PACIFIC SMILES GROUP

Annual Report 2022

PACIFIC SMILES GROUP

Our true purpose is to improve the oral health of ALL Australians to world's best.

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PacificSmiles
DENTAL

Chairperson's Letter

FY22 was a difficult year for many customer facing businesses, particularly so for healthcare industry participants like Pacific Smiles. However, as difficult as this period has been, it has not altered our long-term goals, which are underpinned by a strategy centred on culture, operational excellence, same-centre growth, innovation and network growth. Nevertheless, we are a business that relies on face-to-face contact between dentists practicing in our centres and their patients. As such, the FY22 COVID-related lockdowns, restrictions and community illness had a significant impact on our ability to see patients and maximise revenue from the network and infrastructure that we have steadily built over many years.

Notwithstanding this disruption, all our centres remained open during the pandemic, to support dentists who wanted to provide oral care services to their patients. However, the decision to keep our centres open impacted our ability to manage costs in proportion to the impact of the pandemic on our top line. There are now positive signs that the worst of the pandemic, as it affects our business, is behind us as the volume of patients booking appointments with us has started to improve.

2022 Performance[1] Highlights

PATIENT FEES DOWN 6.0%
$226.4m

DENTAL CENTRES[2] UP 16.5%
127

UNDERLYING NPAT
($3.2m)

SAME CENTRE GROWTH
(10.1%)

UNDERLYING EBITDA DOWN 65.9%
$11.3m

ORDINARY DIVIDENDS DOWN 2.4CPS
NIL

1. Comparison to FY2021.
2. Excludes HBF dental centres and is following the closure of our Lismore centre which sustained significant flood damage earlier this year.

We also continued to invest in FY22, establishing 19 new high quality centres. While these centres opened into a challenging operating environment, history demonstrates they will generate attractive long-term returns for our shareholders. Indeed, a number of these new centres opened with record pre-opening appointment numbers, underscoring the attractive locations that these centres were opened in.

In February Andrew Knott joined as a Non-Executive Director as the newest addition to the Pacific Smiles Board. Andrew is a highly experienced marketing executive who has served in senior marketing roles in Australia, Asia and the United States. His experience is valuable to the Board as we continue to execute on our growth strategy and better communicate with our patients including via the use of digitalisation.

COVID impacted underlying EBITDA, which was down 65.9% to $11.3 million, and the Company recorded an underlying net loss of $3.2 million. Of note, by comparison, our FY21 EBITDA included $3.1 million in net JobKeeper, which was not repeated in FY22. Patient fees for the year reached $226.4 million, down only 6.0% on the prior year driven by the decline in same-centre fees and the lag in growth of our new centres due to restrictions and illness that negatively impacted patient attendance. Given this result and the unique operating challenges, the Board felt it was prudent not to declare an interim or final dividend for FY22.

The fall in our share price in FY22, reflecting the financial impacts that the challenging operating environment has had on our business, is disappointing. The Board and the management team are singularly focused on driving improved performance and growth, with the business very well positioned to benefit from the increased demand for dental services as Australia emerges from the worst of the pandemic.

As noted, for the full year we added 19 new centres across our growing network and 72 new dental chairs. A solid balance sheet and financial flexibility underpin Pacific Smiles' continued capital commitment to growth, underpinning our position as Australia's fastest growing dental services organisation.

Unfortunately, we made the difficult decision to permanently close our centre in Lismore, following the devasting floods in that region. Pursuant to that closure we were able to consolidate our Northern Rivers operations into our Ballina centre, such that our staff could remain employed and dentists are able to treat their patients.

Staying connected with our valued partners remained a priority in FY22, including our ongoing relationships with the Australian Dental Association (ADA), HBF Health Fund and nib Health Fund. Our partnership with the ADA helped support practitioners throughout the year including resources, events and industry awareness. Our partnership with HBF saw four new dental centres successfully opened in Western Australia, despite ongoing COVID-related uncertainties throughout other States. We also continued our longstanding collaboration with nib, now in its eighteenth consecutive year of operation, with 11 centres now supported across four States by PSG.

On behalf of PSG, I would like to thank the dentists who choose to use our service and facilities and provide such high quality care to patients during a difficult year of operations. Thank you to our dedicated employees, fellow Directors, and the members of the Executive Leadership Team for their focus and commitment this year through unprecedented conditions.

Our CEO, Phil McKenzie, has built strong foundations within the business to help us successfully emerge from the worst of the pandemic with an optimistic future. On behalf of the Board, I would like to thank Phil for his steadfast leadership during this challenging period.

Thank you to our shareholders for your continued support.

Zita Peach
Chairperson

CEO's Report

In FY22, we faced unique challenges and disruptions, however these challenges have not wavered us in our goal of remaining Australia's fastest growing dentist services organisation. Our ability to see patients and maximise revenue from our network this year was inevitably affected, yet we continued to make decisions based on our commitment to long-term value creation for our shareholders. We operated with a steady eye on our known success factors, our commitment to growth, the retention of our valued practitioners and staff, and continued investment in key infrastructure and technology projects.

Part of our success during this difficult period has been made possible with recent appointments within the Executive Leadership Team at Pacific Smiles. The appointments reflect our investment in talent and culture as part of our long-term growth strategy. They included Paul Robertson appointed to the newly created role of Chief Commercial Officer, Ciara Rocks appointed to Chief Operating Officer, Louise Hayes appointed to Executive General Manager People and Culture, and Alice Telford appointed as Executive General Manager Marketing.

In FY22, we proudly expanded our dental centre network to 127 locations. We opened 13 new centres in New South Wales, 4 new centres in Victoria, and 2 new centres in Queensland. The centres are placed in high quality locations and are well positioned within our broader network. The new centre openings were supported by our tried and tested pre-booking campaigns, and forward bookings were strong for each of the new openings including several all-time-high records for new patient acquisition. Despite the disruption caused to normal construction and fit-out timelines, our team was able to deliver these centres at a reduced capital construction cost relative to prior years.

We also added to the volume of dental chairs in operation across our network in FY22, which gave us the capacity to service demand at a lower incremental cost.

2022 Operational Snapshot

NEW DENTAL CENTRES
19

DENTIST RETENTION
>85%

NUMBER OF DENTISTS[2]
>850

NEW DENTAL CHAIRS[1]
72

NET PROMOTER SCORE
>85

EMPLOYEE RETENTION
>75%

15 chairs in existing centres

1. Excluding HBF, and excluding the closure of our ETD Phillip and PSD Lismore centres.
2. Number of dentists as at the 30 June 2022 and includes 46 HBF Dentists.

For the full year we increased our available chairs within both new and existing centres, taking us to a total of 534 dental chairs commissioned across the network by the end of the year.

Alongside this increased capacity to service patients, we maintained ongoing focus in our technological capabilities. Investment in technology remains important in the attraction and retention of both dentists and patients alike within our centres. In FY22, we laid the groundwork for upgraded 3D scanners to be rolled out across the business, with completion in early FY23, which helps deliver on our promise to dentists to support them in their practice with the latest technology.

Throughout the year, we also opened four new HBF Dental centres, taking the total number of these centres to six with 46 dentists practicing. HBF Dental provided over 10,000 appointments with high net promoter score of 80. The new centres performed strongly and were typically booked out six weeks in advance. All centres have state of the art facilities with top-of-the-line ergonomic and functional surgery chairs, 3D imaging and scanners. These are all important features for our dentists along with clinical autonomy and appointment book fulfilment.

Growth throughout this challenging year could not have been made possible without our unified culture. For Pacific Smiles, this means ensuring our people share our purpose, enjoy what they do, and operate together as a seamless unit. A positive culture translates to strong dentist, patient and employee experiences and, ultimately, accretive shareholder returns.

The patient experience at a PSG centre is a reflection of our culture and is a critical measure of our ability to retain our patients. In FY22, we received a net promoter score of more than 85 across the PSG network, which was a very pleasing result during a trying period.

By the end of the year, supported by our team, we had more than 850 dentists practicing from Pacific Smiles centres, with a retention rate above 85%. This is a particularly pleasing result given the disruption we faced and is testament to the decision that was made by the Company to keep all centres open and provide the opportunity for our dentists to continue to practice.

Our employee retention rate of just over 75%, just slightly down on the prior year, also supports the decision to keep all our centres open throughout the pandemic. We offer our employees a long-term vocation, advancement opportunities and career pathway that engenders loyalty and, in turn, positive patient experience.

In FY22, our business continued to reflect on our commitments to sound environmental management, social equity and quality governance. We committed that 25% of our energy purchased, via direct contracts with energy retailers, will be from renewable sources for three quarters of FY23, with the new contracts taking effect from 1 October 2022. We are also in the process of transitioning our main supply of dental consumables to FSC-certified packaging, which is more recyclable. A drive to paperless invoicing and patient forms will also reduce paper consumption.

Inclusion and diversity remains an important part of our corporate responsibility. Alongside increased diversity in key leadership positions, we were pleased to introduce new AI technology to help eliminate bias from candidate screenings across the wider business.

With all of these factors considered, and with a difficult year now behind us, I believe our business is in a robust position to be optimistic about our post-pandemic future. Our network is well positioned to benefit from the increased demand for dental services as Australia emerges from the worst of the pandemic. We have kept the market continually apprised of our trading during 2022 and it is evident that our patient volumes and enquiries are on a trajectory that is gradually returning. We do not forecast the same surge or pent-up levels of demand we have seen previously post hard lockdowns earlier in the pandemic; rather a steadier rate of growth and margin expansion.

