



# ANNUAL REPORT 2019





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## 2019 HIGHLIGHTS

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**\$187.4m**

Patient Fees –  
**Up 13.9%**

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**89**

Dental Centres –  
**Up 11.3%**

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**8.6%**

Same Centre Growth –  
**Up 350bps**

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**\$22.8m**

Underlying EBITDA –  
**Up 6.0%**

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**5.8cps**

Ordinary Dividends –  
**Down 4.9%**

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**\$8.9m**

Underlying NPAT –  
**Down 3.5%**

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# Our True Purpose

To improve the oral health of  
ALL Australians to world's best.

## CHAIRMAN'S REVIEW

It has been another year of solid growth with the roll-out of 10 new centres taking the total to 89. Over 770,000 patient appointments were provided by the respected dentists who choose to practice from the centres provided by Pacific Smiles Group.

In FY2019 Phil McKenzie was appointed as Chief Executive Officer and Managing Director, succeeding John Gibbs. The Board and myself would like to thank John for his leadership across 14 years with Pacific Smiles Group. His integrity and hard work have made this one of the most successful dental roll-out models in the world.

Phil McKenzie's experience in allied healthcare and his strong consumer background has already lent itself well to the Pacific Smiles "play to win" culture. Phil's drive for results through purposeful empowerment and team support delivered record patient fees in June 2019. This strong finish to the year helped achieve a year-on-year patient fee increase of 13.9%.

The Board was also bolstered with the appointment of Non-Executive Director Hilton Brett. Hilton brings deep operational experience building teams, systems and processes across large multi-site businesses including Accent Group.



*We are a business  
founded  
by dentists for  
dentists*

In a market with such opportunity we must also acknowledge the complexities of competition with some of our competitors rushing for growth at the risk of damaging consumers' expectations and the integrity of the dental industry. More than ever we need to lead with our point of differentiation. We are a business founded by dentists for dentists. Our proven greenfield roll-out model will see dentists continue to choose Pacific Smiles to support their practices and the healthcare we provide patients is demonstrated by an unwavering net promoter score of 86% and above.

Supporting the clinical confidence of dentists and patients is the roll-out of Quality Innovation Performance (QIP) Accreditation with the Australian Dental Association. QIP is independent recognition that our centres not only meet governing industry standards but also commit to best practice and continuous improvement.

I am also pleased to announce our continued partnership with the Australian Dental Health Association helping to improve the oral health of disadvantaged Australians. In the past three years the Association has co-ordinated \$3,000,000 worth of life changing treatment, positively impacting the quality of life for many people.

I would like to thank the dentists who choose to practice from our centres and our patients for their continued patronage. Thanks also to the Pacific Smiles support team, my fellow Directors and the Executive Leadership Team for their commitment and dedication to driving a sustainable and successful business.

The last financial year's work in quality and innovation will see Pacific Smiles show continued and successful growth in the coming year. A final dividend of 3.5 cents per share has been declared in relation to FY2019 and this will be paid in October 2019. Total dividends in relation to FY2019 represented 98.8% of underlying net profit after tax.

Thank you to our shareholders for your continued support.



**Robert Cameron AO**  
Chairman







## Assists graduates transition from University to private practice

The Graduate Program is well structured, which is perfect for me coming straight out of University. I have a mentor to support me, show me the ropes, introduce me to more people and assist me in achieving high clinical standards. Everyone you work with knows you are a new graduate and understands you need the extra support. All the staff have been so welcoming and I've found the program to be really rewarding.

**Joshua Massad**

Dentist – nib Dental Care Centre, Glendale



## MANAGING DIRECTOR'S REVIEW

This start to my tenure with Pacific Smiles has consolidated my belief of what this business is capable of achieving. Both the Board and the Executive Team have been incredibly supportive during this leadership transition. I also acknowledge the dedication of the dentists, centre and support teams in building our momentum. My family and I have been warmly welcomed to life in the Hunter Valley in the Pacific Smiles Group heartland. I am honoured to lead this Australian success story into its next phase of growth.

I would also like to thank Mr John Gibbs in assisting in my transition to CEO/MD. His passion and drive took the Pacific Smiles Group from 3 centres to over 80 in 14 years.

### Operational Overview and Insights

Pacific Smiles Group opened 10 new centres in FY2019 and closed out June with our highest patient fees month of all time. We continue to grow in operational efficiency, targeted patient marketing, and solid support of the dentists who choose to

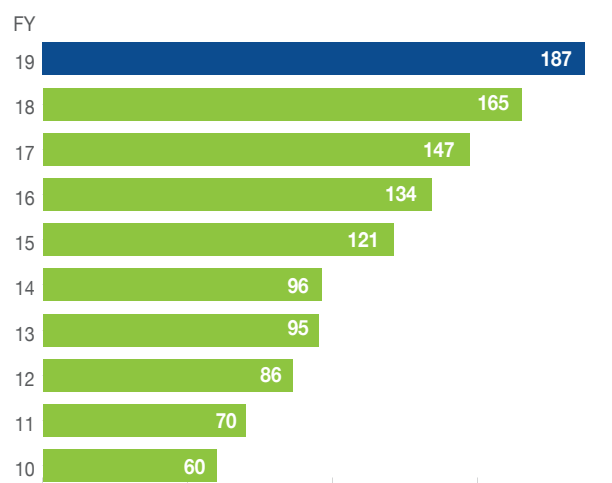
practice with us, providing the highest standards of clinical care to patients. We are a proud dental services organisation that is focused on our true purpose – to improve the oral health of all Australians to world's best.

Pacific Smiles continues to achieve as it grows; enabling successful dentists, cared for patients and positively engaged employees, all ensuring financial success.

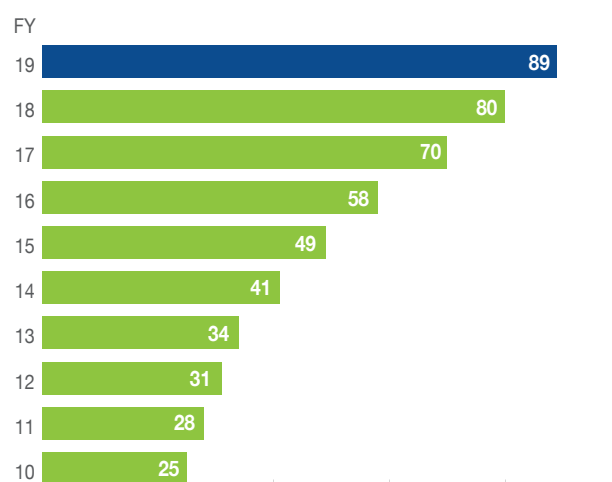
Prioritising the service and support of our dentists, so they can do their best work, is the common thread that entwines our dental services organisation. It links dentists, patients and employees together. The dentists that choose us are highly engaged. I'm pleased to report a 12-month rolling retention rate of 90%. Combined with our patient Net Promoter Score of greater than 80%, we have the foundation in place to grow this business effectively and efficiently, improving the oral health of all Australians.



### Patient Fees \$m



### Number of Centres





With efficiency in mind over the past 12 months, we have focused on infrastructure cost reductions delivering savings to our operational cost base. In our centres we have taken the same focus to matching patient demand with dentist availability and have increased chair utilisation by 12%. Commissioning 43 new chairs across the network will see Pacific Smiles capitalise on these changes, reducing the time to profitability for our new centres.

As we continue to live our true purpose, we do so knowing we have laid the foundations for growth that will be both sustainable and industry leading. Cementing the Pacific Smiles Group way across an expanding network will see dentists and patients continue to choose and trust us. We will maintain a dominant growth momentum in FY2020.

### Statutory Results

The Group achieved statutory net profit after tax of \$8.6 million, an increase of 29.8% from \$6.6 million in 2018. The statutory results in 2018 were impacted by the one-off restructuring and impairment costs for the Parramatta

dental centre and one-off costs associated with dental chair write-offs. These one-off items make year-on-year performance comparisons more difficult. As such, the Operating and Financial Review discussions will focus on the underlying results for 2019 and the comparative period.

### Underlying and Statutory Results

For the financial year the underlying EBITDA increased by 6.0% to \$22.8 million compared with 2018. Underlying Net Profit After Tax decreased by 3.5% to \$8.9 million compared to \$9.3 million for the prior year due to the roll-out strategy of new centres increasing depreciation costs by 20%.

Group revenue was \$122.2 million, up by 16.9% over the previous financial year. This revenue consists mainly of the service fees charged to the dentists who practice from our centres. Pacific Smiles provides dentists with fully serviced and equipped facilities including support staff, materials, marketing and administrative services. This enables dentists to focus on their patients and offering exceptional patient care.

### Group Financial Performance

\$ millions	Underlying 2019	Underlying 2018	Change
<b>Revenue</b>	<b>122.2</b>	104.5	16.9%
Gross profit	<b>110.3</b>	96.5	14.4%
EBITDA	<b>22.8</b>	21.5	6.0%
EBIT	<b>13.4</b>	13.7	(2.2%)
Net profit after tax	<b>8.9</b>	9.3	(3.5%)
<b>Operating metrics</b>			
Number of Dental Centres	<b>89</b>	80	11.3%
Commissioned Dental Chairs	<b>351</b>	308	14.0%
Patient Fees (\$m)	<b>187.4</b>	164.5	13.9%
Same Centre Patient Fees growth	<b>8.6%</b>	5.1%	
<b>Financial metrics</b>			
Earnings per share (cents)	<b>5.9</b>	6.1	(3.5%)
EBITDA margin	<b>18.7%</b>	20.6%	
EBITDA to Patient Fees margin	<b>12.2%</b>	13.1%	
EBIT margin	<b>11.0%</b>	13.1%	

### Adjustments to the statutory income statement

	2019 \$ million	2018 \$ million
Statutory net profit after tax	<b>8.6</b>	6.6
Severance and HR consultancy expense	<b>0.6</b>	0.2
Major dental centre restructure	-	2.4
Business acquisition costs	-	0.1
Asset write-off	-	0.4
Executive LTI plan expense/(write-back)	<b>(0.1)</b>	0.1
Income tax effect of adjustments	<b>(0.2)</b>	(0.4)
Underlying statutory net profit after tax	<b>8.9</b>	9.3

## MANAGING DIRECTOR'S REVIEW

Revenue growth is achieved through the combination of our existing dental centres and our new dental centres opened in recent years. Patient Fees increased 13.9% over the previous year to \$187.4 million due to same centre fee growth of 8.6%, plus the full-year effect from new centres opened in 2018 and part-year impact of new centre openings in 2019. The 2019 new openings have performed in line with expectations and like the centres opened in prior years, will be strong contributors to long-term growth and profit margins over time.

The Group's underlying EBITDA to Patient Fees margin declined in 2019 to 12.2%. The year saw strong top line growth across our network of centres, which was largely driven by an increase in the volume of appointments. The fee per appointment declined during the year, along with higher than expected telecommunications costs, both impacting the EBITDA to Patient Fees margin. The new Pacific Smiles dental centres are typically not profitable in the first year of operation. This means the accelerated dental centre roll-out strategy also impacts Group profitability, and therefore margins, in the short term. Corporate costs increased in 2019 due to investment in new roles and practitioner development to support future growth.

