencies and cost management. Total operating expenses actually reduced by 1% in FY2014 from previous year, despite the increase in patient attendances. These cost management improvements are now well embedded in the Group's standard operations.

Business Development

Three new Pacific Smiles Dental Centres and one new nib Dental Care Centre were opened during the year. The Pacific Smiles Dental Centres opened at Melton in outer suburban Melbourne, Singleton in the Hunter Valley of New South Wales and Belconnen in the Australian Capital Territory. All are benefiting from the visibility and profile afforded by their shopping centre locations. Initial and ongoing marketing programs plus the delivery of A Perfect Patient Experience (APPEx®) are fundamental to new patient growth and long-term patient loyalty.

A new nib Dental Care Centre was established at Chatswood, a retail, services and business hub on the north shore of Sydney. The new dental centre is open to everybody, but is particularly appealing to nib health insurance customers who live on Sydney's north shore or northern beaches. It is the seventh nib Dental Care Centre and is exceeding initial expectations.

In June, Pacific Smiles Group acquired the three Dental Eye Care Practices (formerly ahm Dental Care Centres) from Medibank Private. This acquisition was considered to be large enough and strategic enough to warrant deviation from the preferred expansion methodology of roll-out of brand new dental centres. The acquired dental centres in Haymarket and Parramatta are large format facilities and even the one in Wagga Wagga is not small by industry standards. All have been branded as Pacific Smiles Dental and ahm members are now able to access dental benefits under a Preferred Provider Arrangement across the whole Pacific Smiles Dental branded network.

Outlook

Pacific Smiles Group management is optimistic about the long term outlook for the Australian dental industry. As with other service areas within the healthcare sector, the macro-environment is very favourable. An aging population, retention of more natural teeth, improved oral health awareness and increased desire for functional and aesthetic treatments will continue to drive growth in this market.

In the immediate and medium term, the most pressing factor for Pacific Smiles Group and for all in the dental industry, is the soft economic climate. While many dental treatments and services are not discretionary, spending on regular services can fall, just as spending can fall across all discretionary expenditures during such times.

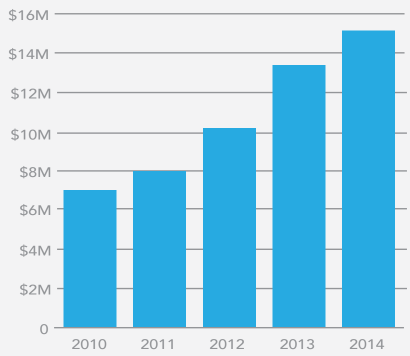
Pacific Smiles Group management will continue to focus on locations and on services that offer the greatest benefit to the communities served and the best return to shareholders.

I take this opportunity to thank the whole team at Pacific Smiles Group for their outstanding efforts and solid performance outcomes in FY2014. This thanks goes to every dentist, every dental assistant, receptionist, sterilisation nurse, head office employee and manager. Great outcomes derive from team efforts and I am immensely proud of the Pacific Smiles team.

Pacific Smiles Group management will continue to focus on locations and on services that offer the greatest benefit to the communities served and the best return to shareholders.

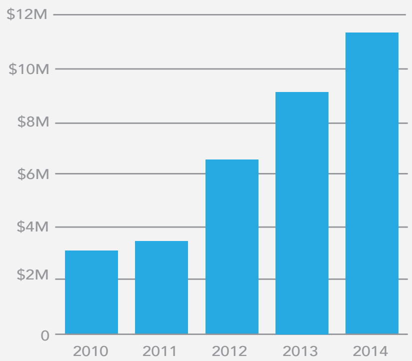
2014 Highlights

EBITDA*



* Excludes impairment of non-current assets

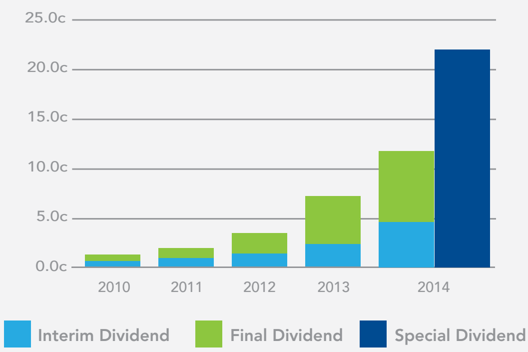
Net Profit Before Tax



12.0 cps

Full year ordinary dividends totalling 12.0 cents per share (fully franked), representing a payout ratio of 70% of FY 2014 statutory NPAT