Our long-term growth target remains intact. We will continue to add new dental centres, positioning them in the right areas to maximise efficiencies and economies of scale, capitalising on market opportunities, at a rate that aligns with sensible management of our balance sheet and use of capital.

To the dentists who practice at Pacific Smiles, our partners, our shareholders, and our employees, I would also like to say thank you. We value the trust you place in us by choosing to operate in our network and appreciate your contribution to delivering on our true purpose of improving the oral health of all Australians to world's best.

Business Review

In FY22, Pacific Smiles delivered over 870,000 patient appointments with a patient net promoter score of greater than 85. We opened 19 new Pacific Smiles dental centres. In New South Wales we opened new centres in Cameron Park, Chatswood, Chullora, Corrimal, Dapto, Goulburn, Hornsby, Maroubra, Merrylands, Newcastle, Richmond, Rockdale and Sylvania. We also opened new centres in Coomera and Loganholme in Queensland, as well as in Craigieburn, Doncaster East, Frankston and Oakleigh in Victoria, taking the network total to 127 centres, excluding Lismore.

The PSG dental centre located in Lismore was damaged in the major flood event on 28 February 2022. This centre was not able to be repaired and restored and the decision was made to close the centre.

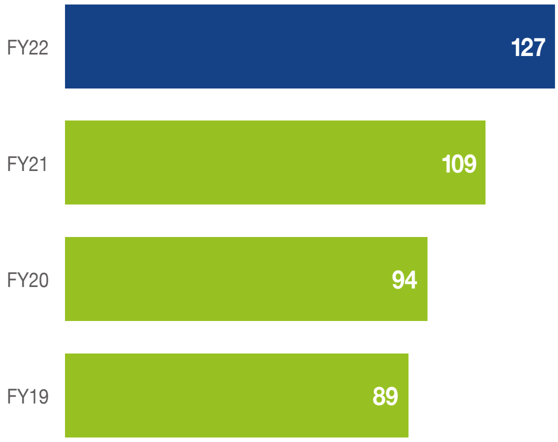
The 2022 financial year was challenging for Pacific Smiles, given the effects of the Delta and Omicron COVID-19 variants, which had a material impact on patient attendances and practitioner availability to see patients. Patient fees and underlying EBITDA declined by 6.0% and 65.9% in FY22, respectively.

Notwithstanding the external forces that contributed to a difficult operating and financial environment, Pacific Smiles continued to focus on ensuring practitioners feel respected and enabled to treat their patients with the highest quality care, utilising the latest technology. No centres were closed due to the impacts of the pandemic, ensuring that patients who required care were able to visit a dentist. That patients feel they can trust Pacific Smiles to ensure they receive the highest quality care, and that our employees know that they matter to Pacific Smiles, is at the core of what we do.

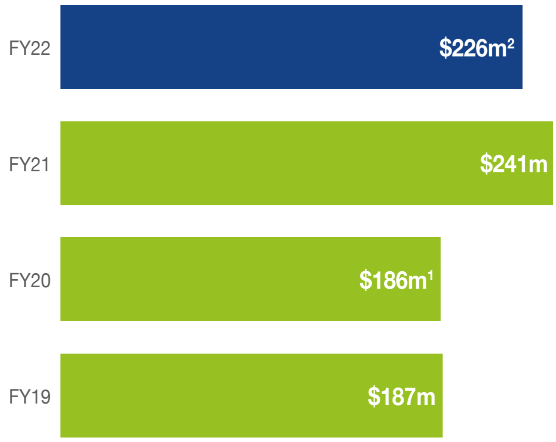
FY22 marked the completion of a significant upgrade in Pacific Smiles' systems and infrastructure, that has been progressing over the last two years. This investment included the establishment of a single patient record in the cloud, e-form technology, an internally managed data warehouse, an upgraded ERP and 3D scanners for dentists. This investment positions Pacific Smiles to simplify its systems and process and allow the business to efficiently scale its operations into the future.

The 2022 financial year marked the second year of Pacific Smiles' relationship with HBF to commission and operate dental centres on their behalf for at least the next nine years. Pacific Smiles now operates six HBF Dental centres in Western Australia, opening four new centres in FY22. Furthermore, HBF acquired

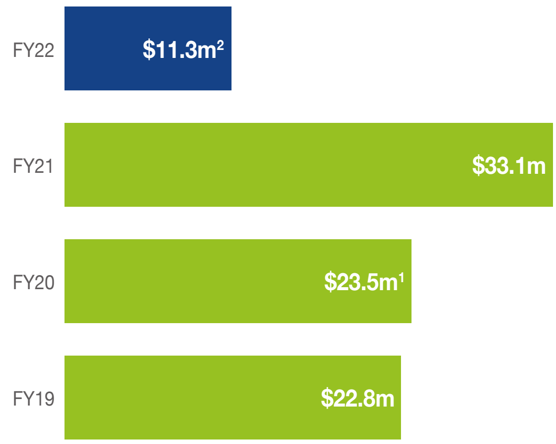
Number of Centres



Patient Fees $m



EBITDA (underlying) $m



1. FY20 impacted by government mandated dental restrictions due to COVID-19.
2. FY22 impacted by wide-spread outbreak of COVID-19 variant Omicron and government mandated lockdowns.

10% of the issued shares in Pacific Smiles in FY22, building upon the newly established commercial relationship.

The long-term plan remains simple and focused on growing the core business through our unique greenfield centre expansion program, and our goal of more than 250 centres and 800 chairs is unchanged.

We will continue to make decisions with an eye to long-term value creation, consistent with our known success factors and capitalising on technology innovations. The dedication and discipline of the entire team, focused equally on execution today and tomorrow's performance objectives, will ensure prosperity.

Statutory Results

Statutory net loss after tax for the year was $4.5 million. This result is down on the FY21 statutory net profit after tax of $12.9 million, a decrease of 134.9%. The statutory results for the year were impacted by COVID-19 via the impact of government mandated restrictions on dental services in the first half of the financial year amidst the Delta outbreak, and the further Omicron outbreak that predominantly impacted the second half of the financial year. However, improved performance was observed late in the second half of the financial year, as the broader community has started to adapt to living with COVID and government-imposed restrictions on movement were eased. There are several underlying adjustments for both FY22 and FY21, and these are detailed in the table on page 9.

The business review will focus on the underlying results for FY22 and the comparative period, excluding the impacts of AASB 16. Removing these impacts enhances the year-on-year performance comparisons.

Underlying Results

Underlying EBITDA, exclusive of the impacts of AASB 16, decreased by 65.9% to $11.3 million compared with the previous financial year.

Group revenue was $139.5 million, down by 8.9% 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 offer exceptional patient care.

The decline in revenue can be directly attributed to the impacts of COVID-19 on the business in 2022. Notwithstanding, Pacific Smiles has enduring conviction in its business model, which is why investment in 19 new centres was undertaken in FY22. This will position Pacific Smiles to capitalise on a trading environment that is already showing signs of returning to normal.

Patient fees decreased 6.0% over the previous year to $226.4 million, including a same centre fee decline of 10.1%, combined with the full year effect from new centres opened in FY21 and part-year impact of new centre openings in FY22. The new centres opened in both FY21 and FY22 are performing below the rate which new centres are generally expected to achieve in an uninterrupted operating environment. Pacific Smiles expects these centres to improve performance in FY23 and generate returns in line with ordinary course expectations.

Underlying NPAT (excluding AASB 16) decreased by 122.6% to a $3.2 million loss compared to $14.0 million profit in the prior year.

Depreciation and amortisation costs (excluding the impact of AASB 16) totalled $15.1 million; an increase of $3.1 million from the prior period. The net JobKeeper benefit received by the Group in FY21 was $3.1 million. There were no JobKeeper payments received during the financial year.

Business Review
Continued

Group Financial Performance

$ million	Underlying 2022*	Underlying 2021*	Change
Revenue	139.5	153.2	(8.9%)
Gross profit	132.8	143.5	(7.4%)
EBITDA	11.3	33.1	(65.9%)
EBIT	(3.9)	21.0	(118.4%)
Net profit after tax	(3.2)	14.0	(122.6%)
Operating metrics			
Number of Dental Centres	127	109	16.5%
Commissioned Dental Chairs	534	467	14.3%
Patient Fees ($ millions)	226.4	240.8	(6.0%)
Same Centre Patient Fees growth	(10.1%)	26.0%	
Financial metrics			
Earnings per share (cents)	(2.0)	8.9	
EBITDA margin	8.1%	21.6%	
EBITDA to Patient Fees margin	5.0%	13.7%	
EBIT margin	(2.8%)	13.7%	

* Excludes the impacts of AASB 16.

Adjustments to the consolidated statements of profit or loss and other comprehensive income

	2022 $ million	2021 $ million
Statutory net (loss)/profit after tax	(4.5)	12.9
Severance and HR consultancy expense	0.2	0.6
Executive LTI plan expense	2.3	–
Asset impairment	–	0.9
Flood damaged asset write-offs	0.3	–
Income tax effect of adjustments	(0.8)	(0.4)
Underlying net (loss)/profit after tax	(2.5)	14.0
Net tax impacts of AASB 16	(0.6)	–
Underlying net (loss)/profit after tax excluding the impacts of AASB 16	(3.2)	14.0

Amounts in the table have been rounded to the nearest $ million. Any discrepancies between the totals and sums of components are due to rounding.