### Financial Position

In line with Pacific Smiles long term growth strategy, total capital expenditure for 2019 was \$16.6 million. This included \$9.3 million for new dental centres, \$1.8 million in upgrades for existing centres, \$1.4m for the commissioning of 23 additional surgeries, along with equipment replacements in existing centres and additional IT infrastructure.

Borrowings increased by \$5.0 million to \$17.0 million in the current year to support the expansion of the dental centre network and upgrades of existing facilities, equipment and systems.

Ordinary dividends of \$9.3 million were paid to shareholders in 2019, compared with \$9.1 million in the prior year. A final dividend of 3.5 cents per share was declared and will be payable in October 2019. The dividend payout ratio decreased to 98.8% of underlying Net Profit After Tax (2018 was 100.2% of underlying Net Profit After Tax).

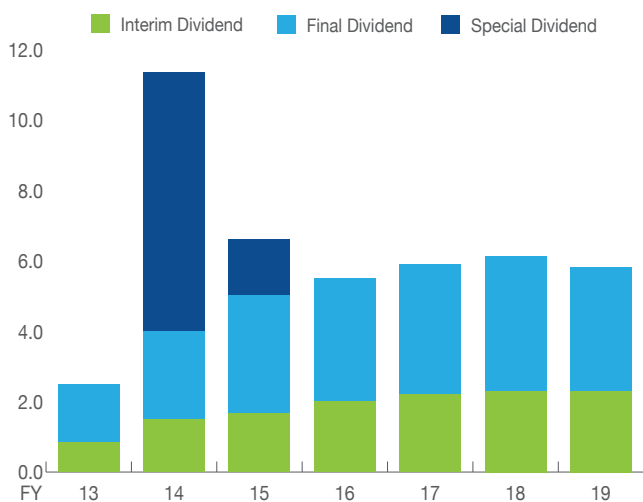
### The Market

The market for dental services in Australia is approximately \$10 billion – \$11 billion per annum and continues to grow steadily over the long term.

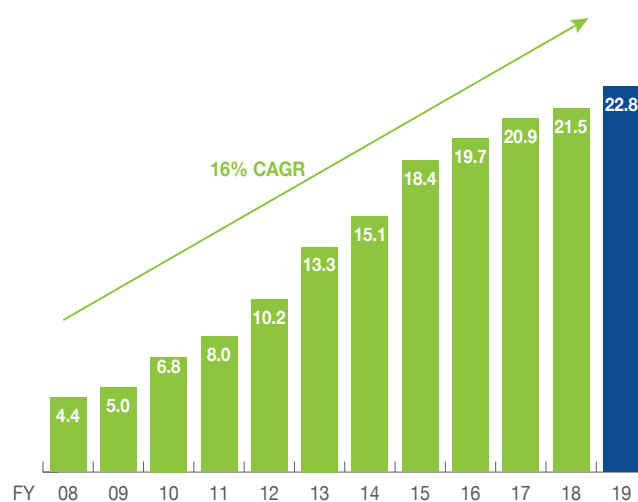
Funding for dental services is predominantly from individuals, however private health insurance participation supports dental attendances and spending through co-payment arrangements. APRA's latest dental service data reported that more than 42 million dental services were funded by health funds in the 12 months ending March 2019, with health funds paying more than \$2.7 billion per annum in dental benefits.

The proportions of total expenditure on dental services by health funds and by government are trending in opposite directions. Health funds have increased their proportion from 14.0% in 2009-10 to 18.7% in 2016-17, according to Australian Institute of Health and Welfare. The proportion by the Australian Government has decreased from 16.3% in 2009-10 to 14.9% in 2016-17, with expenditure by State and Local Governments maintained at 8.2% in 2009-10 and in 2016-17. The Child Dental Benefit Schedule and some partnership arrangements with the States and Territories, continue to be the main funding programs of the Commonwealth government, whereas the various States and Territories operate systems to overflow patients from public clinics to the private sector.

### Dividends



### EBITDA (underlying) \$m





The industry continues to be highly fragmented with the majority of providers operating from small scale single locations, although corporate activity in the sector is increasing. There are more branded networks, including some owned and operated by private health insurance organisations, who market to their own members to encourage attendance.

The other major feature of the market is the continued growth in the number of registered dentists. The increase in recent years has been the combined impact of overseas trained dentists and local graduates. The number of registered dentists was 17,659 in March 2019, up 5.8% on the prior year. The demographic shift in the dental workforce continues with females making up 52% of registered dentists, increasing 1% on the year earlier.

## Risk Management

Pacific Smiles is subject to various risk factors, both business specific and of a general nature. Pacific Smiles has not identified any specific, material exposure to its economic, social or environmental sustainability over the long term.

Pacific Smiles has established policies and structures for oversight and management of material business risks. Further information regarding how Pacific Smiles recognises and manages risks can be sourced from our Corporate Governance Statement and related governance policies on our website. The following risk areas and mitigating factors have been identified by Pacific Smiles:

Risk Area	Mitigating Factors
<i>General economic conditions</i> – downturns in general economic conditions could adversely impact demand for dental services, given the discretionary nature of some of those services.	Dentists at Pacific Smiles' dental centres provide a range of treatments to patients in a number of different geographic zones throughout the eastern states of Australia.
<i>Reduction in private health insurance coverage</i> – changes to the nature or extent of private health insurance coverage could impact upon the attendance frequency of patients.	Patients at Pacific Smiles' dental centres are a mix of privately insured and non-insured individuals and there are various payment plans and treatment payment options available.
<i>Competition-induced fee pressure</i> – an increase in the number of practicing dentists could increase competition for patients and the degree to which dentists compete on the basis of fee levels.	Pacific Smiles' dental centres are usually differentiated from other local providers and compete on the basis of convenience, value, access and overall patient experience.
<i>Termination of Service and Facility Agreements by dentists</i> under the Service and Facility Agreements between Pacific Smiles and dentists, the dentists may terminate without cause, on a few months' notice.	Pacific Smiles views the dentists as a key customer group and focuses resources accordingly.
<i>Reputational damage</i> – actions by employees or dentists could give rise to reputational damage to Pacific Smiles and its brands.	There is a close focus on internal procedures and clinical governance by management and the Board. This has been further enhanced by the internal and external appointments to the Dental Advisory Committee.
<i>Supply of skilled dentists</i> – should the availability of appropriately skilled and aligned dentists become restricted, then growth and expansion of Pacific Smiles could be slowed, and/or the cost of dentists could escalate.	The focus on training and development of dentists, including a structured mentoring program for new graduate dentists, is building a platform of appropriately skilled and aligned dentists for the long term.



**Phil McKenzie**  
CEO and Managing Director

## DENTAL HEALTH EDUCATION

**160 Preschools/  
Childcare centres visited**

**9,300 children seen  
across the Hunter  
this year**

I've been with Pacific Smiles Dental for 21 years, visiting preschools and daycare centres to teach children the importance of looking after their dental health. I really enjoy being out in the community talking to children about the importance of looking after their teeth, as well as introducing them to a lifelong habit of visiting the Dentist.

**Margo Biddles**  
Dental Health Educator







## DENTAL CENTRE LOCATIONS



\* New centres in FY2019.

<sup>1</sup> Warilla merged with Shellharbour





*Cementing the Pacific Smiles Group way across an expanding network will see dentists and patients continue to choose and trust us.*



## DELIVERING A LOYAL PATIENT EXPERIENCE

As a growing family, Pacific Smiles Dental caters to us perfectly. Online bookings and weekend appointments make things easy, and we've always had great experiences with the Dentists we've seen. Over the past few years we've started coming back to see one particular Dentist – she always greets us with a smile, takes her time and talks us through what she is doing. It gives us peace of mind that our whole family will be looked after well into the future.

### **The Hoover Family**

Patients of Pacific Smiles Dental, Greenhills









## CORPORATE GOVERNANCE

For the year ended 30 June 2019

Pacific Smiles Group Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. Pacific Smiles Group Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2019 corporate governance statement is dated as at 30 June 2019 and reflects the corporate governance practices in place for the 2019 financial year. The 2019 corporate governance statement was approved by the Board on 21 August 2019. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at [www.pacificsmilesgroup.com.au/Investors/CorporateGovernance](http://www.pacificsmilesgroup.com.au/Investors/CorporateGovernance).

## DIRECTORS' REPORT

For the year ended 30 June 2019

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 2019.

### Directors

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

Mr Robert Cameron AO

Mr Phil McKenzie (appointed 29 October 2018)

Mr John Gibbs (resigned 28 October 2018)

Dr Alex Abrahams

Mr Hilton Brett (appointed 24 August 2018)

Mr Ben Gisz

Ms Zita Peach

Mr Simon Rutherford

### Principal Activities

Pacific Smiles 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

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

### Dividends

Dividends paid to members during the financial year were as follows:

	2019 \$'000	2018 \$'000
Interim dividend for the year ended 30 June 2019 of 2.30 cents (2018 – 2.30 cents) per share, fully franked	3,496	3,496
Final dividend for the year ended 30 June 2018 of 3.80 cents (2017 – 3.70 cents) per share, fully franked	5,776	5,624
	<b>9,272</b>	9,120

Subsequent to the end of the financial year, the Directors declared a final dividend of 3.50 cents per share in relation to the financial year ended 30 June 2019. The dividend, which totals \$5.320 million, will be paid on 4 October 2019.



## DIRECTORS' REPORT

For the year ended 30 June 2019



### ROBERT CAMERON AO

HonDEng UNSW, BE Min (Hons), MBA, Grad. Dip. Geoscience, FAICD, FAIM, FAusIMM  
**Non-Executive Chairman**

**Appointed:** 2003

Member of the Nomination and Remuneration Committee

#### **Background and experience:**

Bob is the founder of Centennial Coal Company Limited and was its Managing Director and Chief Executive Officer until 2011 and Chairman from then until March 2017. Bob has held past roles as Chairman of the Australian Coal Association Ltd, ACA Low Emissions Technology Ltd, the NSW Minerals Council, Maitland Private Hospital Board and Hunter Valley Grammar School. He is currently Chairman of County International Limited and Hunter Valley Training Company. He is a Trustee of the University of NSW Foundation and a Member of the State Library Council.



### PHIL MCKENZIE

B.Bus (Auckland Uni)  
**Chief Executive Officer and Managing Director**

**Appointed:** October 2018

#### **Background and experience:**

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



### DR ALEX ABRAHAMS

BDS (Syd Uni) GAICD  
**Founder and Non-Executive Director**

**Appointed:** July 2017

Member of the Audit and Risk Management Committee from April 2019  
 Executive Director 2002 to June 2017

#### **Background and experience:**

Alex has overseen the development of the Company from a group of partnerships to an incorporated entity in January 2003. Alex is a dentist with a special interest in dental implants. Alex is a member of the Australian Dental Association (ADA) and is on both the ADA (NSW) Advocacy committee, and the Australian Dental Health Foundation Advisory committee. He is a Director of Group Homes Australia Pty Limited and a Director of the Trustees of Canyon Property Trust and Key Health Unit Trust.