Dividends



$96 Million

in Patient Fees

22.0 cps

Special Dividend

400,000

Patient Appointments this year

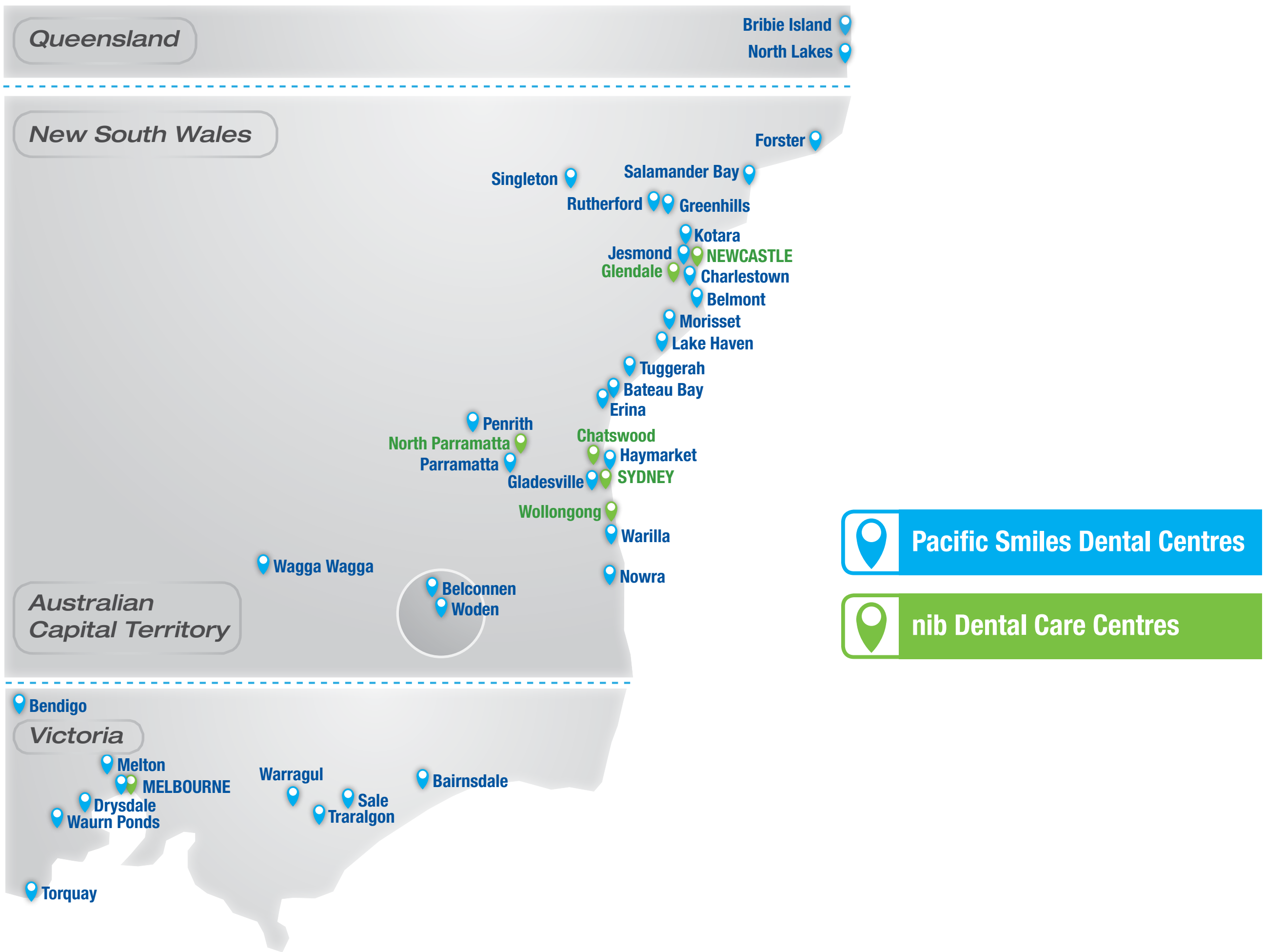
+ 17%

EBITDA increase

+ 23%

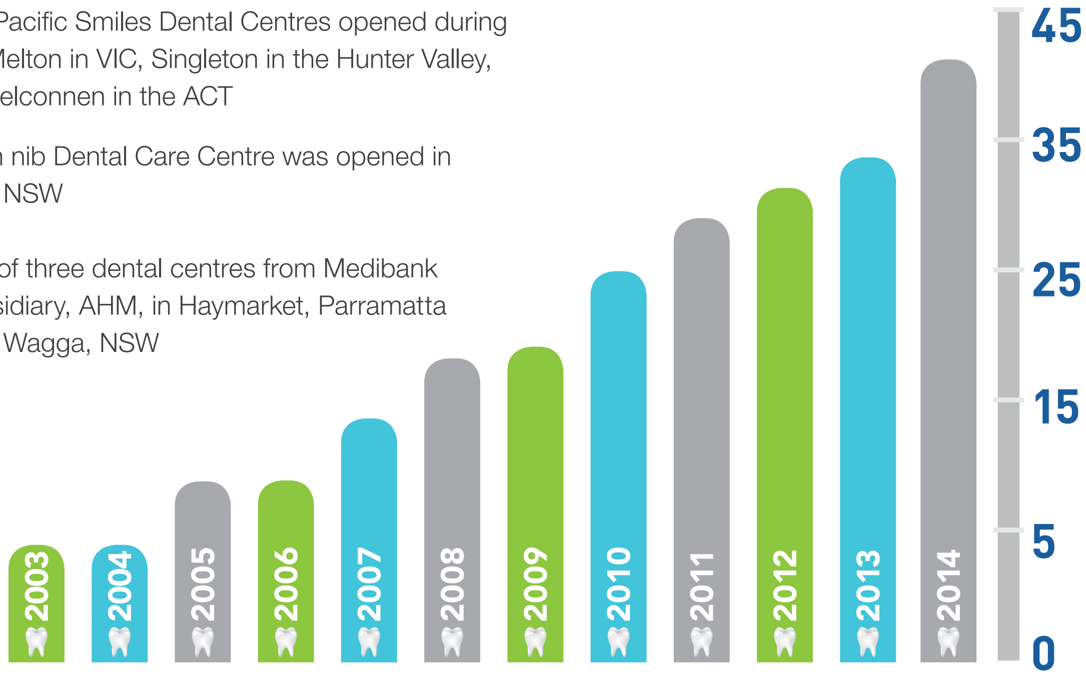
Net Profit Before Tax increase

Our Dental Network



OUR CENTRE GROWTH

- Three new Pacific Smiles Dental Centres opened during the year – Melton in VIC, Singleton in the Hunter Valley, NSW and Belconnen in the ACT
- The seventh nib Dental Care Centre was opened in Chatswood NSW
- Acquisition of three dental centres from Medibank Private subsidiary, AHM, in Haymarket, Parramatta and Wagga Wagga, NSW

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FINANCIAL REPORT

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2014

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 2014.

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 Ben Gisz

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

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.

Information on Directors

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, Trustee of the University of NSW Foundation and 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 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 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.

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.

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.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2014

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 $7,752,256 (2013: $6,137,358).

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 $14,321,306 (2013: $1,979,560).

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 2014, 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	11	11	-	-	2	2
John Gibbs	11	11	-	-	-	-