Financial Position

Pacific Smiles has a strong focus on cash management and fiscal discipline. Our year end net debt is $6.7 million. Debt facilities with CBA were refinanced in FY22 for a further three years on more favourable terms, via a $40.0 million Loan Facility Agreement. This facility is currently drawn to $18.5 million, Pacific Smiles continued to invest in new centre growth in FY22, building 19 new centres, funding for which was majority drawn from debt. Notwithstanding the increase in drawings in FY22, Pacific Smiles remains well inside its financial covenants under the Loan Facility Agreement.

The Company will continually evaluate the appropriateness of the rate of opening new centres considering the current operating environment and the focus on prudent capital management.

Capital expenditure for the year was lower at $22.8 million (FY21: $25.5 million). We invested in 19 new centres, 15 additional chairs in existing centres, as well as one expansion, two relocations, and $3.5 million in technology upgrades.

The Market

The market for dental services in Australia is approximately at $10.6 billion per annum in 2022 and is forecast to improve over the next five years.

Continued demand for dental services from older Australians, the need for improved oral health standards and increased demand for cosmetic and restorative dental procedures are projected to support industry revenue over the next five years. Industry revenue is forecast to rise at an annualised 1.1% over the five years through 2026-27, to $11.2 billion.

According to the Australian Dental Association's (ADA) Australia's Adult Oral Health Tracker 2020, the prevalence of tooth decay and gum disease among adult Australians has increased since 2004-05. The ADA is also warning of a future spike in tooth decay and other oral health issues due to the disruption in dental services as a result of the COVID-19 pandemic.

However, COVID-19 has also impacted on supply and demand for dental services with Government mandated lockdowns and ongoing illness and isolation requirements impacting both patients and dentists.

Business Review

Continued

Other macroeconomic conditions are presenting headwinds to the market with inflation and rising interest rates impacting household disposable income. Given most patients pay for dental services using their own income, often subsidised by private health insurance extras cover, this has the potential to impact patient demand.

The market has also experienced a slight reduction in private health insurance membership numbers over the past five years. The prevailing macroeconomic conditions are also likely see this trend continue in the short to medium term.

These variables have contributed to sluggish revenue growth at 0.6% annualised over the five years through 2021-22.

The industry continues to be highly fragmented with most 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 market continues to see growth in the number of registered dentists. The increase in recent years has been the combined impact of overseas trained dentists and local graduates. New dentists generally open their own businesses, although some join existing operators. A growing number of new dentists have joined corporate dental groups over the past five years, making corporate dentistry more commonplace in the industry.

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.

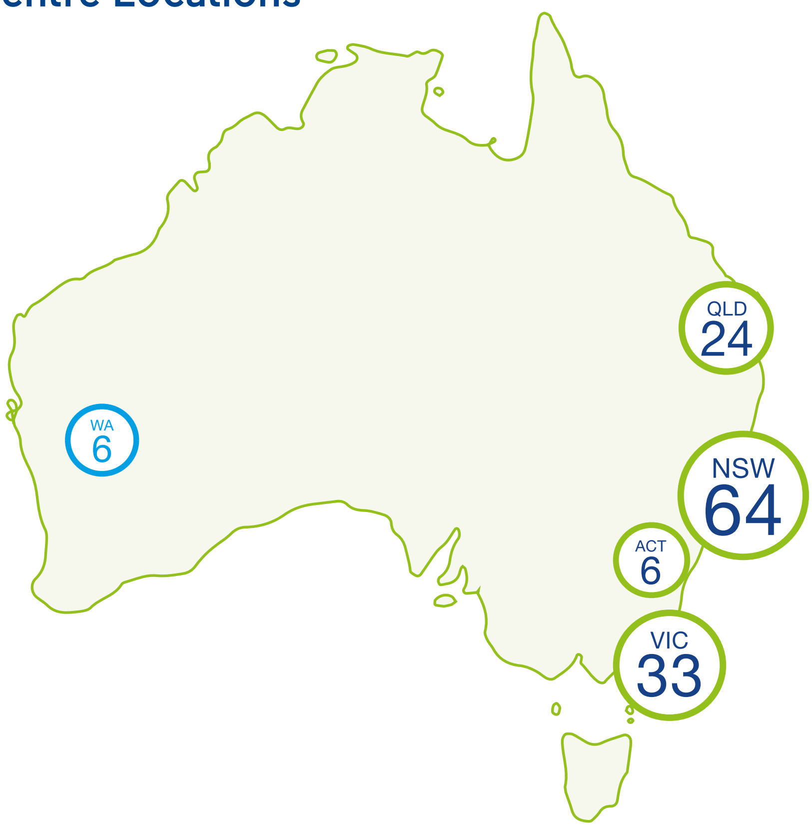
Pacific Smiles has established policies and structures for oversight and management of material business risks. Further information regarding how Pacific Smiles recognises and manages risks can be sourced from our Corporate Governance Statement and related governance policies on our website.

Phil McKenzie
Chief Executive Officer and Managing Director

The following risk areas and mitigating factors have been identified by Pacific Smiles:

Risk Areas	Mitigating Factors
General economic conditions – downturns in general economic conditions could adversely impact demand for dental services, given the discretionary nature of some of those services. A higher inflationary environment may drive up costs that are unable to be fully passed on, creating pressure on operating margins.	Dentists at Pacific Smiles' dental centres provide a range of treatments to patients in several different geographic zones throughout the eastern States of Australia. Pacific Smiles' operating efficiencies with increased scale provide the opportunity to offset increases in costs.
Government regulations, legislation and tax risks – changes in government regulations and legislation applicable to Pacific Smiles that increase costs of compliance, minimum or award wage rates paid to employees and direct and indirect taxation.	Pacific Smiles has a risk management framework that considers the risks of change in law. It is regularly reviewed by its Audit and Risk Committee and the Company takes advice from expert counsel regarding its contractual arrangements and regulatory compliance.
Reduction in private health insurance coverage – 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.
Competition-induced fee pressure – an increase in the number of practicing dentists could increase competition for patients and the degree to which dentists compete based on fee levels.	Pacific Smiles' dental centres are usually differentiated from other local providers and compete based on convenience, value, access and overall patient experience.
Termination of Service and Facility Agreements by dentists – 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.
Reputational damage – 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 internal and external appointments to the Dental Advisory Committee.
Infection risks – transfer of infection to individuals due to safety or sterilisation breaches in a dental centre may lead to harm to individuals and negative reputational impacts on Pacific Smiles as well negative economic consequences.	Pacific Smiles has a clinical governance framework that governs infection control management procedures, including a training program. Clinical risks are coordinated and managed by a dedicated clinical specialist team.
Supply of skilled dentists – should the availability of appropriately skilled and aligned dentists become restricted, then growth and expansion of Pacific Smiles could be slowed.	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.
Pandemic – should a pandemic restrict the dental services able to be performed in specific locations, States or nationally due to the risk of infection to staff, dentists and patients.	Close monitoring and adherence to government or professional body recommendations. Ensuring adequate stock of appropriate personal protective equipment (PPE), and close focus on internal procedures and clinical governance by management and the Board.
Cyber Security – actions whereby the Company's IT systems are accessed and result in the failure of or interruption to key IT systems or a material patient privacy breach.	Pacific Smiles Group has industry best practice controls in place to minimise technology related business interruptions and to manage the end-to-end cyber lifecycle. Cyber and technology roadmaps are in place to continually uplift their maturity in both areas to meet compliance and operational expectations.
Key Supply Chain – should an event result in the closure, restriction or delay of key consumables or personal protective equipment (PPE) meaning our ability to meet the needs of patients or support dentists could be impacted.	Long-term relationships with national suppliers and back-up suppliers identified. Close monitoring of inventory levels and ensuring adequate stock of appropriate personal protective equipment (PPE). Strategy for emergency store of critical PPE endures.

Centre Locations



WA

Managed Services HBFD

Bull Creek
Cannington
Joondalup
Karrinyup
Mandurah
Morley

ACT

Belconnen
Gungahlin
Manuka
Tuggeranong
Woden
nib Woden

QLD

Aspley
Birtinya
Bribie Island
Brisbane CBD
Browns Plains
Buddina
Burleigh Heads
Capalaba
Cleveland*
Coomera**
Deception Bay
Helensvale
Loganholme**
Mitchelton
Morayfield
Mt Gravatt
Mt Ommaney
Newstead*
North Lakes
Redbank Plains
Robina
Runaway Bay
Strathpine
Victoria Point*

VIC

Bairnsdale
Bendigo
Caroline Springs
Chirnside Park
Craigieburn**
Cranbourne Park
Doncaster East**
Drysdale
Epping
Frankston**
Glen Iris
Glen Waverley
Greensborough
Keysborough
Leopold
Melbourne
nib Melbourne
Melton
Mill Park
Mulgrave
Narre Warren
Oakleigh**
Ocean Grove
Point Cook
Preston
Ringwood
Sale
Taylors Lake*
Torquay
Traralgon
Warragul
Waurn Ponds
Werribee

NSW

Ashfield*
Balgowlah
Bateau Bay
Ballina*
Bass Hill*
Baulkham Hills
Belmont
Belrose
Bondi Junction*
Blacktown
Brookvale
Cameron Park**
Campbelltown
Charlestown
Chatswood**
nib Chatswood
Chullora**
Corrimal**
Dapto**
Erina
nib Erina
Figtree
Forster
Gladesville
Glendale*
nib Glendale
Goulburn**
Greenhills
Greenhills Ortho*
Hornsby**
Hurstville*
Jesmond
Kotara
Lake Haven
Lane Cove*
Maroubra**
Marrickville
Merrylands**
Morisset
Mount Hutton
Narellan
Newcastle**
nib Newcastle
nib North Parramatta
Nowra
Parramatta
Penrith
Queanbeyan
Raymond Terrace*
Richmond**
Rockdale**
Rutherford
Salamander Bay
Shellharbour‡
Singleton
Sylvania**
nib Sydney
Toronto
Town Hall
Tuggerah
Tweed Heads
Wagga Wagga
Wollongong*
nib Wollongong

Notes:
* FY21 New Centres
** FY22 New Centres
‡ Warilla merged with Shellharbour

Environmental, Social and Governance

PSG makes a difference through strategic initiatives in the field, at our Dental Centre Support office and in our new centre build schedules.

