

Pacific Smiles Group Limited (ASX: PSQ)

Appendix 4D

Results for Announcement to the Market

Reporting period: Half year ended 31 December 2016

Previous corresponding period: Half year ended 31 December 2015

Statutory Financial Results	31 Dec 16	31 Dec 15	Movement up/(down)	
	\$'000	\$'000	\$'000	%
Revenue from ordinary activities	45,564	41,632	3,932	9.4%
Profit from ordinary activities after tax attributable to members	5,391	4,901	490	10.0%
Net profit attributable to members	5,391	4,901	490	10.0%
Earnings per share (basic and diluted) - cents per share	3.5	3.2	0.3	10.0%

For further explanation of the statutory figures above refer to the accompanying Interim Report for the half year ended 31 December 2016, which includes the Directors' Report.

The Interim Results Presentation released in conjunction with this Results Announcement provides further analysis of the results for the half year ended 31 December 2016.

Dividends	Amount per security (cps)	Franked amount
<u>Dividends paid</u>		
FY 2016 final dividend - paid 4 October 2016	3.50	100%
<u>Dividends declared</u>		
FY 2017 interim dividend declared	2.20	100%
Record date for determining entitlements to the dividend	15 March 2017	
Date dividend payable	4 April 2017	

The Company does not currently offer a dividend reinvestment plan.

Net Tangible Assets Per Security	31 Dec 16	31 Dec 15	Movement up/(down)	
	Cents	Cents	Cents	%
Net tangible assets per ordinary security	20.84	19.34	1.5	7.8%

Independent Review by Auditor

The financial statements were reviewed by the auditor and the review report is attached as part of the Interim Report.

Joint Ventures, Foreign Entities and Control Gained or Lost Over Entities

Not applicable during the period of the previous corresponding period.

Jane Coleman
Company Secretary
Pacific Smiles Group Limited

Date: 16 February 2017



Pacific Smiles Group Limited
ABN 42 103 087 449

Interim Report

31 December 2016

Pacific Smiles Group Limited
Interim Report
31 December 2016

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Pacific Smiles Group Limited
Directors' Report
31 December 2016

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 during the half year ended 31 December 2016.

Directors

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

Mr Robert Cameron AO
Mr John Gibbs
Dr Alex Abrahams
Mr Ben Gisz
Mr Simon Rutherford
Mr Grant Bourke

Principal Activities

The Group principally operates dental centres at which independent dentists practice and provide clinical treatments and services to patients. Revenues and profits are primarily derived from fees charged to dentists for the provision of these fully serviced dental facilities.

Review of Operations

The Group achieved Net Profit After Tax of \$5.391 million for the half year ended 31 December 2016, an increase of 10.0% over the comparative half year period (2015: \$4.901 million).

Statutory Revenue increased by 9.4% to \$45.564 million, largely in connection with increased Patient Fees generated by dental practitioners based at the Group's Dental Centres. Patient Fees totalled \$73.591 million for the half year, an increase of 9.9%. Growth in Patient Fees, and in turn, growth in revenue reflects growth from existing Dental Centres, with Same Centre Patient Fees growth of 4.4%, the complete half year effect from Dental Centres opened part way through the 2016 financial year and the opening of new Dental Centres during the period.

During the half year ended 31 December 2016 the Group opened four new Dental Centres, taking the total number of centres by period end to 62.

As the scale of the Group's operations and revenues grew during the half year compared with the prior comparative period, so too did earnings before interest, tax, depreciation and amortisation (EBITDA) increasing by 13.8% to \$10.718 million (2015:\$9.418 million) and net profit after tax increasing by 10.0%.

During the half year ended 31 December 2016, the Group's Dental Centre network included four new Dental Centre openings compared to six new Dental Centre openings within the previous half year period. A further two new Centres were under construction at 31 December 2016. The Group's historical experience is that its new centre openings typically incur a range of start-up costs and operating losses in the early phase of operations. The lower number of centre openings this half year had a favourable impact on net profit compared with the previous half year period.