Alex Abrahams	11	11	-	-	-	-
Ben Gisz	11	11	2	2	-	-
Simon Rutherford	11	11	2	2	2	2
Lance Wheeldon	11	11	2	2	-	-

- Not a member of the relevant Committee

Matters Subsequent to the End of the Financial Year

Subsequent to the end of the financial year, the Directors declared a final dividend of 7.5 cents per share in relation to the financial year ended 30 June 2014. The dividend, which totals $3,409,835, will be paid in October 2014.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

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

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

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

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

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

Alexander Abrahams
Director

Greenhills

17 September 2014

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 2014 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

17 September 2014

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	2014	2013
		$	$
Revenue	2	59,081,177	60,073,808
Direct expenses		(3,739,748)	(6,306,008)
Gross profit		55,341,429	53,767,800
Other income	3	1,515,991	1,543,309
Expenses			
Consumable supplies expenses		(5,328,031)	(5,503,446)
Employee expenses		(23,774,306)	(23,640,307)
Occupancy expenses		(5,966,536)	(6,034,613)
Marketing expenses		(828,928)	(1,056,328)
Administration and other expenses		(5,890,395)	(6,155,195)
Depreciation and amortisation expense	4	(3,769,892)	(3,601,405)
Net finance costs	4	(50,775)	(194,471)
Profit before income tax		11,248,557	9,125,344
Income tax expense	5	(3,496,301)	(2,987,986)
Profit for the year		7,752,256	6,137,358
Other comprehensive income		-	-
Total comprehensive income for the year		7,752,256	6,137,358