Environmental

25% of energy purchased via direct contracts with retailers will be from renewable sources, taking effect from 1 October 2022.

Our major dental consumables supply is in the process of transitioning to FSC certified packaging – responsibly sourced and with a higher recycled content.

We implemented paperless invoicing and patient eforms saving 96,000 sheets of paper.

Social

Our inclusion and diversity program in 2022 included the introduction of AI technology to reduce bias from candidate screenings in our recruitment process.

We give back. We continue to engage in Dental Rescue and Adopt-a-Patient days and in 2023 we will host work experience programs for high school students through the Mindshop Excellence Program.

Governance

We build transparency and trust through strong governance.

Our policies and procedures guide our people on how to make the right decisions and demonstrate ethical behaviours.

Consolidated Financial Report 2022

Directors' Report

30 June 2022

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Pacific Smiles Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

Directors

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

Ms Zita Peach

Mr Phil McKenzie

Dr Scott Kalniz

Mr Mark Bloom

Mr Hilton Brett

Mr Simon Rutherford

Mr Ben Gisz (resigned 23 November 2021)

Mr Andrew Knott (appointed 6 February 2022)

Principal activities

The consolidated entity 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.

Dividends

Dividends paid during the financial year were as follows:

	2022 $'000	2021 $'000
No dividend has been declared or paid for the year ended 30 June 2022 (2021: 2.40 cents per ordinary share, fully franked)	–	3,830

Pacific Smiles recorded a net loss for the year ended 30 June 2022 and continues to face an uncertain fiscal and environmental outlook in the next financial year. Therefore, the Company has not declared a final dividend. The Company plans to resume dividend distributions in the next financial year should trading conditions improve as expected.

Review of operations

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity 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.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Board of Directors

Ms Zita Peach

Non-Executive Chairperson, appointed February 2020
Non-Executive Director, appointed August 2017
Member of the Nomination and Remuneration Committee

BSc, FAICD, FAMI

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 and Starpharma Holdings Limited. Zita is also a member of the Hudson Institute of Medical Research Board. Zita is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Marketing Institute.

Other current directorships:
Monash IVF Group Limited
Starpharma Holdings Limited.

Former directorships (last three years): Nil.

Interests in shares: 50,087

Mr Phil McKenzie

Chief Executive Officer and Managing Director, appointed October 2018

B.Bus (Auckland University of Technology)

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.

Other current directorships: Nil

Former directorships (last three years): Nil

Interests in shares: 10,600

Mr Mark Bloom

Non-Executive Director, appointed October 2019
Member of the Audit and Risk Management Committee

B.Comm, B.Acc, CA ANZ

Up until April 2019, Mark held the position of Chief Financial Officer at ASX 20 listed Scentre Group Limited (owner and operator of Westfield in Australia and New Zealand). Mark's executive career as a Finance Executive has spanned 36 years as Chief Financial Officer and an Executive Director at three top 20 listed entities in Real Estate (Westfield and Scentre Group – 16 years) and Insurance and diversified Financial Services (Liberty Life, South Africa and Manulife Financial, Toronto – 20 years). He has had extensive experience in running global and local Finance and IT teams encompassing Treasury, Tax, Operations, Finance, Compliance, Risk Management, Financial Reporting, Legal and Information Technology. Mark has extensive experience in corporate transactions and restructuring. Mark is a Non-Executive Director at AGL Energy Limited and Abacus Property Group.

Other current directorships:
AGL Energy Limited
Abacus Property Group

Former directorships (last three years): Nil

Interests in shares: 277,952

Mr Hilton Brett

Non-Executive Director, appointed August 2018

Chairman of the Nomination and Remuneration Committee

B.Comm, PGDA

Hilton is an Operating Advisor at TDM Growth Partners (TDM), a private global investment firm founded in 2004, with offices in Sydney and New York which invests in fast growing companies run by passionate management teams. Hilton is a Non-Executive Director of Guzman Y Gomez Mexican Taqueria (GYG), and Somnomed Ltd (SOM: ASX). Prior to joining TDM, Hilton was the Co-CEO of Accent Group Limited (AX1), formerly RCG Corporation Ltd, which is the regional leader in the retail and distribution of performance and lifestyle footwear Australia and New Zealand. Hilton joined RCG in 2006 when the business had a market capitalisation of $8 million. Over the 12 years from 2006 to 2018, the team grew the business to $800 million market capitalisation and delivered total shareholder returns in excess of 25% CAGR. Hilton has over 25 years' experience as CEO of multiple consumer businesses with proven skills in growing the businesses and delivering outstanding returns for shareholders.

Other current directorships: Somnomed Ltd

Former directorships (last three years): Nil

Interests in shares: 100,000

Dr Scott Kalniz

Non-Executive Director, appointed in 2021

Member of the Audit and Risk Management Committee

DDS and BS in Business Administration, Economics (The Ohio State University)

Dr Kalniz has over 20 years of dental industry experience in the United States. He started his career as a practicing dentist with a single location practice and purchased a number of other dental practices, eventually selling his group to North American Dental. At North American Dental, he helped grow the business to over 50 locations. Dr Kalniz then partnered with a private equity firm, as CEO and Chief Dental Officer, to create a new Chicago headquartered Dental Services Organisation (DSO), Elite Dental Partners. In under five years, the business grew to over 110 locations in 12 States. Dr Kalniz retired from the Board of Elite Dental Partners in September 2020.

Other current directorships: Signature Dental Partners

Former directorships (last three years):
Elite Dental Partners

Heartland Veterinary Partners

Interests in shares: 20,000

Mr Simon Rutherford

Non-Executive Director, appointed in 2003

Chairman of the Audit and Risk Management Committee

B.Comm, CA, FAICD

Simon is a chartered accountant and partner with PKF in business advisory services. He has been with the firm for over 35 years. He works with corporate and family owned groups as an advisory board member and lead advisor on strategy, governance, structuring, business sales, mergers and acquisitions. He is also a Director of PKF Wealth. In his role Simon has assisted various companies with capital raising and listing requirements. Simon was a Director of the Trustee of Canyon Property Trust and is involved with other syndicated investments. He has also served on a number of boards including National Brokers Group and Vow Financial Group.

Other current directorships: Nil

Former directorships (last three years): Nil

Interests in shares: 1,744,863

Mr Andrew Knott

Non-Executive Director, appointed in 2022

Member of the Nomination and Remuneration Committee

B Bus, Marketing and Finance

Up until January 2022, Andrew held the role of President – Verizon within the Advertising Agency, the Publicis Groupe. Leading over 850 staff delivering across media, customer experience, data and analytics, marketing optimisation and creative for Verizon Consumer, Business and Media Groups, Andrew was accountable for accelerating change for marketing, channel development, sales effectiveness, customer analytics and operations, overseeing $1.5 billion in client spend and delivering over $200 million in group revenue. On the operating business side, Andrew has held Chief Marketing roles at JPMorgan Chase & Co, National Australia Bank (NAB) and as Vice President Digital Transformation and Marketing at McDonald's. Andrew has extensive experience as a senior executive in Australia, Asia Pacific and the United States.

Other current directorships: Nil

Former directorships (last three years): Nil

Interests in shares: Nil

Directors' Report
Continued

'Other current directorships' quoted above are current directorships for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

'Former directorships (last three years)' quoted above are directorships held in the last three years for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

Company Secretary

Belinda Cleminson of the Automic Group is the Company Secretary.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each Director, were:

	Full Meetings of Directors		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Ms Zita Peach	10	10	3	3	–	–
Mr Phil McKenzie	10	10	–	–	–	–
Mr Ben Gisz (resigned on 23 November 2021)	5	5	1	1	–	–
Mr Simon Rutherford	10	10	–	–	4	4
Mr Mark Bloom	10	10	1	1	4	4
Mr Hilton Brett	10	10	3	3	–	–
Dr Scott Kalniz	10	10	–	–	3	3
Mr Andrew Knott (appointed on 6 February 2022)	3	4	1	1	–	–

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Pacific Smiles also has a Property Sub-Committee ('PSC'). The purpose of the sub-committee is to review new dental centre development proposals, as well as refurbishment and relocation of existing dental centres. It has the delegated authority to approve the expenditure of capital for these purposes. The PSC met eight times during the financial year and is comprised of Mr Simon Rutherford, Mr Mark Bloom, Mr Hilton Brett and Mr Andrew Knott.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and the Directors consider this to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its Directors and Executives. The performance of the consolidated entity depends on the quality of its Directors and Executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate.