Subsequent to the end of the half year, the Directors declared an interim dividend of 2.2 cents per share in relation to the financial year ending 30 June 2017. The dividend, which totals \$3.344 million, will be paid in April 2017.

Pacific Smiles Group Limited
Directors' Report
31 December 2016

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 4.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument). Pursuant to this instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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



Robert Cameron AO
Chairman

Greenhills

16 February 2017



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 review for the half-year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Chris Allenby

Partner

Sydney

16 February 2017

Pacific Smiles Group Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2016

		Half year ended	
	Note	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Revenue		45,564	41,632
Direct expenses		(2,546)	(2,507)
Gross profit		43,018	39,125
Other income		668	807
Expenses			
Consumable supplies expenses		(3,856)	(3,678)
Employee expenses		(19,059)	(17,433)
Occupancy expenses		(4,919)	(4,470)
Marketing expenses		(823)	(1,002)
Administration and other expenses		(4,311)	(3,931)
Depreciation and amortisation expense		(2,879)	(2,373)
Net finance (costs)/income		(72)	16
Profit before income tax		7,767	7,061
Income tax expense	3	(2,376)	(2,160)
Profit for the period		5,391	4,901
Other comprehensive income		-	-
Total comprehensive income for the period		5,391	4,901
		Cents	Cents
Earnings per share			
Basic earnings per share	7	3.5	3.2
Diluted earnings per share	7	3.5	3.2

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Pacific Smiles Group Limited
Consolidated Balance Sheet
As at 31 December 2016

	Note	31 Dec 2016 \$'000	30 June 2016 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		5,283	6,100
Receivables		1,101	1,335
Current tax receivable		-	17
Inventories		2,616	2,506
Other		296	174
Total Current Assets		9,296	10,132
Non-Current Assets			
Property, plant and equipment		37,095	34,185
Intangible assets		11,442	11,475
Deferred tax assets		4,454	4,235
Total Non-Current Assets		52,991	49,895
Total Assets		62,287	60,027
LIABILITIES			
Current Liabilities			
Payables		10,163	8,554
Borrowings		22	150
Current tax liabilities		377	-
Provisions		3,109	3,206
Total Current Liabilities		13,671	11,910
Non-Current Liabilities			
Deferred tax liabilities		245	255
Provisions		5,259	4,894
Total Non-Current Liabilities		5,504	5,149
Total Liabilities		19,175	17,059
Net Assets		43,112	42,968
EQUITY			
Contributed equity	6	35,053	35,053
Reserves		297	224
Retained profits		7,762	7,691
Total Equity		43,112	42,968

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Pacific Smiles Group Limited
Consolidated Statement of Changes in Equity
For the half year ended 31 December 2016

	Note	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Consolidated Balance at 1 July 2015		35,053	67	5,889	41,009
Total comprehensive income for the half year		-	-	4,901	4,901
Transactions with owners of the Company, recognised directly in equity:					
Dividends provided for or paid	4(a)	-	-	(5,061)	(5,061)
Share based payments – performance rights	8	-	58	-	58
		-	58	(5,061)	(5,003)
Consolidated Balance at 31 December 2015		35,053	125	5,729	40,907
Consolidated Balance at 1 July 2016		35,053	224	7,691	42,968
Total comprehensive income for the half year		-	-	5,391	5,391
Transactions with owners of the Company, recognised directly in equity:					
Dividends provided for or paid	4(a)	-	-	(5,320)	(5,320)
Share based payments – performance rights	8	-	73	-	73
		-	73	(5,320)	(5,247)
Consolidated Balance at 31 December 2016		35,053	297	7,762	43,112

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

Pacific Smiles Group Limited
Consolidated Statement of Cash Flows
For the half year ended 31 December 2016