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2014

	NOTES	2014	2013
		$	$
ASSETS			
Current Assets			
Cash and cash equivalents	7	3,767,091	9,768,728
Receivables	8	3,611,498	469,763
Inventories	9	1,989,618	1,602,000
Other	10	117,648	94,839
Total Current Assets		9,485,855	11,935,330
Non-Current Assets			
Property, plant and equipment	11	22,009,745	18,586,036
Intangible assets	12	11,609,546	7,841,104
Deferred tax assets	13	3,177,605	2,037,719
Total Non-Current Assets		36,796,896	28,464,859
Total Assets		46,282,751	40,400,189
LIABILITIES			
Current Liabilities			
Payables	14	9,451,692	6,321,264
Borrowings	15	227,597	3,350,696
Current Tax Liabilities	16	1,603,564	1,703,310
Provisions	17	2,761,516	1,622,478
Total Current Liabilities		14,044,369	12,997,748
Non-Current Liabilities			
Borrowings	15	9,393,448	621,044
Deferred Tax Liabilities	18	438,114	-
Provisions	17	3,563,966	1,943,837
Total Non-Current Liabilities		13,395,528	2,564,881
Total Liabilities		27,439,897	15,562,629
Net Assets		18,842,854	24,837,560
EQUITY			
Contributed equity	19	13,183,509	12,609,165
Retained profits		5,659,345	12,228,395
Total Equity		18,842,854	24,837,560

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	Contributed equity	Retained profits	Total equity
		$	$	$
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	19	1,253,816	-	1,253,816
Dividends provided for or paid	6(a)	-	(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
Total comprehensive income for the year		-	7,752,256	7,752,256
Transactions with owners of the Company, recognised directly in equity:				
Movements in contributed equity	19	574,344	-	574,344
Dividends provided for or paid	6(a)	-	(14,321,306)	(14,321,306)
		574,344	(14,321,306)	(13,746,962)
Consolidated Balance at 30 June 2014		13,183,509	5,659,345	18,842,854

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2014

	NOTES	2014	2013
		$	$
Cash flows from operating activities			
Receipts from customers		64,901,581	66,716,518
Payments to suppliers and employees		(47,792,369)	(52,348,212)
		17,109,212	14,368,306
Interest received		193,715	131,980
Interest and finance costs paid		(206,231)	(342,267)
Income taxes paid		(3,742,547)	(2,668,819)
Net cash inflow from operating activities	29(a)	13,354,149	11,489,200
Cash flows from investing activities			
Proceeds from disposal of a business	26(d)	341,621	-
Payments for purchase of a business	26(b)	(6,037,229)	
Payments for property, plant and equipment		(5,328,723)	(3,198,156)
Proceeds from disposal of property, plant and equipment		7,824	18,973
Loans advanced		(241,621)	-
Net cash outflow from investing activities		(11,258,128)	(3,179,183)
Cash flows from financing activities			
Proceeds from issue of shares	19	574,344	1,253,816
Proceeds from borrowings		9,000,000	-
Repayment of borrowings		(3,350,696)	(2,470,282)
Dividends paid	6(a)	(14,321,306)	(1,979,560)
Net cash outflow from financing activities		(8,097,658)	(3,196,026)
Net increase/(decrease) in cash and cash equivalents		(6,001,637)	5,113,991
Cash and cash equivalents at the beginning of the financial year	7	9,768,728	4,654,737
Cash and cash equivalents at the end of the financial year	7	3,767,091	9,768,728
Non-cash investing and financing activities	29(b)		

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

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 17 September 2014. 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 2014 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 2014 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)).

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

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

1. Summary of Significant Accounting Policies (cont)

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 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.

1. Summary of Significant Accounting Policies (cont)

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

j. Cash and Cash Equivalents

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

k. Receivables

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

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

l. Inventories

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

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)).

1. Summary of Significant Accounting Policies (cont)

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 fifteen years.

o. Payables

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

p. Borrowings

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

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

q. Employee Benefits

(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.

(i) 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.

1. Summary of Significant Accounting Policies (cont)

u. Parent Entity Financial Information

The financial information for the parent entity, Pacific Smiles Group Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(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.