### HILTON BRETT

BCom PGDA  
**Non-Executive Director**

**Appointed:** August 2018

Member of the Audit and Risk Management Committee from August 2018 until April 2019

#### **Background and experience:**

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



### **BEN GISZ**

B.Comm., CA, FFin, CFA

**Non-Executive Director**

**Appointed:** 2012

Chairman of the Nomination and Remuneration Committee

Member of the Audit and Risk Management Committee

**Background and experience:**

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

Ben is a Non-Executive Director of specialty retailer kikki.K Holdings Pty Ltd.



### **ZITA PEACH**

BSc, FAICD, FAMI

**Non-Executive Director**

**Appointed:** August 2017

Member of the Nomination and Remuneration Committee

**Background and experience:**

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



### **SIMON RUTHERFORD**

B. Comm., CA, FAICD

**Non-Executive Director**

**Appointed:** 2003

Chairman of the Audit and Risk Management Committee

**Background and experience:**

Simon is a chartered accountant and partner with PKF working in business advisory services. He is a Director and Responsible Manager with PKF 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 Haemokinesis Pty Limited and 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.

## DIRECTORS' REPORT

For the year ended 30 June 2019

### Company Secretaries

Mark Licciardo and Belinda Cleminson of Mertons Corporate Services (Mertons) are joint company secretaries. Mark is the founder of Mertons and a Director of various Australian Stock Exchange (ASX) listed public and private companies. Belinda has extensive experience as a Company Secretary of Australian listed and unlisted companies including providing support to ASX 200 clients.

### Meetings of Directors

The number of meetings of the Company's Board of Directors held during the year ended 30 June 2019, and the attendances by each Director were:

	Meetings of Committees					
	Full Meetings of Directors		Audit and Risk Management		Nomination and Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Robert Cameron AO	12	12	–	–	2	2
Phil McKenzie	7	7	–	–	–	–
John Gibbs	4	4	–	–	–	–
Alex Abrahams	12	12	1	1	–	–
Hilton Brett	9	9	2	2	–	–
Ben Gisz	12	12	4	4	2	2
Zita Peach	12	12	–	–	2	2
Simon Rutherford	12	12	4	4	–	–

– Not a member of the relevant committee.

### Matters Subsequent to the End of the Financial Year

Other than the declaration of a final dividend subsequent to the end of the financial year, no other matter or circumstance has arisen since 30 June 2019 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.

### Likely Developments and Expected Results of Operations

The Group will continue to pursue opportunities to enhance the growth and prosperity of its business. Refer to the Operating and Financial Review accompanying this report for further detail. Further information on likely developments in the operations of the Group and the expected results of operations has not been included in this annual financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

### 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 the Directors and officers of the Group against liability incurred as such a Director or officer, other than conduct involving a willful breach of duty in relation to the Group, to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. No such insurance contracts entered into by the Group apply to insure auditors of the Group.



## Remuneration Report (Audited)

This Directors' 2019 Remuneration Report sets out remuneration information for Pacific Smiles Group Limited's non-executive directors, executive directors and other key management personnel for the year ended 30 June 2019.

The Remuneration Report is set out under the following headings:

- (a) Key management personnel disclosed in this report
- (b) Remuneration governance
- (c) Executive remuneration policy and framework
- (d) Relationship between remuneration and Pacific Smiles Group's performance
- (e) Non-executive director remuneration policy
- (f) Details of remuneration
- (g) Employment contracts
- (h) Details of share-based compensation
- (i) Equity instruments held by key management personnel
- (j) Key management personnel transactions

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

### (a) Key management personnel disclosed in this report

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 Directors and executives have been identified as having the greatest authority for the strategic direction and management of the Group.

#### Non-Executive Directors

Robert Cameron AO	Non-Executive Chairman
Dr Alex Abrahams	Non-Executive Director
Hilton Brett	Non-Executive Director (appointed 24 August 2018)
Ben Gisz	Non-Executive Director
Zita Peach	Non-Executive Director
Simon Rutherford	Non-Executive Director

#### Executive Directors

Phil McKenzie	Chief Executive Officer/Managing Director (appointed 29 October 2018)
John Gibbs	Chief Executive Officer/Managing Director (resigned 28 October 2018)

#### Other Executives

Allanna Ryan	Chief Financial Officer
Paul Robertson	Chief Operating Officer
Dr Alison Hughes	Principal Dental Officer
Emma McKenny	Executive Manager – People and Culture
Ciara Rocks	Chief Marketing Officer (appointed 11 March 2019)
Nadia Henry	Chief Marketing Officer (resigned 2 January 2019)
David Williams	Chief Information Officer (resigned 17 December 2018)

Where relevant, executive directors and other executives may hereafter be referred to collectively as executives within this remuneration report.

## DIRECTORS' REPORT

For the year ended 30 June 2019

### (b) Remuneration governance

The Nomination and Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework;
- operation of the incentive plans which apply to the senior management team, including key performance indicators and performance hurdles;
- remuneration packages for the chief executive officer, executive directors and senior management; and
- remuneration arrangements for non-executive directors.

The Committee's objective is to ensure that remuneration policies and structures:

- are fair and competitive;
- are aligned with the long-term interests of the Group;
- attract and reward; and
- retain the best people.

The Nomination and Remuneration Committee Charter, included on the Company's website at [www.pacificsmilesgroup.com.au](http://www.pacificsmilesgroup.com.au), provides further information on the role of this committee.

### (c) Executive remuneration policy and framework

In determining executive remuneration, the Board aims to ensure that remuneration practices are:

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

The executive remuneration framework has three components:

- base salary and benefits, including superannuation;
- short-term performance incentive ("STI") plan; and
- a long-term equity incentive ("LTI") plan.

#### Base salary and benefits

Base salaries are reviewed and benchmarked annually using the National Salary Survey published by the Australian Institute of Managers and Leaders, or upon any substantial changes to positions to ensure that the base pay is set to reflect the market for a comparable role. There are no guaranteed pay increases included in any key management personnel contracts. Base salary includes any elected salary sacrifice arrangements as individually nominated.

Base salary is inclusive of required superannuation contributions.

#### Short-term performance incentives

Executives have the opportunity to earn an annual short-term incentive (STI) linked to the achievement of performance hurdles. The actual level of STI paid to each executive is determined at the end of the financial year based on the Group's financial performance and non-financial key performance indicators (KPIs). Financial performance is assessed based on Group underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) meeting or exceeding Board approved targets. Non-financial KPIs are group KPIs, rather than individual KPIs, and relate to Net Promoter Score (NPS) for patients, dentists and employees for the Group exceeding specific NPS targets. Targets are reviewed annually.

The executive STI plan performance criteria are summarised below:

	% of Base Salary	
	Chief Executive Officer	Other Executive Managers
Underlying EBITDA targets	Up to 24.0%	Up to 16.8%
Non-financial performance metrics	Up to 10.0%	Up to 7.0%
<b>Maximum STI for full achievement of targets</b>	<b>Up to 34.0%</b>	<b>Up to 23.8%</b>
Exceptional performance bonus for over-achievement of underlying EBITDA	Up to 16.0%	Up to 11.2%
<b>Total maximum STI</b>	<b>Up to 50.0%</b>	<b>Up to 35.0%</b>

Ongoing participation by executives in the STI plan is at the discretion of the Board. With reference to recommendations from the Nomination and Remuneration Committee, the Board will approve all executive STI payments, and may use its discretion to adjust STI remuneration up or down, to prevent any inappropriate reward outcomes.

The STI amounts are paid in cash, and are those earned during the financial year and provided for in the annual financial statements. STI cash bonuses are generally payable in September following the end of the financial year, and once the financial results of the year have been subject to independent external audit.

### Long-term equity incentives

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

Performance rights have been issued to the Chief Executive Officer and selected senior managers, at the absolute discretion of the Board, pursuant to the LTI plan in financial years from 2015 to 2019.

Vesting of the performance rights on issue for the years 2018, 2017, 2016 and 2015 are subject to:

- satisfaction of earnings per share (EPS) performance hurdles for a four-year performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an EPS compound annual growth rate (CAGR) of 15.0% per annum or less to 100% vesting for an EPS CAGR of 25.0% per annum; and
- the participant remaining employed by Pacific Smiles Group (or its subsidiaries) over a four-year period through to the vesting date, subject to certain “good leaver” exemptions.

Vesting of the performance rights on issue for the year 2019 are subject to:

- satisfaction of earnings per share (EPS) performance hurdles for a four-year performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an EPS compound annual growth rate (CAGR) of 10.0% per annum or less to 100% vesting for an EPS CAGR of 25.0% per annum; and
- the participant remaining employed by Pacific Smiles Group (or its subsidiaries) over a four-year period through to the vesting date, subject to certain “good leaver” exemptions.

Performance rights that do not vest on the relevant vesting date will lapse. Performance rights will also lapse if total shareholder return (TSR) does not reach a minimum threshold per annum over the relevant performance period.

In the event of serious misconduct or a material misstatement in the Group’s financial statements, the Board may determine that certain performance-based remuneration (including STIs and/or LTIs) should not have been paid and may claw back performance-based remuneration paid in the preceding three financial years.



## DIRECTORS' REPORT

For the year ended 30 June 2019

### (d) Relationship between remuneration and Pacific Smiles Group's performance

The following table shows key performance indicators for the Group over the last five years.

	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000
Revenue	<b>122,156</b>	104,528	91,471	83,337	74,898
EBITDA (statutory)	<b>22,300</b>	18,439	20,552	19,306	16,409
Net profit after tax (statutory)	<b>8,573</b>	6,604	10,037	9,903	8,360
Dividends per share – ordinary (cps)	<b>5.8</b>	6.1	5.9	5.5	5.0
Dividends per share – special (cps)	–	–	–	–	1.6
Earnings per share (cents)	<b>5.6</b>	4.3	6.6	6.5	5.7
Increase/(decrease) in share price (\$)	<b>(0.40)</b>	(0.24)	(0.28)	(0.26)	–

### (e) Non-executive director remuneration policy

Non-executive directors receive fees reflective of Board roles and market levels. These fees are inclusive of their relevant responsibilities as part of the main Board and on the various Board committees. Fees are inclusive of any applicable superannuation.

These fees exclude any additional fees for special services which may be determined from time to time. No additional retirement benefits are payable. Non-executive directors do not receive performance-based compensation.

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

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

The Constitution of the Company provides that non-executive directors are entitled to receive compensation for their services as determined by approval at a general meeting. The current directors' fees pool is an aggregate sum of \$800,000. The base fee payable to the Chairman is \$120,000 per annum, and the base fee payable to other non-executive directors is \$70,000 per annum. Any change to this aggregate annual amount is required to be approved by shareholders. The Board may approve additional remuneration for special exertions and additional services performed by a director outside of the aggregated pool. Remuneration paid to directors in their capacity as employees also falls outside of the aggregated pool.

**(f) Details of remuneration**

Details of the remuneration of the directors and other key management personnel of the Group for the current and prior financial years are set out in the following table.