Non-Executive Directors remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. During FY22, Pacific Smiles commissioned such a benchmarking study, which concluded that the fees currently paid to Pacific Smiles Non-Executive Directors were at the low end of remuneration levels for comparable companies. The Chairperson's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairperson is not present at any discussions relating to the determination of her own remuneration. Non-Executive Directors do not receive share options or other incentives.

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. No increase was paid in FY22 due to the impacts of COVID-19 on the performance of the business.

Non-Executive Directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the consolidated entity.

The consolidated entity's constitution provides that Non-Executive Directors are entitled to receive compensation for their services as determined by approval at a general meeting. As at 30 June 2022, the current Directors' fees pool is an aggregate sum of $800,000. The base fee payable to the Chairperson is $125,000 per annum, and the base fee payable to other Non-Executive Directors is $75,000 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.

Executive remuneration

The consolidated entity aims to reward Executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components. In determining Executive remuneration, the Board aims to ensure that remuneration practices are:

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

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentive (STI) plan;
- long-term equity incentive (LTI) plan; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the Executive's total remuneration.

Base pay and non-monetary benefits

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the Executive.

Short-term performance incentive (STI) plan

The short-term incentives (STI) program is designed to provide Executives the opportunity to earn an annual incentive 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 consolidated entity's financial performance and non-financial key performance indicators (KPIs). Financial performance is assessed based on consolidated 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 consolidated entity exceeding specific NPS targets. Targets are reviewed annually.

In response to the impact of COVID-19 to the operations and financial performance, the consolidated entity changed the structure of its STI plan for the current financial year by decreasing the maximum STI opportunity to 60% of the normal level.

The Executive STI plan performance criteria are summarised below, representing the maximum STI opportunity:

	2022 % of base salary Chief Executive Officer	2022 % of base salary Other Executive Officers	2021 % of base salary Chief Executive Officer	2021 % of base salary Other Executive Officers
Underlying EBITDA targets	Up to 21.0%	Up to 14.7%	Up to 35.0%	Up to 24.5%
Non-financial performance metrics	Up to 9.0%	Up to 6.3%	Up to 15.0%	Up to 10.5%
Total maximum STI	Up to 30.0%	Up to 21.0%	Up to 50.0%	Up to 35.0%

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 paid in equity take the form of performance rights which cannot be exercised or sold for a period of 24 months after issue. 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 incentive (LTI) plan

The consolidated entity has a LTI plan to assist in the motivation, retention and reward of Executives. The LTI plan is designed to align the interests of Executives more closely with the interests of shareholders by providing an opportunity for Executives to receive an equity interest in the consolidated entity through the granting of performance rights based on the achievement of long-term financial performance.

Initially, the LTI plan was introduced at the time of the Initial Public Offering (IPO) in late 2014 with Earnings Per Share (EPS) as the main performance measurement for the achievement of the long-term financial performance. In addition, there was also a Total Shareholder Return (TSR) hurdle where the TSR growth was required to be more than 10% for the performance rights to vest, regardless of EPS growth.

Whilst in the long term, TSR and EPS measures should converge, the EPS measure had the following shortcomings:

- EPS is adversely impacted by a key strategic goal of the consolidated entity, which is to accelerate new centre openings. New centre openings have significant positive Net Present Value for shareholders.
- EPS can be materially impacted by one-off events, which are difficult to quantify and make appropriate 'normalisation' adjustments for. The EPS impacts of COVID-19 disruptions are a good example of this.
- EPS can be volatile year to year for growth companies like Pacific Smiles and often does not provide the best barometer of shareholder value creation, even over multi-year periods of time.

The LTIP was designed with deliberately high performance hurdles. Therefore, whilst Pacific Smiles has performed well since IPO, no Performance Rights have vested since the initiation of the LTIP.

Given the above consideration, through the annual general meeting 2021, the consolidated entity has replaced the LTI Plan's EPS based conditions with a TSR condition to provide closer alignment between shareholder value creation and executive remuneration.

Therefore, from the current financial year, the long-term financial performance is measured against the Total Shareholders Return (TSR) growth as the key performance indicator with the performance rights vesting determined by TSR growth for the four years from grant date. The details of the vesting conditions are as follows:

- satisfaction of total shareholder return (TSR) growth 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 a TSR compound annual growth rate (CAGR) of 10% per annum or less and 100% vesting for a TSR CAGR of 25% per annum or more; and
- the participant remaining employed by the Pacific Smiles Group (or its subsidiaries) over a four-year or more period through to the vesting date, subject to certain 'good leaver' exemptions.

For the purposes of calculating TSR, share price will be measured as the 60 trading day Volume Weighted Average Price (VWAP) up to 30 November of the relevant year. Effective grant and vesting dates will be 30 November for all Performance Rights.

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 consolidated entity'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.

Consolidated entity performance and link to remuneration

The following table shows key performance indicators (KPIs) for the consolidated entity over the last four years.

	2022*	2021	2020	2019
Dividends per share – ordinary (cents)	–	2.40	2.40	5.80
Share price ($) – 60 days VWAP up to 30 November of relevant year	1.87	2.79	1.85	1.65
Total Shareholder Return (TSR) ($)	(0.92)	0.96	0.23	0.29
Annual Total Shareholder Return (%)	(32.95%)	51.96%	13.87%	20.79%

* 2022 share price is calculated based on 60 days average VWAP up to 30 June 2022.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following Directors of Pacific Smiles Group Limited:

- Ms Zita Peach
- Mr Phil McKenzie
- Dr Scott Kalniz
- Mr Mark Bloom
- Mr Hilton Brett
- Mr Simon Rutherford
- Mr Ben Gisz (resigned 23 November 2021)
- Mr Andrew Knott (appointed 6 February 2022)

And the following persons:

- Mr Paul Robertson (Chief Operating Officer)
- Mr Matthew Cordingley (Chief Financial Officer)

2022	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash bonus $	Other $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Rights $	Total $
Non-Executive Directors:							
Ms Zita Peach	114,155	–	–	11,416	–	–	125,571
Mr Mark Bloom	68,493	–	–	6,849	–	–	75,342
Mr Hilton Brett	68,493	–	–	6,849	–	–	75,342
Mr Ben Gisz	30,375	–	–	–	–	–	30,375
Dr Scott Kalniz	76,977	–	–	–	–	–	76,977
Mr Simon Rutherford	75,000	–	–	–	–	–	75,000
Mr Andrew Knott	24,388	–	–	2,439	–	–	26,827
Executive Directors:							
Mr Phil McKenzie	590,268	56,567	–	27,500	17,278	376,211	1,067,824
Other Key Management Personnel:							
Mr Paul Robertson	315,828	21,925	–	27,500	70,448	240,933	676,634
Mr Matthew Cordingley	398,475	29,471	–	27,500	2,710	163,344	621,500
	1,762,452	107,963	–	110,053	90,436	780,488	2,851,392

2021	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash bonus $	Other* $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Rights $	Total $
Non-Executive Directors:							
Ms Zita Peach	113,147	–	–	10,749	–	–	123,896
Mr Mark Bloom	67,510	–	–	6,413	–	–	73,923
Mr Hilton Brett	67,510	–	–	6,413	–	–	73,923
Mr Ben Gisz	75,000	–	–	–	–	–	75,000
Dr Scott Kalniz	48,657	–	–	–	–	–	48,657
Mr Simon Rutherford	75,000	–	–	–	–	–	75,000
Executive Directors:							
Mr Phil McKenzie	625,316	365,900	–	25,000	25,704	429,413	1,471,333
Other Key Management Personnel:							
Mr Paul Robertson	342,867	172,512	–	25,000	59,877	100,583	700,839
Ms Allanna Ryan (until 8 April 2021)	251,999	64,571	237,215	25,000	24,682	–	603,467
Mr Matthew Cordingley (appointed 15 April 2021)	78,911	–	–	4,172	1,334	11,550	95,967
	1,745,917	602,983	237,215	102,747	111,597	541,546	3,342,005

* Other benefits include termination benefits paid to Ms Allana Ryan in 2021. There were no termination benefits paid or payable to key management personnel during 2022. Termination benefits paid were in accordance with employment contracts.

STI awarded

For each STI bonus included in the 2022 remuneration 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:

	% of maximum STI awarded %	% of STI forfeited %
Mr Phil McKenzie	31.9%	68.1%
Mr Paul Robertson	35.2%	64.8%
Mr Matthew Cordingley	33.1%	66.9%

The percentages of the STI awarded and forfeited were calculated based on the STI plan awarded for the current financial year, which was 60% of the normal level.

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 plans is 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 wilful misconduct.

Executive Key Management Personnel (EKMP)	Termination notice by EKMP	Termination notice by Company
Mr Phil McKenzie	6 months	6 months
Mr Paul Robertson	3 months	3 months
Mr Matthew Cordingley	6 months	6 months

Share-based compensation

Issue of shares

There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2022.

Options

There were no options over ordinary shares issued to Directors and other key management personnel as part of compensation that were outstanding as at 30 June 2022.

Performance rights

Under the LTI plan, performance rights have been granted to the Chief Executive Officer and selected Executives, at the absolute discretion of the Board. These performance rights will vest after four years (the performance period), and are conditional on the achievement of relevant performance and service conditions.

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Number of rights granted	Vesting date	Fair value per right at grant date
30 November 2017	2,100,000*	30 November 2021	$0.620
30 November 2018	3,026,000**	30 November 2022	$0.470
30 November 2019	3,500,000***	30 November 2023	$0.610
30 November 2020	2,902,430****	30 November 2024	$0.880
30 November 2021	2,500,000*****	30 November 2025	$1.640

* 500,000 rights were forfeited on 28 October 2018, 325,000 rights were forfeited on 30 November 2019, 400,000 rights were forfeited on 8 April 2021 and 875,000 rights were expired on 30 November 2021.