2. Revenue

	2014	2013
	$	$
Services rendered	58,722,167	59,742,649
Sale of goods	359,010	331,159
	59,081,177	60,073,808

3. Other Income

	2014	2013
Rents	923,055	766,165
Government subsidies	110,502	255,324
Consideration receivable on surrender of lease	475,500	-
Reversal of liability for contingent consideration not payable	-	480,000
Sundry income	6,934	41,820
	1,515,991	1,543,309

4. Expenses

	2014	2013
	$	$
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	2,322,909	2,361,277
Leasehold improvements	1,446,983	942,783
Total Depreciation	3,769,892	3,304,060
Amortisation		
Rights and licences	-	297,345
Total Amortisation	-	297,345
Net loss on disposal of non-current assets	278,667	105,280
Impairment loss/(write-back) on write-down of assets to recoverable amount		
Receivables – other entities	70,957	30,783
Goodwill	-	360,120
Goodwill – contingent purchase consideration not payable	-	480,000
Net finance costs		
Interest and finance charges paid/payable	235,074	344,960
Interest received/receivable	(184,299)	(150,489)
Total net finance costs	50,775	194,471
Defined contribution superannuation plans expense	1,852,559	1,864,385

5. Income Tax Expense

	2014	2013
	$	$
Current tax	3,642,800	3,461,297
Deferred tax (note 13, 18)	(146,499)	(473,311)
	3,496,301	2,987,986
Profit before income tax expense	11,248,557	9,125,344
Income tax calculated at 30% (2013: 30%)	3,374,547	2,737,603
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation of intangibles	-	88,620
Impairment loss – non-current assets	-	108,036
Sundry items	121,734	53,727
Income tax expense	3,496,301	2,987,986

6. Dividends

	Parent Entity 2014	Parent Entity 2013
	$	$
(a) Interim and final dividends totalling 9.5 cents and special dividend totaling 22.0 cents (2013: Interim and final dividends totaling 4.5 cents) per share, fully franked based on tax paid @ 30%	14,321,306	1,979,560
(b) Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%)	5,073,575	8,360,956

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.

7. Cash and Cash Equivalents

	2014	2013
	$	$
CURRENT		
Cash at bank and in hand	3,767,091	9,768,728

8. Receivables

	2014	2013
	$	$
CURRENT		
Trade debtors	196,115	97,534
Provision for impairment	(93,681)	(33,478)
	102,434	64,056
Deferred amount receivable in connection with consideration for business acquisition	1,500,000	-
Consideratoin receivable on surrender of lease - related entity	475,500	-
Sundry debtors	1,533,564	405,707
	3,611,498	469,763

9. Inventories

	2014	2013
CURRENT		
Inventories – at cost	1,989,618	1,602,000

10. Other Assets

	2014	2013
CURRENT		
Prepayments	21,182	32,276
Other	96,466	62,563
	117,648	94,839

11. Property, Plant and Equipment

	2014	2013
NON-CURRENT		
Leasehold improvements – at cost	20,360,185	16,846,026
Less accumulated depreciation and impairment	(6,921,484)	(5,564,120)
	13,438,701	11,281,906
Plant and equipment – at cost	21,231,029	17,967,563
Less accumulated depreciation and impairment	(12,659,985)	(10,663,433)
	8,571,044	7,304,130
Total property, plant and equipment	22,009,745	18,586,036

11. Property, Plant and Equipment (cont)

Movements in carrying amounts

2014	Leasehold Improvements	Plant and Equipment	Total
	$	$	$
Carrying amount at the beginning of the year	11,281,906	7,304,130	18,586,036
Additions	3,827,143	3,799,506	7,626,649
Disposals	(223,365)	(209,683)	(433,048)
Depreciation expense	(1,446,983)	(2,322,909)	(3,769,892)
Carrying amount at the end of the year	13,438,701	8,571,044	22,009,745

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

12. Intangible Assets

	2014	2013
	$	$
NON-CURRENT		
Goodwill	12,516,875	9,733,313
Less accumulated amortisation and impairment	(1,892,208)	(1,892,209)
	10,624,667	7,841,104
Rights and licences	1,664,879	680,000
Less accumulated amortisation and impairment	(680,000)	(680,000)
	984,879	-
Total intangible assets	11,609,546	7,841,104

12. Intangible Assets (cont)

Movements in carrying amounts

Consolidated - 2014	Goodwill	Rights and Licenses	Total
	$	$	$
Carrying amount at the beginning of the year	7,841,104	-	7,841,104
Additions	2,883,563	984,879	3,868,442
Disposals	(100,000)	-	(100,000)
Carrying amount at the end of the year	10,624,667	984,879	11,609,546

Consolidated - 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

Impairment Testing

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. The key assumptions used in impairment testing are an 8.7% discount rate applied to the current year net cash flows. No individual cash generating unit with goodwill forms a significant component of the Group's total goodwill.

During the previous financial year, the Group recorded an impairment loss of $360,321 relating to the write down of goodwill assets at two of its Dental Centres.

No impairment losses were recorded in the current year.