2019	Short-term employee benefits		Post-employment benefits	Other*	Long-term benefits	Share-based payments	Total	Performance related %
	Salary and fees	Bonus	Super-annuation		Long service leave	Rights		
	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>								
Robert Cameron	109,589	–	10,411	–	–	–	120,000	–
Alex Abrahams	70,000	–	–	–	–	(14,521)	55,479	–
Hilton Brett <i>(appointed 24 August 2018)</i>	53,109	–	5,045	–	–	–	58,154	–
Ben Gisz	70,000	–	–	–	–	–	70,000	–
Zita Peach	63,927	–	6,073	–	–	–	70,000	–
Simon Rutherford	70,000	–	–	–	–	–	70,000	–
<b>Executive Directors</b>								
Phil McKenzie <i>(appointed 29 October 2018)</i>	331,653	–	14,665	–	5,449	39,167	390,934	–
John Gibbs <i>(resigned 28 October 2018)</i>	168,127	–	7,505	450,000	9,760	(67,164)	568,228	–
<b>Other Key Management Personnel</b>								
Allanna Ryan	236,718	–	20,540	–	4,115	3,498	264,871	–
Paul Robertson	251,772	–	23,845	–	4,581	(14,092)	266,106	–
Alison Hughes	175,583	–	16,693	–	3,208	(997)	194,487	–
Emma McKenny	194,159	–	18,133	–	3,487	(11,927)	203,852	–
Ciara Rocks <i>(appointed 11 March 2019)</i>	65,061	–	5,146	–	989	–	71,196	–
Nadia Henry <i>(resigned 2 January 2019)</i>	111,300	–	10,823	88,161	–	–	210,284	–
David Williams <i>(resigned 17 December 2018)</i>	95,078	–	8,813	35,538	–	(2,315)	137,114	–

## DIRECTORS' REPORT

For the year ended 30 June 2019

### (f) Details of remuneration (continued)

2018	Short-term employee benefits		Post/employment benefits	Other*	Long/term benefits	Share/based payments	Total	Performance related %
	Salary and fees \$	Bonus \$	Superannuation \$		Long service leave \$	Rights \$		
<b>Non-Executive Directors</b>								
Robert Cameron	109,589	–	10,411	–	–	–	120,000	–
Grant Bourke (resigned 5 March 2018)	46,667	–	–	–	–	–	70,000	–
Ben Gisz	70,000	–	–	–	–	–	70,000	–
Simon Rutherford	70,000	–	–	–	–	–	70,000	–
Alex Abrahams**	70,000	–	–	–	–	798	70,798	–
Zita Peach (appointed 18 August 2017)	54,338	–	5,162	–	–	–	59,500	–
<b>Executive Director</b>								
John Gibbs	417,378	30,085	20,049	–	7,250	24,378	499,140	6
<b>Other Key Management Personnel</b>								
Allanna Ryan	231,746	19,179	19,543	–	4,175	19,092	293,735	7
Paul Robertson	258,185	20,571	20,049	–	4,552	16,261	319,618	6
Alison Hughes	178,493	15,666	17,874	–	3,273	11,937	227,243	7
Emma McKenny	172,173	15,926	17,310	–	3,225	15,253	223,887	7
Nadia Henry (appointed 29 Jan 2018)	94,112	5,997	8,097	–	1,582	–	109,788	5
David Williams (appointed 10 Jul 2017)	177,895	18,375	16,732	–	3,333	15,701	232,036	7
Andrew Streat (until 15 Sep 2017)	49,656	–	4,385	–	–	–	54,041	–

\* Other benefits include termination benefits paid to John Gibbs, Nadia Henry and David Williams in 2019. There were no termination benefits paid or payable to key management personnel during 2018. Termination benefits paid were in accordance with employment contracts.

\*\*Alex Abrahams was an executive director until June 2017, becoming a non-executive director at that time.

### STI awarded

For each STI bonus included in the 2019 table above, the percentage of the available bonus that was earned in the financial year and the percentage that was forfeited because the person did not meet the target performance criteria are set out below.

Name	% of Maximum STI Awarded	Forfeited
Phil McKenzie	0%	100%
Allanna Ryan	0%	100%
Paul Robertson	0%	100%
Alison Hughes	0%	100%
Emma McKenny	0%	100%
Ciara Rocks <sup>1</sup>	0%	100%

<sup>1</sup> Ciara Rocks commenced as key management personnel with effect from 11 March 2019, and was only eligible for a pro-rated STI in her capacity as key management personnel during 2019.



### (g) Employment contracts

Remuneration and other terms of employment for the executives are formalised in employment contracts. The employment contracts specify the remuneration arrangements, benefits, notice periods and other terms and conditions. Participation in the STI and LTI arrangements are subject to the Board's discretion.

The current executive contracts do not have fixed terms. Contracts may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances involving serious or willful misconduct.

Executive	Termination Notice by Executive	Termination Notice or Payment in Lieu of Notice by Company
Phil McKenzie	6 months	6 months
Allanna Ryan	6 months	6 months
Paul Robertson	3 months	3 months
Alison Hughes	3 months	6 months
Emma McKenny	3 months	3 months
Ciara Rocks	3 months	3 months

### (h) Details of share-based compensation

#### Performance Rights

Under the LTI plan, performance rights have been granted to the executive directors and certain executives. These performance rights will vest after four years (the performance period), and are conditional on the achievement of relevant performance and service conditions.

Grant Date	Number of Rights Granted	Fair Value per Right at Grant Date	Vesting Date
21 November 2014	2,137,500*	\$0.51	21 November 2018
30 November 2015	1,725,000**	\$0.89	30 November 2019
30 November 2016	2,200,000**	\$0.76	30 November 2020
1 December 2017	2,100,000**	\$0.62	1 December 2021
4 March 2019	3,026,000	\$0.47	4 March 2023

\* 1,631,250 rights were forfeited on 31 January 2018; the remaining 506,250 rights were forfeited on 28 October 2018.

\*\*500,000 rights were forfeited on 28 October 2018.

## DIRECTORS' REPORT

For the year ended 30 June 2019

### (i) Equity instruments held by key management personnel

The tables below show the number of shares and performance rights in the Company that were held during the financial year by key management personnel, including their close family members and entities related to them. No amounts remain unpaid in respect of ordinary shares at the end of the financial year.

There were no shares granted during the reporting period as compensation, or on exercise of an option or right.

#### Ordinary Shares

2019	Balance at start of year	Purchased	Sales	Balance at end of year
Robert Cameron AO	3,533,258	–	–	3,533,258
Ben Gisz	24,605,075	8,172,742	–	32,777,817
Simon Rutherford	1,741,017	–	–	1,741,017
John Gibbs ( <i>resigned 28 October 2018</i> )	6,500,000	–	(2,930,765)	3,569,235
Alex Abrahams	38,173,361	194,000	(2,040,000)	36,327,361
Paul Robertson	300,000	–	–	300,000
Alison Hughes	15,860,190	–	–	15,860,190
Zita Peach	5,155	7,185	–	12,340

2018	Balance at start of year	Purchased	Sales	Balance at end of year
Robert Cameron AO	3,383,258	150,000	–	3,533,258
Grant Bourke ( <i>resigned 5 March 2018</i> )	1,538,462	–	(1,150,000)	388,462
Ben Gisz	19,712,581	4,892,494	–	24,605,075
Simon Rutherford	1,741,017	–	–	1,741,017
John Gibbs	6,500,000	–	–	6,500,000
Alex Abrahams	38,173,361	–	–	38,173,361
Paul Robertson	300,000	–	–	300,000
Alison Hughes	15,860,190	–	–	15,860,190
Zita Peach ( <i>appointed 18 August 2017</i> )	–	5,155	–	5,155

#### Performance Rights

2019	Balance at start of year	Granted as compensation	Exercised	Other	Balance at end of year (all unvested)
Phil McKenzie	–	2,000,000	–	–	2,000,000
John Gibbs*	1,500,000	–	–	(1,500,000)	–
Alex Abrahams	450,000	–	–	–	450,000
Paul Robertson	975,000	296,000	–	–	1,271,000
Alison Hughes	400,000	224,000	–	–	624,000
Emma McKenny	875,000	224,000	–	–	1,099,000
Allanna Ryan	500,000	282,000	–	–	782,000
David Williams	425,000	–	–	–	425,000

\* 100% of performance rights with grant dates on 30 November 2015, 30 November 2016 and 1 December 2017 have been forfeited. The amounts forfeited are due to the service criteria not being met in relation to the current financial year.

2019	Balance at start of year	Granted as compensation	Exercised	Other	Balance at end of year (all unvested)
John Gibbs	1,675,000	–	–	(175,000)	1,500,000
Alex Abrahams	787,500	–	–	(337,500)	450,000
Paul Robertson	1,043,750	–	–	(68,750)	975,000
Alison Hughes	400,000	–	–	–	400,000
Emma McKenny	550,000	325,000	–	–	875,000
Allanna Ryan	100,000	400,000	–	–	500,000
David Williams	100,000	325,000	–	–	425,000

### (j) Key management personnel transactions

#### Loans to key management personnel

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

#### Other transactions of key management personnel and their personally related entities

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

Key management personnel or their related parties held shares in the Company during 2019 and 2018; and as such, participated in dividends.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, leased business premises to the Company during 2019 and 2018 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the Company during 2019 and 2018 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 2019 and 2018 on normal commercial terms and conditions.

The Company received fees for the provision of services to Alex Abrahams during 2019 and 2018 under normal terms and conditions of dental service and facility agreements.

The Company paid fees for clinical consultancy services to Whitesail Pty Limited ATF The Whitesail Trust during 2019 and 2018. The entity is related to Alex Abrahams; fees were based on an agreement approved by the Board and reflecting normal commercial terms and conditions.

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

	2019 \$	2018 \$
Dividends paid	3,945,582	4,037,250
Revenues from rendering services	2,535	1,177
Rental expenses	710,611	1,230,525
Consultancy expenses	80,861	80,000

This concludes the remuneration report, which has been audited.



## DIRECTORS' REPORT

For the year ended 30 June 2019

### Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services providing during the financial year by the auditor are outlined in Note 22 to the financial report. The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms, for audit and non-audit services provided during the year, are set out below.