	Half year ended	
Note	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	51,044	46,173
Payments to suppliers and employees	(38,452)	(37,802)
	12,592	8,371
Interest received	28	122
Interest and finance costs paid	(97)	(105)
Income taxes paid	(2,211)	(2,192)
Net cash inflow from operating activities	10,312	6,196
Cash flows from investing activities		
Payments for property, plant and equipment	(5,720)	(7,168)
Proceeds from disposal of property, plant and equipment	39	12
Net cash outflow from investing activities	(5,681)	(7,156)
Cash flows from financing activities		
Repayment of borrowings	(128)	(120)
Dividends paid	(5,320)	(5,061)
Net cash outflow from financing activities	(5,448)	(5,181)
Net decrease in cash and cash equivalents	(817)	(6,141)
Cash and cash equivalents at 1 July	6,100	15,560
Cash and cash equivalents as at 31 December	5,283	9,419

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

Pacific Smiles Group Limited
Notes to the Condensed Consolidated Financial Statements
31 December 2016

1. Summary of Significant Accounting Policies

(a) Statement of compliance

This condensed consolidated interim financial report for the half year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Pacific Smiles Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

(b) Basis of preparation

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. Cost is based on the fair value of consideration given in exchange for assets.

All amounts are presented in Australian dollars, which is the Group's functional currency.

The accounting policies adopted in preparation of the half year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2016. If applicable, additional accounting policies are presented for new types of transactions that have occurred since the end of the previous financial year.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument). Pursuant to this instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(c) Financial risk management

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 \$4,375,195. 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 timeframes required.

Pacific Smiles Group Limited
Notes to the Condensed Consolidated Financial Statements
31 December 2016

2. 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.

3. Income Tax Expense

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate applicable for the half year to 31 December 2016 and the half year to 31 December 2015 was 30%.

4. Dividends

(a) Dividends paid during the half year:

Final dividend for the year ended 30 June 2016 of 3.50 cents
(2015 – 3.33 cents) per share, fully franked

	Half year ended	
	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
	5,320	5,061
	5,320	5,061

(b) Dividends declared but not recognised at the end of the half year:

Since the end of the half year, the Directors have declared an interim dividend of 2.20 cents (2015 – 2.00 cents) per share, fully franked.

	3,344	3,040
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The interim dividend declared is expected to be paid in April 2017.

Pacific Smiles Group Limited
Notes to the Condensed Consolidated Financial Statements
31 December 2016

	31 Dec 2016	30 Jun 2016
	\$'000	\$'000
5. Financing Arrangements		
Access was available at balance date to the following lines of credit:		
Total bank borrowings facilities	12,822	12,950
Used at balance date	(2,379)	(2,412)
Unused at balance date	10,443	10,538

The facilities used at balance date comprise \$22,000 of bank loans drawn and \$2,357,000 of bank guarantees securing operating leases for premises.

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

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.

Fair Value

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

	31 Dec 2016	30 Jun 2016
	\$'000	\$'000
6. Contributed Equity		
Ordinary shares – fully paid	35,053	35,053
	31 Dec 2016	30 Jun 2016
Number of ordinary shares - fully paid	151,993,395	151,993,395

Pacific Smiles Group Limited
Notes to the Condensed Consolidated Financial Statements
31 December 2016

	Half year ended	
	31 Dec 2016	31 Dec 2015
	\$'000	\$'000
7. Earnings Per Share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	5,391	4,901
	Shares	Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	151,993,395	151,993,395
	Cents	Cents
Basic earnings per share	3.5	3.2
Diluted earnings per share	3.5	3.2

Information Concerning the Classification of Shares

Performance rights granted to employees under the Company's long term incentive plan are considered to be potential ordinary shares and are only included in the determination of diluted earnings per share to the extent to which they are dilutive. The total performance rights granted are not included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and conditions were not satisfied at 31 December 2016. These performance rights could potentially dilute basic earnings per share in the future.