Contingent Consideration Not Payable

During the previous 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).

13. Deferred Tax Assets

	2014	2013
	$	$
NON-CURRENT		
The balance comprises temporary differences attributable to:		
Provision for doubtful debts	28,104	10,043
Depreciation of property, plant and equipment	1,228,432	715,772
Accrued expenses	266,308	242,010
Provisions	1,645,626	1,069,894
Other	9,135	-
Deferred tax assets	3,177,605	2,037,719
Movements:		
Balance at the beginning of the year	2,037,719	1,564,408
Credited (charged) to the income statement	584,615	473,311
Additions on business acquisition	585,510	-
Reversal of deferred tax assets on disposal of business	(30,239)	-
Balance at the end of the year	3,177,605	2,037,719

14. Payables

	2014	2013
CURRENT		
Trade payables and accruals – related entities	44,473	40,241
Trade payables and accruals – other entities	9,407,219	6,281,023
	9,451,692	6,321,264

15. Borrowings

	2014	2013
	$	$
CURRENT		
Secured:		
Bank bills	-	3,000,000
Bank loans	227,597	290,696
	227,597	3,290,696
Unsecured:		
Other loans	-	60,000
Total	227,597	3,350,696
NON-CURRENT		
Secured:		
Bank bills	9,000,000	-
Bank loans	393,448	621,044
Total	9,393,448	621,044

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:

	2014	2013
Total bank borrowings facilities	13,421,045	13,500,000
Used at balance date	(11,178,444)	(5,016,775)
Unused at balance date	2,242,601	8,483,225

Covenants attaching to bank borrowings were complied with during the year. Further details on financing facilities are included in note 25.

16. Current Tax Liabilities

	2014	2013
CURRENT		
Income tax payable	1,603,564	1,703,310

17. Provisions

	2014	2013
	$	$
CURRENT		
Employee benefits	2,580,151	1,389,485
Straight-line operating lease adjustment	95,374	88,907
Onerous contracts	85,991	144,086
	2,761,516	1,622,478
NON-CURRENT		
Employee benefits	864,900	579,056
Straight-line operating lease adjustment	1,299,983	1,093,736
Onerous contracts	116,987	271,045
Make good provision	1,282,096	-
	3,563,966	1,943,837

Movements:	Employee Benefits	Straight-line Lease Adjustment	Make Good Provision	Onerous Contracts	Total
	$	$	$	$	$
Balance at the beginning of the year	1,968,541	1,182,643	-	415,131	3,566,315
Amounts recognised in connection with business combinations	1,280,012	-	100,000		1,380,012
Additional provisions charged/ (written back)	1,586,302	323,007	1,182,096	(40,560)	3,050,845
Amounts used	(1,389,804)	(110,293)	-	(171,593)	(1,671,690)
Balance at the end of the year	3,445,051	1,395,357	1,282,096	202,978	6,325,482

18. Deferred Tax Liabilities

	2014	2013
	$	$
NON-CURRENT		
The balance comprises temporary differences attributable to:		
Intangible assets	295,464	-
Receivables	142,650	-
Deferred tax liabilities	438,114	-
Movements:		
Balance at the beginning of the year	-	-
Charged (credited) to the income statement	438,114	-
Balance at the end of the year	438,114	-

19. Contributed Equity

	2014	2013
(a) Share Capital – No. of Shares		
Ordinary shares – fully paid	43,641,151	43,641,151
Ordinary shares – partly paid	1,823,314	1,823,314
	45,464,465	45,464,465
Share Capital - $ of shares	$	$
Ordinary shares – fully paid	12,545,349	12,545,349
Ordinary shares – partly paid	638,160	63,816
	13,183,509	12,609,165

19. Contributed Equity (cont)

(b) Movements in Ordinary Share Capital

Date	Details	No. of Shares	Issue Price	$
30-Jun-12	Balance	42,241,151		11,355,349
28-Mar-13	Share issues on exercise of options	1,325,000	$0.85	1,126,250
28-Mar-13	Share issue – partly paid	1,823,314	$1.55	18,233
8-Apr-13	Amounts paid up on partly paid shares	-	-	45,583
27-Jun-13	Share issue on exercise of options	75,000	$0.85	63,750
30-Jun-13	Balance	45,464,465		12,609,165
30-Jun-14	Amounts paid up on partly paid shares	-		574,344
30-Jun-14	Balance	45,464,465		13,183,509

(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.