### Services other than audit and review of financial statements:

	2019 \$
<b>Other services</b>	
Non-audit services: tax compliance and advisory services	40,743
Audit and review of financial statements	128,850
<b>Total paid/payable to KPMG</b>	<b>169,593</b>

### 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 31.

### Voting of shareholders at last year's annual general meeting

The Group received more than 99% of "yes" votes on its remuneration report for the 2018 financial year. The Group did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

### 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 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  
21 August 2019

# AUDITOR'S INDEPENDENCE DECLARATION



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

To the Directors of Pacific Smiles Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Pacific Smiles Group Limited for the financial year ended 30 June 2019 there have been:

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

KPMG

KPMG

*Sarah Cain*

Sarah Cain

*Partner*

Sydney

21 August 2019

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

As at 30 June 2019

	Notes	2019 \$'000	2018 \$'000
<b>Revenue</b>	2	<b>122,156</b>	104,528
<b>Other income</b>	3	<b>1,249</b>	1,217
<b>Expenses</b>			
Direct expenses	4	(11,833)	(8,318)
Consumable supplies expenses		(9,430)	(8,374)
Employee expenses		(52,013)	(44,162)
Occupancy expenses		(13,363)	(11,960)
Marketing expenses		(1,954)	(1,819)
Administration and other expenses		(12,512)	(12,673)
Depreciation and amortisation expense	4	(9,399)	(7,833)
Net finance costs	4	(662)	(393)
<b>Profit before income tax</b>		<b>12,239</b>	10,213
Income tax expense	5	(3,666)	(3,609)
<b>Profit for the year</b>		<b>8,573</b>	6,604
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>8,573</b>	6,604
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share</b>			
Basic earnings per share	20	<b>5.6</b>	4.3
Diluted earnings per share	20	<b>5.6</b>	4.3

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



# CONSOLIDATED BALANCE SHEET

As at 30 June 2019

	Notes	2019 \$'000	2018 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	6,951	6,683
Receivables	8	1,087	869
Current tax receivable	16	–	771
Inventories	9	3,672	3,260
Other	10	554	465
<b>Total Current Assets</b>		<b>12,264</b>	12,048
<b>Non-Current Assets</b>			
Property, plant and equipment	11	54,642	47,324
Intangible assets	12	10,939	11,004
Deferred tax assets	13	6,008	4,964
<b>Total Non-Current Assets</b>		<b>71,589</b>	63,292
<b>Total Assets</b>		<b>83,853</b>	75,340
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	14	12,485	11,042
Current tax payable	16	1,385	–
Provisions	17	3,771	3,301
<b>Total Current Liabilities</b>		<b>17,641</b>	14,343
<b>Non-Current Liabilities</b>			
Payables	14	–	149
Borrowings	15	17,000	12,000
Provisions	17	8,130	6,970
<b>Total Non-Current Liabilities</b>		<b>25,130</b>	19,119
<b>Total Liabilities</b>		<b>42,771</b>	33,462
<b>Net Assets</b>		<b>41,082</b>	41,878
<b>EQUITY</b>			
Contributed equity	18	35,053	35,053
Reserves	19	180	277
Retained profits		5,849	6,548
<b>Total Equity</b>		<b>41,082</b>	41,878

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Notes	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
<b>Consolidated balance at 30 June 2017</b>		35,053	172	9,064	44,289
<b>Total comprehensive income for the year</b>		–	–	6,604	6,604
<b>Transactions with owners of the Company, recognised directly in equity:</b>					
Dividends provided for or paid	6(a)	–	–	(9,120)	(9,120)
Share-based payments charge – performance rights	19	–	105	–	105
		–	105	(9,120)	(9,015)
<b>Consolidated balance at 30 June 2018</b>		<b>35,053</b>	<b>277</b>	<b>6,548</b>	<b>41,878</b>
<b>Total comprehensive income for the year</b>		–	–	8,573	8,573
<b>Transactions with owners of the Company, recognised directly in equity:</b>					
Dividends provided for or paid	6(a)	–	–	(9,272)	(9,272)
Share-based payments charge – performance rights	19	–	(97)	–	(97)
		–	(97)	(9,272)	(9,369)
<b>Consolidated balance at 30 June 2019</b>		<b>35,053</b>	<b>180</b>	<b>5,849</b>	<b>41,082</b>

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 2019

	Notes	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		133,744	116,135
Payments to suppliers and employees		(109,501)	(93,379)
		24,243	22,756
Interest received		35	33
Interest and finance costs paid		(697)	(426)
Income taxes paid		(2,554)	(4,912)
<b>Net cash inflow from operating activities</b>	30(a)	<b>21,027</b>	17,451
<b>Cash flows from investing activities</b>			
Payments for purchase of a business	28	–	(816)
Payments for property, plant and equipment		(16,649)	(13,769)
Proceeds from disposal of property, plant and equipment		162	57
<b>Net cash outflow from investing activities</b>		<b>(16,487)</b>	(14,528)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		5,000	7,000
Dividends paid	6(a)	(9,272)	(9,120)
<b>Net cash outflow from financing activities</b>		<b>(4,272)</b>	(2,120)
<b>Net increase in cash and cash equivalents</b>		<b>268</b>	803
Cash and cash equivalents at the beginning of the financial year	7	6,683	5,880
<b>Cash and cash equivalents at the end of the financial year</b>	7	<b>6,951</b>	6,683

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



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## 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 public company limited by shares, incorporated and domiciled in Australia. On 21 November 2014 the Company was listed on the ASX. Its registered office and its principal place of business are located at 6 Molly Morgan Drive, Greenhills, New South Wales.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 17 to 30, 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 21 August 2019. 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 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, include non-financial asset impairment testing.

#### New Accounting Standards and Accounting Interpretations adopted

The Group has adopted all of the new and revised standards issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. Any new and revised standards that are not yet mandatory have not been early adopted. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various services are set out below.

##### (i) Initial adoption of AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The Group applied AASB 15 retrospectively using the practical expedient approach in paragraph C5(c) of IFRS 15, under which the Group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, being 30 June 2018.

The Group's adoption of AASB 15 did not have a significant impact on the Group's accounting policies with respect to its revenue streams. There was no financial impact of transition to AASB 15 on the opening balance of retained earnings.

**(ii) Initial adoption of AASB 9 Financial Instruments**

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. There was no impact of transition to AASB 9 on the opening balance of retained earnings. The details of this new significant accounting policy are set out below.

**Financial assets**

Under AASB 9, on initial recognition, a financial asset is classified at amortised cost, fair valued through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). The classification under AASB 9 is based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is measured at amortised cost only if: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest, and are not designated as at FVTPL.

The following accounting policy applies to the subsequent measurement of financial assets. All of the Group's financial assets meet the AASB 9 requirements to be measured at amortised cost.

**Financial assets at amortised cost**

A financial asset at amortised cost is initially recognised at fair value plus unallocated transaction cost. Subsequent to initial recognition measurements these assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see impairment of financial assets).

The following table and accompanying notes below explain the original measurement categories under AASB 139 and the new measurement categories under AASB 9 on the opening balance of each class of the Group's financial assets and liabilities.

Financial assets	Original classification	New classification	Change in carrying amount
Trade and other receivables	Loans and Receivables	Amortised cost	There was no impact on the carrying amount from the transition to AASB 9
Cash and cash equivalents	Loans and Receivables	Amortised cost	There was no impact on the carrying amount from the transition to AASB 9

Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

**Impairment of financial assets**

AASB 9 replaces the "incurred loss" model in AASB 139 with an "expected credit loss" (ECL) model.

**Impairment of receivables**

The Group has elected to measure loss allowances on trade receivables using a life-time expected loss model. The Group has also used the practical expedient of a provisions matrix using a single loss rate approach to approximate the expected credit losses. These provisions are considered representative across all business and geographic segments of the Group based on historical credit loss experience.

The Group has determined that the application of AASB 9's impairment requirement at 1 July 2018 did not result in a material change to the impairment allowance.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## (b) Basis of Preparation (continued)

### **New Accounting Standards and Accounting Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, is set out below.

### **(iii) Initial adoption of AASB 16 Leases**

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2020. AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing the right to use the underlying asset and a lease liability representing the lease payment obligations. Leases that are short term and low value are exempt under the standard and continue to be accounted for as operating leases.

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

At 1 July 2019, it is expected that the Group will recognise a net post-tax reduction in opening retained earnings for \$3,761,000 represented by the following:

- A right of use asset for \$54,243,000 for former operating leases;
- A \$64,970,000 lease liability related to the same operating leases;
- Derecognition of \$5,515,000 in lease liabilities existing at 30 June 2019 due to the write back of straight-line lease liability;
- Derecognition of \$1,110,000 in leased assets existing at 30 June 2019 due to a reduction in existing make good assets;
- A lease receivable of \$949,000 relating to sub leases which have been classified as finance leases; and
- A net increase in deferred tax assets of \$1,612,000 due to the above adjustments.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## (c) Basis 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 2019 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 entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

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.

## (d) Segment Reporting

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



## (e) Revenue Recognition

### Service and facility fees

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

### Professional dental fees

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

### Prosthetist fees

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

### Sale of dental products

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

## (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 substantively 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 assets and liabilities 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 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.

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## (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 lease liability and finance charges.

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. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

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

## (h) Business Combinations

The acquisition method of accounting is used to account for business combinations. The consideration transferred is usually 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 to Note 1(n)).

Where contingent consideration is classified as a financial liability and amounts are subsequently re-measured to fair value, changes in fair value are 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 at least 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Cash inflows considered for the purposes of impairment testing are discounted to present value.

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

## (j) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and 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 expected credit losses if applicable.

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

**(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. Net realisable value is the estimated selling price less estimated costs associated with the sale.

**(m) Property, Plant and Equipment**

All property, plant and equipment are 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 (refer to Note 1(i)).

**(n) Intangible Assets****Goodwill**

Goodwill represents the excess of the consideration transferred 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 (CGUs) for the purpose of impairment testing.

**Rights and licences**

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

**(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**

The employee benefits provisions cover the Group's liability for employees' annual leave and long service leave entitlements.

**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.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## (q) Employee Benefits (continued)

### Long-term obligations

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

The obligations are presented as a current liability in the balance sheet if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

### Share-based payments

Share-based compensation benefits are provided to selected employees via a Long Term Incentive plan (LTI plan). Further information on the LTI plan is set out in Note 21.

The fair value of performance rights granted under the LTI plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. At the end of each period, the Company revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

## (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.

### Make good provision

The Group is required to restore most leased premises to their original condition at the end of their respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements and repair any associated damage. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

### Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the 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.

### Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced. Future operating losses are not provided for.

## (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) Earnings Per Share

### Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares,
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## (u) 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 components of investing and financing activities, which are disclosed as operating cash flows.