** 282,000 rights were forfeited on 8 April 2021, 187,500 rights were issued to one of the Executives on 30 November 2021 and 1,336,000 rights were forfeited on 30 November 2021.

*** 838,000 rights were forfeited on 8 April 2021 and 271,000 rights were forfeited on 4 March 2022.

**** 271,000 rights were forfeited on 4 March 2022.

***** 246,092 rights were forfeited on 4 March 2022.

As a result of the change in the performance rights conditions, and in order to achieve a fair outcome for Executives and Shareholders, the consolidated entity has cancelled a total of 1,336,000 Performance Rights on 30 November 2021. These are being 57% of Performance Rights awarded to Mr Phil McKenzie and 25% of Performance Rights awarded to eligible Executives under the tranche LTI Plan granted in 2018. The cancellation of performance rights would ensure the Executives will not receive an undue benefit from the changes to the LTI Plan, which applies to both Performance Rights already on issue and Performance Rights issued in the future.

Performance rights granted carry no dividend or voting rights.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Ms Zita Peach	22,095	–	27,992	–	50,087
Mr Hilton Brett	424,020	–	–	(324,020)	100,000
Mr Mark Bloom	277,952	–	–	–	277,952
Mr Ben Gisz	23,074,485	–	–	(23,074,485)	–
Dr Scott Kalniz	20,000	–	–	–	20,000
Mr Simon Rutherford	1,744,863	–	–	–	1,744,863
Mr Phil McKenzie	10,600	–	–	–	10,600
Mr Paul Robertson	300,000	–	–	(100,000)	200,000
	25,874,015	–	27,992	(23,498,505)	2,403,502

Directors' Report
Continued

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
Mr Phil McKenzie	4,200,000	500,000	–	(1,150,000)	3,550,000
Mr Paul Robertson	1,331,000	322,371	–	(399,000)	1,254,371
Mr Matthew Cordingley	350,000	317,831	–	–	667,831
	5,881,000	1,140,202	–	(1,549,000)	5,472,202

Loans to key management personnel and their related parties

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

Other transactions with key management personnel and their related parties

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 consolidated entity during 2022 and 2021 and, as such, participated in dividends.

Exandal Investments, an entity related to Alison Hughes, leased business premises to the consolidated entity during 2022 and 2021 on normal commercial terms and conditions.

The consolidated entity paid fees for consultancy services to PKF during 2021. The entity is related to Simon Rutherford. The fees paid were based on normal commercial terms and conditions.

Refer to Note 32 for further information on related party transactions.

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the company against a liability 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.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

Non-audit services

During the financial year the following fees were paid or payable for services provided to KPMG, the auditor of the Company:

	2022	2021
Audit services – audit or review of the financial statements	180,000	150,000
Other services – tax compliance and advisory services	26,900	26,400
	206,900	176,400

Directors' Report
Continued

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 29 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 immediately after this Directors' report.

Auditor

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

Voting of shareholders at last year's annual general meeting

The Group received more than 94% of 'yes' votes on its remuneration report for the 2021 financial year. The Group did not receive any specific feedback at the annual general meeting or throughout the year on its remuneration practices.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Zita Peach

Zita Peach
Chairperson

16 August 2022

Auditor's Independence Declaration

KPMG

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 2022 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

Kevin Leighton

Partner

Newcastle

16 August 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 $'000	2021 $'000
Revenue	5	139,467	153,175
Other income	6	1,293	9,385
Expenses			
Direct expenses	7	(6,618)	(9,752)
Consumable supplies expenses		(12,321)	(13,070)
Employee expenses		(72,812)	(72,921)
Impairment of assets		–	(761)
Occupancy expenses		(3,798)	(3,114)
Marketing expenses		(3,427)	(2,656)
Administration and other expenses		(18,176)	(15,526)
Depreciation and amortisation expense	7	(26,324)	(22,445)
Net finance costs	7	(3,821)	(3,374)
Profit/(loss) before income tax (expense)/benefit		(6,537)	18,941
Income tax (expense)/benefit	8	2,006	(5,988)
Profit/(loss) after income tax (expense)/benefit for the year		(4,531)	12,953
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		(4,531)	12,953
		Cents	Cents
Basic earnings per share	36	(2.8)	8.3
Diluted earnings per share	36	(2.7)	8.2

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 2022

	Note	2022 $'000	2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	11,805	10,947
Receivables	10	3,478	1,803
Inventories	11	5,795	5,756
Income tax credit	8	2,378	–
Other	12	928	797
		24,384	19,303
Assets of disposal groups classified as held for sale	13	–	21
Total current assets		24,384	19,324
Non-current assets			
Receivables	14	477	29
Property, plant and equipment	15	68,866	65,088
Right-of-use assets	16	71,021	55,607
Intangibles	17	13,463	10,145
Deferred tax	8	12,241	11,077
Total non-current assets		166,068	141,946
Total assets		190,452	161,270
LIABILITIES			
Current liabilities			
Payables	18	16,937	18,699
Lease liabilities	19	12,865	10,754
Income tax payables	8	–	2,922
Provisions	20	5,061	4,573
Total current liabilities		34,863	36,948
Non-current liabilities			
Borrowings	21	18,500	1,000
Lease liabilities	22	74,510	58,625
Provisions	23	3,657	3,515
Total non-current liabilities		96,667	63,140
Total liabilities		131,530	100,088
Net assets		58,922	61,182
EQUITY			
Contributed equity	24	51,917	51,917
Reserves	25	15,346	13,075
Retained profits		(8,341)	(3,810)
Total equity		58,922	61,182

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 2022

	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2020	36,769	3,934	(3,810)	36,893
Profit after income tax expense for the year	–	–	12,953	12,953
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	12,953	12,953
Transfer from accumulated losses to reserves	–	12,953	(12,953)	–
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (Note 24)	15,148	–	–	15,148
Share-based payments – performance rights	–	18	–	18
Dividends paid (Note 27)	–	(3,830)	–	(3,830)
Balance at 30 June 2021	51,917	13,075	(3,810)	61,182

	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2021	51,917	13,075	(3,810)	61,182
Loss after income tax benefit for the year	–	–	(4,531)	(4,531)
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	(4,531)	(4,531)
Transactions with owners in their capacity as owners:				
Share-based payments (Note 37)	–	2,271	–	2,271
Balance at 30 June 2022	51,917	15,346	(8,341)	58,922

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 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		138,372	172,259
Payments to suppliers and employees		(112,643)	(131,284)
		25,729	40,975
Interest received		29	34
Government grant received		–	8,023
Interest and finance costs paid		(3,850)	(3,408)
Income taxes paid		(4,011)	(6,697)
Net cash from operating activities	35	17,897	38,927
Cash flows from investing activities			
Payments for property, plant and equipment	15	(23,380)	(25,589)
Proceeds from disposal of property, plant and equipment		623	52
Lease payments received from finance leases		625	362
Net cash used in investing activities		(22,132)	(25,175)
Cash flows from financing activities			
Proceeds from issue of shares	24	–	15,148
Dividends paid	26	–	(3,830)
Proceeds/(repayment) of borrowings		17,500	(21,000)
Repayment of lease liabilities		(12,407)	(8,402)
Net cash from/(used in) financing activities		5,093	(18,084)
Net increase/(decrease) in cash and cash equivalents		858	(4,332)
Cash and cash equivalents at the beginning of the financial year		10,947	15,279
Cash and cash equivalents at the end of the financial year	9	11,805	10,947

The above consolidated statement of cash flows should be read in conjunction with the accompanying Notes.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

Contents

Note 1. Corporate information

The consolidated financial statements cover Pacific Smiles Group Limited as a consolidated entity consisting of Pacific Smiles Group Limited (the 'Company') and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Pacific Smiles Group Limited's functional and presentation currency.

Pacific Smiles Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. On 21 November 2014 Pacific Smiles Group Limited was listed on the ASX. Its registered office and principal place of business is:

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, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 16 August 2022. The Directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The 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, and assets and liabilities held for sale.

Critical accounting estimates

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 consolidated entity'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 (Note 17) and valuation of share-based payments (Note 37).

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period, including AASB 2021-3 *Amendments to Australian Accounting Standards – COVID-19 – Related Rent Concessions beyond 30 June 2021*.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Smiles Group Limited ('Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Pacific Smiles Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Notes to the Consolidated Financial Statements
Continued

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the consolidated entity'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.

Revenue recognition

The consolidated entity recognises revenue as follows:

Service and facility fees

The consolidated entity provides services and facilities to dentists practicing out of consolidated entity owned dental centres. Services and facilities include the use of fully equipped surgeries, staff, marketing and other support infrastructure. The monthly fee the consolidated entity 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 revenue for 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 consolidated entity is not entitled to payment for services performed to date.

Sale of dental products

The consolidated entity 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 the performance obligation is satisfied.

Management services fees

The consolidated entity provides comprehensive operational support to HBF Dental (HBFD) clinics across Western Australia. Revenue is recognised as the performance obligation is performed and service is provided to HBFD.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Notes to the Consolidated Financial Statements
Continued

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Pacific Smiles Group Limited (the 'head entity') and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

An asset is classified as current when it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

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.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity 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.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the non-current assets and assets of disposal groups to fair value less costs of disposal. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the consolidated entity's other accounting policies. A gain is recognised for any subsequent increases in fair value less costs of disposal of non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the balance sheet, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the balance sheet, in current liabilities.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill is allocated to relevant cash-generating units (CGUs) for the purpose of impairment testing.