20. Remuneration of Auditors

	2014	2013
	$	$
Audit of the annual financial report under the Corporations Act 2001		
Cutcher & Neale	-	3,000
KPMG	52,500	50,000
Other services – KPMG	19,250	-
	71,750	53,000

21. Contingencies

	2014	2013
	$	$
Bank guarantees	1,557,399	1,105,035

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

22. Commitments

(a) Capital Commitments

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

	2014	2013
Property, plant and equipment		
Payable within one year	376,186	-

(b) Operating Lease Commitments

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

	2014	2013
Payable within one year	6,167,659	4,840,943
Payable later than one year but not later than five years	19,084,584	17,268,686
Payable later than five years	16,854,062	17,371,522
	42,106,305	39,481,151

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

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	
			2014	2013
			%	%
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. 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	Ben Gisz
John Gibbs	Simon Rutherford
Alex Abrahams	Lance Wheeldon

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2014 and 2013 is set out below. The 2013 amount has been restated for comparative purposes to reflect the change in timing of recognition of bonus payments to executives for the year ended 30 June 2014. 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.

	2014	2013*
	$	$
Short-term remuneration benefits	1,527,631	1,471,482

** The comparative amount for the previous financial year has been restated for consistency purposes. Annual performance-based bonuses are payable to certain key management personnel. For the year ended 30 June 2014, an assessment of the performance criteria for calculation of the annual performance bonuses was completed prior to finalisation of the financial report, and hence the specific amounts payable in respect of the year ended 30 June 2014 for each eligible individual have been recognised and included in the amount disclosed for short term employment benefits. In previous financial years, only estimated amounts per individual were recognised as payable, and therefore the disclosure of short term employment benefits included only the cash payments for performance bonuses in the financial year. Those payments related to achievement of performance targets for one year earlier. The comparative amount has been adjusted to an accruals-basis, consistent with the disclosure for the year ended 30 June 2014.*

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 2014 and 2013 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, provided premises rental to the Company during 2014 and 2013 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 2014 and 2013 on normal commercial terms and conditions.

Susan Abrahams, an individual related to Alex Abrahams, provided premises rental to the Company during 2014 and 2013 on normal commercial terms and conditions.

24. Related Party Transactions and Disclosures (cont)

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

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

The Company received fees for the provision of services to Alex Abrahams during 2014 and 2013 under normal terms and conditions of dental service and facility agreements.

The Company paid fees for management and support services to Whitesail Pty Limited ATF The Whitesail Trust during 2014 and 2013. 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 TDM Asset Management during the 2014 year. TDM Asset Management is an entity related to Ben Gisz. Fees paid were based on normal commercial terms and conditions.

	2014	2013
	$	$
The aggregate amounts of each of the above types of transactions were:		
Subscriptions for new ordinary shares – partly paid	-	18,233
Subscriptions for new ordinary shares – exercise of share options	-	1,126,250
Dividends paid	8,555,364	1,161,602
Revenues from rendering of services	291,370	454,934
Rental expense	1,289,979	1,251,616
Fees receivable/receivable in relation to lease surrender	475,500	24,500
Consultancy fees paid	71,060	-
Administration and support services	78,422	88,273

25. 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. Of the Group's bank borrowings at balance date, bank bills attract variable interest rates while bank-provided equipment loans, attract fixed interest rates.

Bank bills totalling $9,000,000 form part of an ongoing loan facility which was updated during the financial year. The overall facility has a confirmed three year term which expires on 27 June 2017. The bills are subject to interest charged at the prevailing variable rate payable on each reset date.

There are no further non-bank loans to the company.

Cash balances in cheque and other on-call accounts earn interest at rates ranging between 0.1% and 2.4% (2013: 0.1% and 2.75%) for the Group, depending upon account balances.

The weighted average interest rate on borrowings at the end of the year was 4.87% (2013: 4.90%) for the Group.

Interest Rate Sensitivity Analysis

	2014	2013
	$	$
Effect on profit before tax and equity:		
1% increase in interest rates	40,580	43,251
1% decrease in interest rates	(40,580)	(43,251)

Credit Risk

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

Liquidity Risk

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

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows to ensure sufficient liquidity is always available to meet liability obligations as they fall due. The Group's Balance Sheet shows an excess of current liabilities over current assets at balance date of $4,558,514. 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.