## (v) 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.

## (w) 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.

### Investments in subsidiaries

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

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

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## 2. Revenue

Revenue from contracts with customers is disaggregated by type of revenue as follows:

	2019 \$'000	2018 \$'000
Dental services fees	121,656	104,019
Dental product sales	500	509
Total Revenue	122,156	104,528

## 3. Other Income

	2019 \$'000	2018 \$'000
Rents	1,207	1,090
Sundry income	42	127
	1,249	1,217

## 4. Expenses

	2019 \$'000	2018 \$'000
Profit before income tax includes the following specific expenses:		
Employee benefits – share-based payments expense	(97)	105
Depreciation and amortisation		
Plant and equipment	4,649	3,893
Leasehold improvements	4,685	3,874
Total Depreciation	9,334	7,767
Amortisation		
Rights and licences	65	66
Total Amortisation	65	66
Net loss/(profit) on disposal of non-current assets	(15)	376
Impairment loss on write-down of assets to recoverable amount		
Receivables – other entities	64	25
Goodwill	–	1,002
Fixed Assets	–	642
Net finance costs		
Interest and finance charges paid/payable	697	426
Interest received/receivable	(35)	(33)
Total net finance costs	662	393
Defined contribution superannuation plans expense	4,151	3,518
Direct expenses	11,833	8,318

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



## 5. Income Tax Expense

	2019 \$'000	2018 \$'000
Current tax	4,710	4,209
Deferred tax	(1,044)	(600)
	<b>3,666</b>	3,609
Profit before income tax expense	<b>12,239</b>	10,213
Income tax calculated at 30% (2018: 30%)	<b>3,672</b>	3,064
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment	–	493
Share-based payments	(29)	32
Sundry items	23	20
Income tax expense	<b>3,666</b>	3,609

## 6. Dividends

	2019 \$'000	2018 \$'000
<b>(a) Dividends paid during the year:</b>		
Interim dividend for the year ended 30 June 2019 of 2.30 cents (2018 – 2.30 cents) per share, fully franked	<b>3,496</b>	3,496
Final dividend for the year ended 30 June 2018 of 3.80 cents (2017 – 3.70 cents) per share, fully franked	<b>5,776</b>	5,624
	<b>9,272</b>	9,120
<b>(b) Dividends declared but not recognised at the end of the year:</b>		
The Directors have declared the payment of a final dividend of 3.50 cents (2018 – 3.80 cents) per share, fully franked.	<b>5,320</b>	5,776
It is expected to be paid on 4 October 2019 out of retained earnings at 30 June 2019, but not recognised as a liability at year end.		
<b>(c) Franking credits available for subsequent financial years:</b>		
Based on tax rate of 30% (2018: 30%)	<b>11,848</b>	10,408

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

The consolidated amount includes franking credits that would be available to the parent entity if distributed profits of subsidiaries were paid as dividends.

## NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

### 7. Cash and Cash Equivalents

	2019 \$'000	2018 \$'000
CURRENT		
Cash at bank and in hand	6,951	6,683

### 8. Receivables

	2019 \$'000	2018 \$'000
CURRENT		
Trade debtors	908	658
Provision for doubtful debts	(107)	(52)
	801	606
Sundry debtors	286	263
	1,087	869

### 9. Inventories

	2019 \$'000	2018 \$'000
CURRENT		
Inventories – at cost	3,672	3,260

### 10. Other Assets

	2019 \$'000	2018 \$'000
CURRENT		
Prepayments	340	328
Other	214	137
	554	465

## 11. Property, Plant and Equipment

	2019 \$'000	2018 \$'000
NON-CURRENT		
Leasehold improvements – at cost	56,439	48,061
Less accumulated depreciation and impairment	(21,208)	(16,524)
	35,231	31,537
Plant and equipment – at cost		
Plant and equipment – at cost	46,852	39,069
Less accumulated depreciation and impairment	(27,441)	(23,282)
	19,411	15,787
Total property, plant and equipment	54,642	47,324

### Movements in carrying amounts

	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>2019</b>			
Carrying amount at the beginning of the year	31,537	15,787	47,324
Additions	8,497	8,302	16,799
Disposals	(118)	(29)	(147)
Depreciation expense	(4,685)	(4,649)	(9,334)
Carrying amount at the end of the year	35,231	19,411	54,642
<b>2018</b>			
Carrying amount at the beginning of the year	28,315	13,615	41,930
Additions	7,766	6,471	14,237
Disposals	(28)	(406)	(434)
Depreciation expense	(3,874)	(3,893)	(7,767)
Impairment loss	(642)	–	(642)
Carrying amount at the end of the year	31,537	15,787	47,324

#### (a) Impairment loss in relation to restructure of a Pacific Smiles Dental Centre

There have been no impairment losses for the year ended 30 June 2019. During the year ended 30 June 2018, the Group restructured the Parramatta Pacific Smiles Dental Centre. The centre continued to perform below management expectations and, as a result, actions were taken to reduce operational capacity to right-size the centre and better match the capacity at which it was operating. Accordingly, the Group recognised an impairment loss on property, plant and equipment of \$642,000, based on the cash-generating unit's value in use.



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## 12. Intangible Assets

	2019 \$'000	2018 \$'000
NON-CURRENT		
Goodwill	13,180	13,180
Less accumulated amortisation and impairment	(2,894)	(2,894)
	10,286	10,286
Rights and licences	985	985
Less accumulated amortisation and impairment	(332)	(267)
	653	718
Total intangible assets	10,939	11,004

### Movements in carrying amounts

	Goodwill \$'000	Rights and licences \$'000	Total \$'000
<b>2019</b>			
Carrying amount at the beginning of the year	10,286	718	11,004
Amortisation expense	–	(65)	(65)
Carrying amount at the end of the year	10,286	653	10,939
<b>2018</b>			
Carrying amount at the beginning of the year	10,625	784	11,409
Additions	663	–	663
Amortisation expense	–	(66)	(66)
Impairment expense	(1,002)	–	(1,002)
Carrying amount at the end of the year	10,286	718	11,004

#### (a) Impairment loss in relation to restructure of a Pacific Smiles Dental Centre

As described in Note 11, the Group restructured the Parramatta Pacific Smiles Dental Centre during the year ended 30 June 2018. An impairment loss was recognised to goodwill as a result of this restructure of \$1,002,000, based on the cash-generating unit's value in use of \$57,153,000. These costs were included in "administration and other expenses". There have been no impairment losses recognised during the year ended 30 June 2019.

#### (b) Impairment testing for cash-generating units (CGUs)

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to groups of CGUs as follows:

	2019 \$'000	2018 \$'000
New South Wales	5,209	5,209
Victoria	2,631	2,631
Queensland	2,446	2,446
	10,286	10,286

The impairment assessments for each CGU are made on the basis of the assets' expected value in use and involve the use of key assumptions. Recoverable amounts of the CGUs exceeded their carrying values, and therefore no impairment losses were recorded in the year.

The calculations use discounted cash flow projections covering a 10-year period, which is consistent with the typical lease term entered into for the Group's dental centre locations, and matches the average growth profile of our dental centres. The cash flows for years one to five are based on detailed management projections, which consider historical financial results and trends, the Board-approved financial budget for the next financial year and reasonable expectations regarding future business and market circumstances. Cash flows beyond the first five year period are extrapolated to year 10 using an estimated growth rate of 3%. The cash flow projections for years one to five are based on key assumptions including dentist numbers, number of operating chairs, practitioner hours, patient demand and associated costs.

A long-term growth rate of 2.5% is used beyond year 10 in determining the terminal values, which is considered reasonable in the context of the long-term growth rates for the markets in which each CGU operates. Future cash flows are discounted using the Group's weighted average cost of capital of 9.3% (2018: 9.6%).

### (c) Rights and licences

As part of the Group's acquisition of the three former AHM Dental Centres, the Group received preferential provider support from AHM. These rights and licences relate to AHM marketing rights at each Pacific Smiles Dental Centre with 10 amortisation periods remaining as at balance date.

## 13. Deferred Tax Assets

	2019 \$'000	2018 \$'000
NON-CURRENT		
The balance comprises temporary differences attributable to:		
Provision for doubtful debts	32	14
Depreciation of property, plant and equipment	2,648	2,052
Accrued expenses	285	222
Prepayments	25	170
Provisions	3,211	2,722
Intangibles	(196)	(216)
Other	3	-
Deferred tax assets	6,008	4,964

## 14. Payables

	2019 \$'000	2018 \$'000
CURRENT		
Trade payables and accruals – other entities	12,187	10,893
Contingent consideration payable	298	149
	12,485	11,042
NON-CURRENT		
Contingent consideration payable	-	149
	-	149

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## 15. Borrowings

	2019 \$'000	2018 \$'000
NON-CURRENT		
Secured:		
Bank loans	17,000	12,000
Total	17,000	12,000

### 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.

	2019 \$'000	2018 \$'000
<b>Financing Arrangements</b>		
Access was available at balance date to the following lines of credit:		
Total bank borrowings facilities	24,500	24,500
Used at balance date	(19,962)	(14,664)
Unused at balance date*	4,538	9,836

Covenants attached to bank borrowings were complied with during the year. Further details on financing facilities are included in Note 27.

\* Includes bank guarantees of \$2,962,000 (2018: \$2,664,000) as per Note 31(b).

## 16. Current Tax

	2019 \$'000	2018 \$'000
CURRENT		
Income tax receivable	–	771
Income tax payable	1,385	–

## 17. Provisions

	2019 \$'000	2018 \$'000
CURRENT		
Employee benefits	3,504	3,110
Straight-line operating lease adjustment	234	191
Onerous contracts	33	–
	3,771	3,301
NON-CURRENT		
Employee benefits	814	810
Straight-line operating lease adjustment	5,186	4,180
Make good provision	2,130	1,980
	8,130	6,970

Movements:	Straight-line Lease Adjustment \$'000	Make Good Provision \$'000	Onerous Contracts \$'000
Balance at the beginning of the year	4,371	1,980	–
Additional provisions charged	1,282	150	65
Amounts used	(233)	–	(32)
Balance at the end of the year	5,420	2,130	33

## 18. Contributed Equity

### (a) Share Capital

	2019 \$'000	2018 \$'000
Ordinary shares – fully paid	35,053	35,053

### (b) Movements in Share Capital

	Number of Shares	\$'000
Balance at 30 June 2018	151,993,395	35,053
Balance at 30 June 2019	151,993,395	35,053

### (c) Ordinary shares

Fully paid ordinary shares – Ordinary shares entitle the holder to 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.

### (d) Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, maintain sufficient financial flexibility to pursue its growth objectives, and maintain an optimal capital structure to reduce the cost of capital. The Group monitors its working capital continually and manages it within a Board- approved finance facility. Debt covenants are consistently achieved and monitored monthly.

## 19. Reserves

	2019 \$'000	2018 \$'000
Share-based payments reserve	180	277



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## 20. Earnings Per Share

	2019 \$'000	2018 \$'000
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	8,573	6,604
	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	5.6	4.3
Diluted earnings per share	5.6	4.3

### Information Concerning the Classification of Shares

#### (a) Performance rights

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 7,551,000 performance rights on issue are not included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and conditions were not satisfied at 30 June 2019. These performance rights could potentially dilute basic earnings per share in the future.

## 21. Share-Based Payments

#### (a) Long-Term Incentive Plan Overview

The Group has established a 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.

Performance rights have been issued to the Chief Executive Officer and selected senior managers, at the absolute discretion of the Board, pursuant to the LTI plan in financial years 2019, 2018, 2017, 2016 and 2015.

The performance rights will vest after a set term (the performance period), and are conditional on the achievement of relevant performance and service conditions. Vesting of the performance rights for the years 2018, 2017, 2016 and 2015 will be subject to:

- satisfaction of earnings per share (EPS) performance hurdles for a four-year performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an EPS compound annual growth rate (CAGR) of 15.0% per annum or less to 100% vesting for an EPS CAGR of 25.0% per annum; and
- the participant remaining employed by Pacific Smiles Group (or its subsidiaries) over a four-year period through to the vesting date, subject to certain "good leaver" exemptions.