8. Share Based Payments

(a) Long Term Incentive Plan Overview

The Company has a long term incentive (LTI) plan to assist in the motivation, retention and reward of senior management. The LTI plan is designed to align the interests of senior management more closely with the interests of shareholders by providing an opportunity for senior management to receive an equity interest in the Company through the granting of performance rights.

(b) Fair Value of Performance Rights Granted

The fair values at grant dates have been determined via a pricing model which use a Monte Carlo simulation, and takes into account the term of the right, the share price at grant date, exercise price, expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the right.

Date Granted	Balance at 1 July 2016	Granted	Forfeited, lapsed or vested	Balance at 31 Dec 2016
21 November 2014	2,137,500	-	-	2,137,500
30 November 2015	2,175,000	-	(450,000)	1,725,000
30 November 2016	-	2,200,000	-	2,200,000
Total	<u>4,312,500</u>	<u>2,200,000</u>	<u>(450,000)</u>	<u>6,062,500</u>

Pacific Smiles Group Limited
Notes to the Condensed Consolidated Financial Statements
31 December 2016

9. Related Party Transactions

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

Key management personnel or their related parties held shares in the Company during the half years ended 31 December 2016 and 2015, 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 the half years ended 31 December 2016 and 2015 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the Company during the half years ended 31 December 2016 and 2015 on normal commercial terms and conditions.

88 Park Avenue Pty Limited ATF the Key Health Unit Trust, an entity related to Alex Abrahams, leased business premises to the Company during the half years ended 31 December 2016 and 2015 on normal commercial terms and conditions.

The Company received fees for the provision of services to Alex Abrahams during the half years ended 31 December 2016 and 2015 under normal terms and conditions of dental service and facility agreements.

The Company procured marketing services during the half year ended 31 December 2015 from Direct Impact Media, a business which is part of Domino's Pizza Enterprises Limited, an entity related to Grant Bourke. Fees were negotiated at arms-length and were based on normal commercial terms and conditions.

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

	Half year ended	
	31 Dec 2016	31 Dec 2015
	\$	\$
Dividends paid	2,419,601	2,352,438
Revenues from rendering services	81,144	106,570
Rental expenses	609,396	620,490
Marketing expenses	-	3,391
Employee expenses	-	11,377

Pacific Smiles Group Limited

Directors' Declaration

31 December 2016

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 13 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date; 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.

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



Robert Cameron AO
Chairman

Greenhills

16 February 2017



Independent Auditor's Review Report

To the members of Pacific Smiles Group Limited

Report on the Interim Financial Report

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the **Interim Financial Report** of Pacific Smiles Group Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the **Group's** financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- ii) complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

We have reviewed the accompanying Interim Financial Report of Pacific Smiles Group Limited.

The **Interim Financial Report** comprises:

- the consolidated statement of financial position as at 31 December 2016
- consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Pacific Smiles Group Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim 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 Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Pacific Smiles Group Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of half-year consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

KPMG

Chris Allenby

Partner

Sydney

16 February 2017

Pacific Smiles Group Limited Corporate Directory

Principal Registered Office

Level 1, 6 Molly Morgan Drive
Greenhills NSW 2323

T: 02 4930 2000

F: 02 4930 2099

W: www.pacificsmilesgroup.com.au

Directors

Robert Cameron AO
Non-executive Chairman

John Gibbs
Managing Director and Chief Executive Officer

Dr Alex Abrahams
Executive Director

Grant Bourke
Non-executive Director

Ben Gisz
Non-executive Director

Simon Rutherford
Non-executive Director

Company Secretary

Jane Coleman

Auditor

KPMG
Tower Three, 300 Barangaroo Avenue
Sydney NSW 2000

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14
Sydney South NSW 1235
T: 1300 554 474
F: 02 9287 0303
E: registrars@linkmarketservices.com.au

Stock Exchange Listing

Pacific Smiles Group Limited shares are listed on the Australian Security Exchange under the code "PSQ".