25. Financial Risk Management (cont)

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 Amount
	$	$	$	$
Consolidated – 2014				
Bank bills	-	-	9,000,000	9,000,000
Bank loans	111,870	115,727	393,447	621,044
Payables and accruals	9,451,693	-	-	9,451,693
	9,563,563	115,727	9,393,447	19,072,737
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

Fair Value

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

26. Business Combinations

(a) Summary of Acquisitions

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

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

	2014	2013
	$	$
Purchase consideration (refer to (b) below):		
Cash paid/payable	4,539,928	-
Fair value of net identifiable assets acquired (refer to (c) below)	(1,656,366)	-
Goodwill (note 12)	2,883,562	

(b) Purchase Consideration

	2014	2013
Outflow of cash to acquire businesses, net of cash acquired		
Total cash consideration	6,163,956	-
Cash acquired	(2,700)	-
Post completion adjustments receivable	(124,027)	-
Payments as per Statement of Cash Flows	6,037,229	-
Deferred consideration receivable	(1,500,000)	-
Total outflow	4,537,228	-

Acquisition-related transaction costs of $382,376 are included in Other Expenses in the Income Statement and In Operating Cash Flows in the Statement of Cash Flows.

(c) Assets and Liabilities Acquired

	2014	2013
The assets and liabilities arising from the acquisitions were as follows:		
Cash	2,700	-
Trade receivables	5,016	-
Inventories	443,239	-
Plant and equipment	1,115,831	-
Deferred tax asset	585,510	-
Intangible assets	984,879	-
Provisions	(1,480,809)	-
Net identifiable assets acquired	1,656,366	-

26. Business Combinations (cont)

(d) Disposal of Eye Care Business

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

	2014	2013
	$	$
Details of the aggregate fair value of the assets and liabilities disposed are as follows:		
Total disposal consideration	341,621	-
Fair value of net assets disposed	(324,553)	-
Net profit on disposal	17,068	-
Inflow of cash from disposal of business, net of cash disposed		
Deferred consideration	250,000	-
Cash received	100,000	-
Post completion adjustments payable	(8,379)	-
Total inflow	341,621	-
No cash or bank overdrafts were disposed of as part of the business disposal. Deferred consideration is receivable in equal installments after the end of the financial year.		
The assets and liabilities disposed were as follows:		
Inventories	165,621	-
Plant and equipment	129,490	-
Intangible assets	100,000	-
Deferred tax assets	30,239	-
Provision for employee benefits	(100,797)	-
Net identifiable assets disposed	324,553	-

27. 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.

28. Events Occurring After the Balance Sheet Date

Subsequent to the end of the financial year, the Directors declared a final dividend of 7.5 cents per share in relation to the financial year ended 30 June 2014. The dividend, which totals $3,409,835, will be paid in October 2014 as per Directors Report.

29. Notes to the Statement of Cash Flows

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

	2014	2013
	$	$
Profit for the year	7,752,256	6,137,358
Depreciation and amortisation	3,769,892	3,601,405
Impairment losses	-	360,121
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	278,667	105,280
Change in operating assets and liabilities		
(Increase) decrease in receivables	(1,395,098)	95,715
(Increase) decrease in inventories	(109,999)	(79,001)
(Increase) decrease in other operating assets	(22,809)	203,064
(Increase) decrease in deferred tax assets	(584,615)	(473,311)
Increase (decrease) in trade payables	3,130,428	(44,019)
Increase (decrease) in provisions	197,059	790,109
Increase (decrease) in income tax	(99,746)	792,479
Increase (decrease) in deferred tax liabilities	438,114	-
Net cash inflow from operating activities	13,354,149	11,489,200

(b) Non-cash investing and financial activities

	2014	2013
Capitalisation of estimated future make-good obligations in relation to leasehold premises	1,182,096	-

30. Parent Entity Financial Information

(a) Summary Financial Information

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

	2014	2013
	$	$
Balance Sheet		
Current assets	10,349,045	12,607,481
Total assets	47,005,580	40,897,987
Current liabilities	14,068,364	12,908,100
Total liabilities	27,461,897	15,463,823
Shareholders' equity		
Issued capital	13,183,509	12,609,165
Retained earnings	6,360,174	12,824,999
	19,543,683	25,434,164
Profit or loss for the year	7,856,482	6,228,310
Total comprehensive income	7,856,482	6,228,310

(b) Contingent liabilities of the parent entity

	2014	2013
Bank guarantees	1,557,399	1,105,035

The parent entity did not have any contingent liabilities or financial guarantees as at 30 June 2014 or 30 June 2013 other than bank guarantees.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2014

In the directors' opinion:

(a) the financial statements and notes set out on pages 17 to 44 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 2014 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

17 September 2014

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") and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2014, 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. The Group comprises 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.

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.

KPMG

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the 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 2014 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

KPMG

Chris Allenby
Partner

Sydney

17 September 2014

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