Vesting of the performance rights for the year 2019 will be subject to:

- satisfaction of earnings per share (EPS) performance hurdles for a four-year performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an EPS compound annual growth rate (CAGR) of 10.0% per annum or less to 100% vesting for an EPS CAGR of 25.0% per annum; and
- the participant remaining employed by Pacific Smiles Group (or its subsidiaries) over a four-year period through to the vesting date, subject to certain "good leaver" exemptions.

Performance rights that do not vest on the relevant vesting date will lapse. Performance rights will also lapse if total shareholder return (TSR) does not reach a minimum threshold over the relevant performance period.

**(b) Performance rights**

Grant date	Balance at 1 July 2018	Granted	Forfeited, lapsed or vested	Balance at 30 June 2019
21 November 2014	506,250	–	(506,250)	–
30 November 2015	1,725,000	–	(500,000)	<b>1,225,000</b>
30 November 2016	2,200,000	–	(500,000)	<b>1,700,000</b>
1 December 2017	2,100,000	–	(500,000)	<b>1,600,000</b>
4 March 2019	–	3,026,000	–	<b>3,026,000</b>
Total	6,531,250	3,026,000	(2,006,250)	<b>7,551,000</b>

The options outstanding at 30 June 2019 had a weighted average contractual life of 2.37 years (2018: 2.32 years).

**(c) Fair value of performance rights granted**

The fair values at grant dates have been determined via pricing models which use a Monte Carlo simulation, and take into account the following inputs:

	2019	2018
Grant Date	<b>4 March 2019</b>	1 December 2017
Fair value of right	<b>\$0.47</b>	\$0.62
Share price at grant date	<b>\$1.33</b>	\$1.79
Exercise price	<b>Nil</b>	Nil
Term	<b>4 years</b>	4 years
Expected price volatility	<b>30%</b>	30%
Expected dividend yield	<b>4.0%</b>	4.0%
Risk free interest rate	<b>2.00%</b>	2.00%

**22. Remuneration of Auditors**

	2019 \$	2018 \$
Audit and review of financial statements	<b>128,850</b>	128,775
Other audit services	–	15,375
Non-audit services: tax compliance and advisory services	<b>40,743</b>	26,870
	<b>169,593</b>	171,020

**23. Contingencies**

	2019 \$'000	2018 \$'000
Bank guarantees	<b>2,962</b>	2,664

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

## NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

### 24. Commitments

#### (a) Capital commitments

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

	2019 \$'000	2018 \$'000
Property, plant and equipment		
Payable within one year	2,611	390

#### (b) Operating lease commitments

##### Lessee

The future minimum lease payments under non-cancellable operating leases were payable at the reporting date as follows:

	2019 \$'000	2018 \$'000
Payable within one year	11,589	10,474
Payable later than one year but not later than five years	39,685	37,432
Payable later than five years	23,232	23,478
	74,506	71,384

##### Lessor

The future minimum lease payments under non-cancellable operating sub-leases were receivable at the reporting date as follows:

	2019 \$'000	2018 \$'000
Receivable within one year	1,118	1,084
Receivable later than one year but not later than five years	1,809	2,927
	2,927	4,011

Operating leases relate to rented premises and equipment. Leases and sub-leases have various terms, including some options to extend the terms.

### 25. 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	
			2019 %	2018 %
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
Everything Dentures Pty Limited**	Australia	Ordinary	100	100

\* No longer trading.

\*\*Name changed from Dentalwise Pty Limited to Everything Dentures Pty Limited on 14 April 2018.

## 26. Related Party Disclosures

### (a) Key Management Personnel Compensation

	2019 \$	2018 \$
Short-term employment benefits	2,066,076	2,126,031
Post-employment benefits	147,692	139,612
Long-term benefits	31,589	27,390
Termination benefits	573,699	–
Share-based payments	(68,351)	103,420
	<b>2,750,705</b>	2,396,453

Detailed remuneration disclosures are provided in the Remuneration Report within the Directors' Report.

### (b) 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 2019 and 2018, and as such, participated in dividends.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, leased business premises to the Company during 2019 and 2018 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the Company during 2019 and 2018 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 2019 and 2018 on normal commercial terms and conditions.

The Company received fees for the provision of services to Alex Abrahams during 2019 and 2018 under normal terms and conditions of dental service and facility agreements.

The Company paid fees for clinical consultancy services to Whitesail Pty Limited ATF The Whitesail Trust during 2019 and 2018. The entity is related to Alex Abrahams; fees were based on an agreement approved by the Board and reflecting normal commercial terms and conditions.

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

	2019 \$	2018 \$
Dividends paid	3,945,582	4,037,250
Revenues from rendering services	2,535	1,177
Rental expenses	710,611	1,230,525
Consultancy expenses	80,861	80,000



# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## 27. Financial Risk Management

### Financial Risk Management Objectives

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

The Board has overall responsibility for the establishment and oversight of the risk management framework, and is supported by the Board Audit and Risk Management Committee. Senior management develops and monitors risk management policy, and reports regularly to the Directors on issues and compliance matters. Risk management principles and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's principal financial instruments during the 2019 and 2018 financial years comprised bank and other loans, and cash. The main purpose of these instruments has been 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.

### Market Risk

The Group's exposure to market risk for changes in interest rates at the end of the year was minimal, with bank debt partially offset by cash balances at 30 June.

Cash balances are held in a combination of short-term fixed interest deposit accounts and other cheque and on-call accounts which attract variable interest rates. The weighted average interest rate on cash balances at the end of the year was 0.67% (2018: 0.87%) for the Group.

Variable rate bank loans totalling \$17,000,000 form part of an ongoing loan facility which was updated during the 2018 financial year. The overall facility term expires on 30 September 2020. The loans are subject to interest charged at the prevailing variable rate payable on each reset date. The weighted average interest rate on borrowings at the end of the year was 3.82% (2018: 4.89%) for the Group.

### Interest Rate Sensitivity Analysis

	2019 \$'000	2018 \$'000
Effect on profit before tax and equity:		
1% increase in interest rates	(114)	(53)
1% decrease in interest rates	114	53

### 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 Group only transacts with reputable Australian banks and its credit risk on trade receivables is not considered significant.

### 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 in 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 \$5,377,000. Liabilities have been classified as current where it is probable that they will be settled within 12 months or if there is a contractual obligation that may require settlement within 12 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.

## 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 \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Total contractual amount \$'000	Carrying amount \$'000
<b>Consolidated – 2019</b>					
Bank loans	136	136	17,067	17,339	17,000
Payables and accruals	12,485	–	–	12,485	12,485
	<b>12,621</b>	<b>136</b>	<b>17,067</b>	<b>29,824</b>	<b>29,485</b>
<b>Consolidated – 2018</b>					
Bank loans	124	124	12,062	12,310	12,000
Payables and accruals	11,042	–	–	11,042	11,042
	11,166	124	12,062	23,352	23,042

## Fair Value

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

## 28. Business Combinations

### (a) Summary of acquisitions

The Group made no acquisitions in 2019. On 7 November 2017, the Group acquired 100% of the assets and liabilities of The Prosthetic Group Pty Ltd, trading as Everything Dentures (“ETD”), a provider of prosthetic denture services and dental laboratory services. Everything Dentures consisted of three existing denture clinics – one located in Five Dock, Sydney and two located in Canberra, ACT as well as Sculpt Dental Laboratories in Five Dock and Canberra. An incentive payment may be payable at the end of the vendors’ five-year employment agreement based on a multiple of earnings incremental to an agreed target, however a liability has not been taken up in the financial statements as the liability is not probable at reporting date.

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

	2019 \$'000	2018 \$'000
Purchase consideration (refer to (b) below):		
Cash paid/payable	–	1,115
Fair value of net identifiable assets acquired (refer to (c) below)	–	(452)
Goodwill	–	663

### (b) Purchase consideration

	2019 \$'000	2018 \$'000
Outflow of cash to acquire businesses, net of cash acquired		
Total cash consideration transferred	–	816
Contingent consideration payable	–	299
Total outflow	–	1,115

# NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

## (c) Assets and liabilities acquired

	2019 \$'000	2018 \$'000
The assets and liabilities arising from the acquisitions were as follows:		
Trade receivables	–	86
Inventories	–	49
Plant and equipment	–	344
Deferred tax asset	–	12
Provisions	–	(39)
Net identifiable assets acquired	–	452

## (d) Acquisition-related costs

The Group incurred acquisition-related costs of \$76,000 in 2018 on legal and due diligence expenses. These costs have been included in "administration and other expenses".

## 29. Segment Information

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

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

## 30. Notes to the Statement of Cash Flows

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

	2019 \$'000	2018 \$'000
Profit for the year	8,573	6,604
Depreciation and amortisation	9,399	7,833
Net loss/(profit) on disposal of non-current assets	(15)	376
Impairment Losses	–	1,644
Share-based payments (credited)/expense	(97)	105
Change in operating assets and liabilities		
Decrease/(Increase) in receivables	(218)	190
(Increase) in inventories	(412)	(320)
(Increase) in other operating assets	(89)	227
(Increase) in deferred tax assets	(1,044)	(599)
Increase in trade payables	1,294	1,051
Increase in provisions	1,480	1,044
Increase/(Decrease) in income tax	2,156	(704)
Net cash inflow from operating activities	21,027	17,451

### (b) Non-cash investing and financing activities

	2019 \$'000	2018 \$'000
Capitalisation of estimated future make-good obligations in relation to leasehold premises	150	124

## 31. Parent Entity Financial Information

### (a) Summary financial information

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

Balance Sheet	2019 \$'000	2018 \$'000
Current assets	11,914	11,043
Total assets	82,171	73,205
Current liabilities	15,473	11,852
Total liabilities	40,603	30,822
Shareholders' equity		
Issued capital	35,053	35,053
Reserves	180	277
Retained earnings	6,335	7,053
	41,568	42,383
Profit or loss for the year	8,554	6,908
Total comprehensive income	8,554	6,908

### (b) Contingent liabilities of the Parent Entity

Bank guarantees	2,962	2,664
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The parent entity did not have any contingent liabilities or financial guarantees as at 30 June 2019 or 30 June 2018, other than bank guarantees.



## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 32 to 59 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 2019 and of its performance for the financial year ended on that date;
  - (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; 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.