Software

Costs associated with software development and implementation, as well as perpetual licences costs, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of three to four years.

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.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets 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.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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.

Trade and other payables

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

Borrowings

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

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

Lease liabilities

As a lessee:

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option, and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Rent concessions:

The consolidated entity has applied the practical expedient to not assess rent concessions affecting payments due before 30 June 2022 that have occurred as a direct consequence of the COVID-19 pandemic as a lease modification.

The consolidated entity has recognised the amount as 'other income' in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.

When the consolidated entity acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the consolidated entity makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the consolidated entity considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

As a lessor:

When the consolidated entity acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the consolidated entity makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the consolidated entity considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the consolidated entity is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the consolidated entity applies the exemption described above, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, then the consolidated entity applies AASB 15 to allocate the consideration in the contract.

The consolidated entity applies the derecognition and impairment requirements in AASB 9 to the net investment in the lease. The consolidated entity further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The consolidated entity recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the consolidated entity as a lessor in the comparative period were not different from AASB 16 except for the classification of the sub-lease entered into during the current reporting period that resulted in a finance lease classification.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Make good provision

The consolidated entity 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.

Employee benefits

Short-term employee benefits

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.

Other long-term employee benefits

The consolidated entity'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.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Share-based compensation benefits are provided to selected employees via a long-term incentive plan (LTI plan).

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 consolidated entity 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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the financial year but not distributed at the reporting date.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability are recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Pacific Smiles Group Limited, 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 financial 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 financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the tax authority are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Government grants

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

The consolidated entity recognises a government grant relating to JobKeeper payment as other income when the grant becomes receivable and when the consolidated entity has complied with the conditions associated with the grant.

Changes to significant accounting policy

Software-as-a-Service (SaaS) arrangements

The International Financial Reporting Standards Interpretations Committee (IFRIC) has issued two final agenda decisions which impact SaaS arrangements:

- *Customer's right to receive access to the supplier's software hosted on the cloud* – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- *Configuration or customisation costs in a cloud computing arrangement* – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and, if not, over what time period the expenditure is expensed.

The consolidated entity has adopted these IFRIC agenda decisions. As at 30 June 2022, there were no intangible assets relating to cloud computing arrangements that have been expensed to the statement of profit or loss and comprehensive income as a result of adoption.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and 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 consolidated entity for the annual reporting period ended 30 June 2022. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective Notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific Notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal, estimated using discounted cash flows. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Notes to the Consolidated Financial Statements
Continued

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

Employee benefits provision

As discussed in Note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Note 4. Operating segments

The consolidated entity 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 consolidated entity's Chief Executive Officer, who is identified as the chief operating decision maker, in assessing performance and in determining the allocation of resources. The consolidated entity's operation inherently has one profile and performance assessment criteria. The financial results from this segment are consistent with the financial statements for the consolidated entity as a whole.

Note 5. Revenue

	2022 $'000	2021 $'000
Revenue from contracts with customers		
Dental service fees	138,056	150,540
Dental product sales	498	530
	138,554	151,070
Other revenue		
Management fees	913	2,105
Revenue	139,467	153,175

Note 6. Other income

	2022 $'000	2021 $'000
Government grants	–	8,023
Rents	481	630
Sundry income	812	732
Other income	1,293	9,385

Government grants

Government grant income relates to JobKeeper payments received or receivable from the Federal Government. The consolidated entity became eligible for the JobKeeper scheme from its inception in March 2020 and continued receiving payments under the Scheme until September 2020.

There were no JobKeeper payments received during the financial year.

Note 7. Expenses

	2022 $'000	2021 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	6,693	5,914
Plant and equipment	6,989	5,887
Right-of-use assets	11,401	10,578
Total depreciation	25,083	22,379
Amortisation		
Software	1,176	–
Rights and licences	65	66
Total amortisation	1,241	66
Total depreciation and amortisation	26,324	22,445
Impairment		
Plant and equipment	–	98
Goodwill	–	663
Total impairment	–	761
Finance costs		
Interest and finance charges paid/payable on borrowings	708	596
Interest and finance charges paid/payable on lease liabilities	3,141	2,812
Interest received/receivable	(28)	(34)
Finance costs expensed	3,821	3,374
Superannuation expense		
Defined contribution superannuation expense	5,628	5,788
Share-based payments expense		
Share-based payments expense	2,270	18
Direct expenses		
Direct expenses	6,618	9,752

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

Note 8. Income tax

	2022 $'000	2021 $'000
Income tax expense/(benefit)		
Current tax	–	7,966
Deferred tax	(1,164)	(1,976)
Adjustment recognised for prior periods	(842)	(2)
Aggregate income tax expense/(benefit)	(2,006)	5,988
Deferred tax included in income tax expense/(benefit) comprises:		
Increase in deferred tax assets	(1,164)	(1,976)
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(loss) before income tax (expense)/benefit	(6,537)	18,941
Tax at the statutory tax rate of 30%	(1,961)	5,682
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	116	74
Impairment of goodwill	–	199
Share-based payments	681	5
Building write-off deduction	–	30
	(1,164)	5,990
Adjustment recognised for prior periods	(842)	(2)
Income tax expense/(benefit)	(2,006)	5,988

	2022 $'000	2021 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	3,250	–
Allowance for expected credit losses	60	143
Property, plant and equipment	1,509	3,847
Employee benefits	1,826	1,697
Lease liabilities	26,212	20,813
Accrued expenses	1,114	868
Intangibles	(137)	(157)
Lease receivables	(255)	(68)
Right-of-use assets	(21,306)	(16,075)
Prepayments and others	(32)	9
Deferred tax asset	12,241	11,077
Movements:		
Opening balance	11,077	9,101
Credited to profit or loss	1,164	1,976
Closing balance	12,241	11,077

	2022 $'000	2021 $'000
Income tax credit	2,378	–

	2022 $'000	2021 $'000
Provision for income tax	–	2,922

Note 9. Current assets – cash and cash equivalents

	2022 $'000	2021 $'000
Cash at bank and in hand	11,805	10,947

Note 10. Current assets – receivables

	2022 $'000	2021 $'000
Trade receivables	2,987	1,385
Less: Allowance for expected credit losses	(200)	(477)
	2,787	908
Finance lease receivables	375	610
Other receivables	316	285
	3,478	1,803

Note 11. Current assets – inventories

	2022 $'000	2021 $'000
Inventories – at cost	5,795	5,756

Note 12. Current assets – other

	2022 $'000	2021 $'000
Prepayments	781	667
Other	147	130
	928	797

Note 13. Current assets – assets of disposal groups classified as held for sale

	2022 $'000	2021 $'000
Assets held for sale	–	21

In January 2021, the consolidated entity discontinued the operation of Everything Dentures Pty Limited. The associated assets were consequently presented as held for sale. As at 30 June 2022, there were no remaining assets held in Everything Dentures Pty Limited.

	2022 $'000	2021 $'000
Assets of disposal group held for sale		
Property, plant and equipment	–	21

Note 14. Non-current assets – receivables

	2022 $'000	2021 $'000
Finance lease receivables	477	29

Note 15. Non-current assets – property, plant and equipment

	2022 $'000	2021 $'000
Leasehold improvements – at cost	82,243	71,375
Less: Accumulated depreciation and impairment	(37,434)	(31,225)
	44,809	40,150
Plant and equipment – at cost	63,930	61,987
Less: Accumulated depreciation and impairment	(39,873)	(37,049)
	24,057	24,938
	68,866	65,088

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Leasehold improve-ments $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2020	31,877	19,322	51,199
Additions	11,408	14,181	25,589
Classified as held for sale	39	232	271
Disposals	(5)	(67)	(72)
Impairment of assets	(27)	(71)	(98)
Depreciation expense	(5,914)	(5,887)	(11,801)
Balance at 30 June 2021	37,378	27,710	65,088
Additions	15,155	4,592	19,747
Disposals	(1,031)	(284)	(1,315)
Transfer out to intangible assets	–	(972)	(972)
Depreciation expense	(6,693)	(6,989)	(13,682)
Balance at 30 June 2022	44,809	24,057	68,866

Impairment of assets

The consolidated entity has discontinued the operation of Everything Dentures Pty Limited in January 2021. Therefore, impairment losses of the associated assets were recognised in the prior year.