Note 1 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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



**Robert Cameron AO**

*Chairman*

Greenhills

21 August 2019

# INDEPENDENT AUDITOR'S REPORT



## Independent Auditor's Report

To the shareholders of Pacific Smiles Group Limited

### Report on the audit of the Financial Report

#### Opinion

We have audited the **Financial Report** of Pacific Smiles Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated balance sheet as at 30 June 2019;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

#### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

# INDEPENDENT AUDITOR'S REPORT



## Key Audit Matters

The **Key Audit Matters** we identified are:

- Carrying value of intangible assets
- Revenue recognition
- Disclosure of expected impact of AASB 16 *Leases*

**Key Audit Matters** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of intangible assets (\$10,939,000)	
Refer to Note 12 to the Financial Report	
The key audit matter	How the matter was addressed in our audit
<p>Carrying value of intangible assets, including the Group's annual testing of goodwill for impairment was identified as a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• Size of the balance;</li> <li>• Significant level of judgement we applied to assess the Group's forecasts and discounted future cash flows.</li> </ul> <p>We focused on the significant forward-looking assumptions the Group applied in their value-in-use model, including:</p> <ul style="list-style-type: none"> <li>• Forecast operating cash flows, growth rates and terminal growth rates – the Group has experienced competitive market conditions with varying levels of year on year sales growth across centres of varying maturity and geographic regions. These conditions increase the possibility of intangible assets being impaired, plus the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider; and</li> <li>• Discount rates - these are complicated in nature and vary according to the conditions and environment the CGUs are subject to from time to time, and the models approach to incorporating risks into the cash flows or discount rates. The Group's modelling is sensitive to changes in the discount rate.</li> </ul> <p>Complex modelling, particularly those containing highly judgemental allocations of corporate assets and costs to CGUs, using</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We considered the appropriateness of the value-in-use method applied by the Group to perform their annual impairment testing of intangible assets against the requirements of the relevant accounting standards. We:                             <ul style="list-style-type: none"> <li>- Assessed the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows in the value in use model, for consistency with our understanding of the business and the criteria in the accounting standards.</li> <li>- Assessed the Group's determination of their CGUs based on our understanding of the operations of the Group's business, impact of the 10 new centres opened during the financial year and how independent cash inflows were generated, against the requirements of the relevant accounting standards.</li> <li>- Assessed the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards.</li> <li>- Assessed the Group's determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards.</li> </ul> </li> </ul>



forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us.

The Group has a large number of individual dental centre locations, which includes 10 new centres opened during the financial year, necessitating our consideration of the Group's determination of Cash Generating Units (CGUs), based on the smallest group of assets to generate largely independent cash inflows.

- Compared forecast cash flows in the model to Board approved forecasts.
- Assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model.
- We considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures.
- Working with our valuation specialists we:
  - Developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors based on the size and location of the Group's CGUs.
  - Assessed the integrity of the model used, including the accuracy of the underlying calculation formulas.
  - Challenged the Group's significant forecast cash flow and growth assumptions in light of the competitive market conditions. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience.
- We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the relevant accounting standards.

#### Revenue recognition (\$122,156,000)

Refer to Note 2 to the Financial Report.

#### The key audit matter

A substantial amount of the Group's revenue relates to revenue from the rendering of services, being service fees charged to dentists

#### How the matter was addressed in our audit

Our procedures included:

- We evaluated the appropriateness of the Group's revenue recognition policies against

## INDEPENDENT AUDITOR'S REPORT



who practice using the Group's dental surgeries.

Service fees represent the net amount the Group is entitled to after paying the dentists a share of total patient billings (dentist payments). Dentist payments are based on percentages agreed with each dentist per underlying Service Facility Agreements (agreed dentist percentages) which are variable based on the following drivers:

- Monthly total patient billings; and
- Actual time spent by the dentists at the Group's dental surgeries for the month per timesheet reports.

We focused on revenue recognition of service fees as a key audit matter due to the significant audit effort to test the:

- High volume of transactions recorded as revenue and significant value of revenue recognised;
- Largely manual nature of the Group's calculation of dentist payments and therefore service fee revenue. This increases the risk of potential bias, error and inconsistent application due to the number of different agreed dentist percentages and drivers, in particular around the last month of the year; and
- The opening of 10 new dental centres during the current year, which necessitated us to assess the new Service Facility Agreements and increased our audit effort in this key area.

the requirements of the accounting standard.

- We tested key controls in the services fee revenue recognition process, including:
  - Management review and approval of monthly bank account reconciliations.
  - Management's check of the monthly total patient billings, monthly timesheet reports, and agreed dentist percentages used by the Group in the monthly dentist payment calculations.
  - Management's dual authorisation of dentist payments and the monthly dentist payment calculations.
- For a sample of the agreed dentist percentages in the Group's monthly dentist calculations, we used the monthly total patient billings derived from the Group's bank statements, and the Group's dentists' monthly timesheet reports to check the consistency of the agreed dentist percentages to the underlying Service Facility Agreements.
- We developed an expectation of service fees recognised during the year, being total patient billings less dentist payments. We checked total patient billings and dentist payments throughout the year to the Group's bank statements. We compared our expectation to the amount recorded by the Group.
- We developed an expectation of the current year service fees by applying the prior year ratio of dentist payments to service fees to the current year dentist payments. We considered the impact of the 10 new dental centres opened during the current year.
- We assessed service fees recognised in the last month of the financial year by multiplying the weighted average agreed dentist percentages based on the relevant underlying Service Facility Agreements and total patient billings from the Group's bank statements for the month.





### Disclosure of expected impact of AASB 16 Leases

Refer to Note 1 b) to the Financial Report.

#### The key audit matter

In preparation for the adoption of the new accounting standard AASB 16 *Leases* ("AASB 16") from 1 July 2019, the Group has disclosed the expected financial impact. In particular, we focused on the Group's expected recognition of a right-of-use asset of \$54,243,000, lease liability of \$64,970,000, deferred tax asset of \$1,612,000 and adjustment to opening retained earnings of \$3,761,000 on 1 July 2019.

AASB 16 will drive a significant change in the Group's accounting policy for leases when it becomes effective in the Group's 30 June 2020 financial report.

Disclosure of the expected impact of AASB 16 was a key audit matter due to the:

- Relative magnitude – due to the size of balances disclosed and significant expected financial impact on the Group's financial position and performance thereafter;
- High volume of leases – significant proportion of audit effort applied to gather audit evidence for the multiple and varied inputs into the Group's AASB 16 lease calculation model, across a high volume of individualised lease agreements used to calculate the estimated amount of the lease liability, right-of-use asset, deferred tax asset, and retained earnings. These include key terms of the lease agreements, such as key dates, fixed and variable rent payments, renewal options, incentives and make good obligations;
- Judgement applied by us to assess the Group's incremental borrowing rates used – these are judgmental in nature and meant to reflect the Group's entity specific credit risk and varies based on each lease term. We involved our debt advisory specialist in our assessment.

#### How the matter was addressed in our audit

Our procedures included:

- Considered the appropriateness of the Group's expected new and revised accounting policies and its AASB 16 lease calculation model against the requirements of the AASB 16 and our understanding of the business.
- Obtained an understanding of the Group's new processes and systems used to calculate the lease liability, right-of-use asset, deferred tax asset and retained earnings adjustment.
- Compared the Group's inputs in the AASB 16 lease calculation model, such as, key dates, fixed and variable rent payments, renewal options, incentives, and make good obligations to the relevant terms of the underlying signed lease agreements for consistency.
- Assessed the Group's determination of lease terms based on the probability of the Group exercising the lease renewal options. We considered the Group's assessment of the financial incentives to exercise the lease renewal options, and compared to board approved plans and strategies.
- Working with our debt advisory specialists, we independently developed a series of point estimates for the incremental borrowing rates applied to the leases using the S&P Healthcare indicative credit rating and corporate yield curve, adjusted by risk factors specific to the Group, the industry it operates in, and each lease term. We compared it to the incremental borrowing rates used by the Group.
- Assessed the integrity of the AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas. For a sample of leases in the Group's AASB 16 lease calculation model, we recalculated the amount of lease liability, right-of-use asset, deferred tax asset and retained earnings using the relevant terms of the underlying signed lease agreements. We compared the recalculated amounts against the amounts recorded by the Group.

## INDEPENDENT AUDITOR'S REPORT



	<ul style="list-style-type: none"> <li>Assessed the completeness of leases included in the Group's AASB 16 lease calculation model. We compared the number of leases included in the model to the number of dental centres as at year end. We inspected lease related expense accounts for routine payments during the year to identify existence of lease agreements not included in the model.</li> <li>Assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard.</li> </ul>
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### Other Information

Other Information is financial and non-financial information in Pacific Smiles Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report, the Remuneration Report, the Shareholder Information and the Corporate Directory. The Highlights, the Chairman's Review and the Managing Director's Review are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

### Report on the Remuneration Report

#### Opinion

In our opinion, the Remuneration Report of Pacific Smiles Group Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

#### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

#### Our responsibilities

We have audited the Remuneration Report included in pages 21 to 30 of the Directors' report for the year ended 30 June 2019.

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

KPMG

Sarah Cain

Partner

Sydney

21 August 2019

## SHAREHOLDER INFORMATION

As at 1 August 2019

### Distribution of Equity Security Holders

Range	Number of equity security holders
1 – 1,000	206
1,001 – 5,000	273
5,001 – 10,000	135
10,001 – 100,000	215
100,001 and over	64
<b>Total</b>	<b>893</b>

There were 103 holders of less than a marketable parcel of ordinary shares.

### Twenty Largest Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
HSBC Custody Nominees (Australia) Limited	34,313,705	22.58
Alexander John Abrahams	20,436,010	13.45
Alison Jane Hughes	15,860,190	10.43
National Nominees Limited	13,625,925	8.96
Susan Louise Abrahams	11,439,269	7.53
JP Morgan Nominees Australia Limited	5,205,213	3.42
Just Paddling Pty Limited	4,019,082	2.64
Citicorp Nominees Pty Limited	3,567,813	2.35
Robert G Cameron and Paula S Cameron	3,533,258	2.32
Channings Holdings Pty Limited	3,090,150	2.03
Karen Wright	2,022,000	1.33
Sudemo Pty Limited	1,741,017	1.15
Lodka Pty Limited	1,728,081	1.14
Amanda Taylor	1,647,735	1.08
Sterling Surgical Pty Limited	1,515,000	1.00
BNP Paribas Nominees Pty Limited	1,376,494	0.91
Levigrad Pty Limited	1,212,695	0.80
William McIlwraith Pty Limited	1,185,000	0.78
Trevor Collins and Dianne Collins	1,128,480	0.74
Anthony William John Coleman	1,000,000	0.66
<b>Total</b>	<b>129,647,117</b>	<b>85.30</b>
Other holders	22,346,278	14.70
<b>Total quoted equity securities</b>	<b>151,993,395</b>	<b>100.00</b>

## Unquoted Equity Securities

	Number on issue	Number of holders
Performance rights issued under the Company's LTI plan	7,551,000	9

## Substantial Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
Alexander John Abrahams and his associates	36,327,361	23.90
TDM Asset Management Pty Ltd and its associates	32,777,817	21.57
Alison Jane Hughes	15,860,190	10.43

## Voting Rights

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



## CORPORATE DIRECTORY

### Principal Registered Office

Level 1, 6 Molly Morgan Drive  
Greenhills NSW 2323  
T: 02 4930 2000  
F: 02 4930 2099  
W: [pacificsmilesgroup.com.au](http://pacificsmilesgroup.com.au)

### Directors

**Robert Cameron AO**

Non-Executive Chairman

**Phil McKenzie**

Managing Director and Chief Executive Officer

**Dr Alex Abrahams**

Non-Executive Director

**Hilton Brett**

Non-Executive Director

**Ben Gisz**

Non-Executive Director

**Zita Peach**

Non-Executive Director

**Simon Rutherford**

Non-Executive Director

### Company Secretary

Mark Licciardo and Belinda Cleminson

### 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](mailto:registrars@linkmarketservices.com.au)

### Stock Exchange Listing

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