Note 16. Non-current assets – right-of-use assets

	2022 $'000	2021 $'000
Leases – right-of-use	99,197	74,504
Less: Accumulated depreciation	(28,176)	(18,897)
	71,021	55,607

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	$'000
Balance at 1 July 2020	51,805
Adjustment on carrying value from lease variations	(33)
Additions	14,827
Transfers in/(out)	(414)
Depreciation expense	(10,578)
Balance at 30 June 2021	55,607
Adjustment on carrying value from lease variations	(655)
Disposals	(1,528)
Additions	28,998
Depreciation expense	(11,401)
Balance at 30 June 2022	71,021

Note 17. Non-current assets – intangibles

	2022 $'000	2021 $'000
Goodwill	12,517	12,517
Less: Impairment	(2,894)	(2,894)
	9,623	9,623
Software – at cost	8,280	–
Less: Accumulated amortisation	(4,897)	–
	3,383	–
Rights and licences	985	985
Less: Accumulated amortisation	(528)	(463)
	457	522
	13,463	10,145

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill $'000	Software $'000	Rights and licences $'000	Total $'000
Balance at 1 July 2020	10,021	–	587	10,608
Impairment of assets	(663)	–	–	(663)
Transfers in/(out)	265	–	–	265
Amortisation expense	–	–	(65)	(65)
Balance at 30 June 2021	9,623	–	522	10,145
Additions	–	3,634	–	3,634
Disposals	–	(47)	–	(47)
Transfers in from property, plant and equipment	–	972	–	972
Amortisation expense	–	(1,176)	(65)	(1,241)
Balance at 30 June 2022	9,623	3,383	457	13,463

Impairment testing for cash-generating units (CGUs)

The impairment assessments for each CGU are made on the basis of fair value less cost of disposal, estimated using discounted cash flow. The fair value measurement was categorised as a Level 3 fair value.

Based on the inputs in the valuation technique used, recoverable amounts of the CGUs exceeded their carrying values, therefore no impairment losses were recorded in the financial year.

For the purpose of impairment testing, the carrying amount of goodwill has been allocated to each CGU. The CGU is defined on a regional basis which includes multiple centres in geographical proximity. The CGUs within the same State are grouped together as groups of CGUs. The carrying amounts of goodwill allocated to groups of CGUs are set out below:

	2022 %	2021 %
New South Wales	4,546	4,546
Victoria	2,631	2,631
Queensland	2,446	2,446
Total goodwill	9,623	9,623

The key assumptions used in the estimation of the recoverable amount are set out below.

	2022 $'000	2021 $'000
Discount rate	12.50%	10.00%
Terminal value growth rate	2.50%	2.50%
Budgeted EBITDA growth rate (average of next five years)	10.00%	5.00%

Notes to the Consolidated Financial Statements

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The calculations use discounted cash flow projections covering a five-year period that 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. 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 five 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 a post-tax measure based on the consolidated entity's weighted average cost of capital of 12.50% (2021: 10.00%). The pre-tax measure of the consolidated entity's weighted average cost of capital is 13.00% (2021: 10.50%).

Management has performed sensitivity analysis to the key assumptions, by increasing the discount rate up to 17.5% and decreasing the growth rate down to 5%. The analysis assumes that all other variables remain constant. The analysis resulted in the estimated recoverable amount of the CGU still exceeding its carrying amount. On this basis the Group considers that a reasonably possible change in the two key assumptions, being discount rate and growth rate, will not lead to the carrying amount of the CGUs exceeding their recoverable amount.

Rights and licences

As part of the consolidated entity's acquisition of the three former AHM dental centres, the consolidated entity received preferential provider support from AHM. These rights and licenses relate to AHM marketing rights at each Pacific Smiles dental centre with a further nine years of amortisation remaining.

Note 18. Current liabilities – payables

	2022 $'000	2021 $'000
Trade payables	16,937	18,699

Note 19. Current liabilities – lease liabilities

	2022 $'000	2021 $'000
Lease liability	12,865	10,754

Refer to Note 27 for further information on financial instruments.

Note 20. Current liabilities – provisions

	2022 $'000	2021 $'000
Employee benefits	5,061	4,573

Refer to Note 23 for further information on movements in provisions.

Note 21. Non-current liabilities – borrowings

	2022 $'000	2021 $'000
Bank loans	18,500	1,000

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	2022 $'000	2021 $'000
Bank loans	18,500	1,000

Assets pledged as security

The bank loans are secured by a registered equitable mortgage over the whole of the assets and undertakings of the consolidated entity, including uncalled capital and inter-entity guarantees.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	2022 $'000	2021 $'000
Total facilities		
Bank overdraft	500	500
Bank loans	40,000	40,000
Bank guarantees	5,000	4,000
	45,500	44,500
Used at the reporting date		
Bank overdraft	–	–
Bank loans	18,500	1,000
Bank guarantees	3,823	3,610
	22,323	4,610
Unused at the reporting date		
Bank overdraft	500	500
Bank loans	21,500	39,000
Bank guarantees	1,177	390
	23,177	39,890

Covenants attached to bank borrowings were complied with during the financial year.

Note 22. Non-current liabilities – lease liabilities

	2022 $'000	2021 $'000
Lease liability	74,510	58,625

Refer to Note 27 for further information on financial instruments.

Note 23. Non-current liabilities – provisions

	2022 $'000	2021 $'000
Employee benefits	1,027	1,085
Lease make good	2,630	2,430
	3,657	3,515

Movements in provisions

Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

2022	Make good provision $'000
Carrying amount at the start of the year	2,430
Additional provisions recognised	356
Payments	(156)
Carrying amount at the end of the year	2,630

Note 24. Equity – contributed equity

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Ordinary shares – fully paid	159,581,938	159,581,938	51,917	51,917

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2020	153,515,550		36,769
New shares placement	3 March 2021	5,769,231	$2.60	14,437
Share purchase plan	23 March 2021	297,157	$2.60	711
Balance	30 June 2021	159,581,938		51,917
Balance	30 June 2022	159,581,938		51,917

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the 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.

Capital risk management

The consolidated entity'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 optimum capital structure to reduce the cost of capital. The consolidated entity monitors its working capital continually and manages it within a Board approved finance facility. Debt covenants have been consistently achieved and monitored monthly.

Capital is regarded as total equity, as recognised in the balance sheet, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Note 25. Equity – reserves

	2022 $'000	2021 $'000
Profits reserve	12,387	12,387
Share-based payments reserve	2,959	688
	15,346	13,075

Profits reserve

The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit so as to quarantine from being appropriated against accumulated losses arising from the adoption of AASB 16. Such profits are available to enable payment of franked dividends in the future should the Directors declare so by resolution.

Note 26. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	2022 $'000	2021 $'000
No dividend has been declared or paid for the year ended 30 June 2022 (2021: 2.40 cents per ordinary share, fully franked)	–	3,830

There were no dividends declared but not recognised at the end of the financial year.

Franking credits

	2022 $'000	2021 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	13,429	15,301

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.

Note 27. Financial instruments

Financial risk management objectives

The consolidated entity'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 consolidated entity's activities.

The consolidated entity's principal financial instruments during the 2022 and 2021 financial years comprised bank and other loans, and cash. The main purpose of these instruments has been to raise finance for the consolidated entity's operations and investments. The consolidated entity has various other financial instruments such as trade and other debtors and creditors, which arise directly from its operations. The consolidated entity does not trade in financial instruments.

Market risk

Interest rate risk

The consolidated entity'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 2022.

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 0.10% (2021: 0.13%).

Variable rate bank loans drawn of $18,500,000 (2021: $1,000,000) form part of an ongoing loan facility which was updated during the 2022 financial year. The overall facility term expires on 30 September 2025. 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 4.75% (2021: 4.11%).

	Basis points increase			Basis points decrease		
2022	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Variable rate bank loans	100	(75)	(75)	(100)	75	75

	Basis points increase			Basis points decrease		
2021	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Variable rate bank loans	100	(40)	(40)	(100)	40	40

Credit risk

The consolidated entity has no significant concentrations of credit risk. The consolidated entity does not have significant credit exposure to any one financial institution or customer. The consolidated entity only transacts with reputable Australian banks and its credit risk on trade receivables is not considered significant.

Liquidity risk

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

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. 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 time-frames required.

Notes to the Consolidated Financial Statements
Continued

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amounts in the balance sheet.

2022	Less than 6 months $'000	Between 6 and 12 months $'000	Between 1 and 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	16,685	–	–	16,685
Interest-bearing – variable				
Bank loans	–	–	21,581	21,581
Total non-derivatives	16,685	–	21,581	38,266

2021	Less than 6 months $'000	Between 6 and 12 months $'000	Between 1 and 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	18,699	–	–	18,699
Interest-bearing – variable				
Bank loans	1,000	–	–	1,000
Total non-derivatives	19,699	–	–	19,699

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair values.

Note 28. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	2022 $	2021 $
Short-term employee benefits	1,870,415	2,358,950
Post-employment benefits	110,053	92,697
Long-term benefits	90,436	111,597
Termination benefits	–	237,215
Share-based payments	780,488	541,546
	2,851,392	3,342,005

Note 29. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company:

	2022 $	2021 $
Audit services		
Audit or review of the financial statements	180,000	150,000
Other services		
Tax compliance and advisory services	26,900	26,400
	206,900	176,400

Note 30. Contingent liabilities

	2022 $'000	2021 $'000
Bank guarantees	3,823	3,610

The consolidated entity has given bank guarantees as at 30 June 2022 of $3,823,493 (2021: $3,609,736) to various landlords as security for leased premises.

Note 31. Commitments

	2022 $'000	2021 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities:		
Property, plant and equipment	2,959	2,055
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	185	37
One to five years	130	3
	315	40
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	15,923	11,719
One to five years	57,765	45,552
More than five years	40,180	22,351
Total commitment	113,868	79,622
Less: Future finance charges	(26,493)	(10,224)
Net commitment recognised as liabilities	87,375	69,398

Note 32. Related party transactions

Parent entity

Pacific Smiles Group Limited is the parent entity.

Key management personnel

Disclosures relating to key management personnel are set out in Note 28 and the remuneration report included in the Directors' report.

Transactions with related parties

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

Key management personnel or their related parties held shares in the consolidated entity during 2022 and 2021 and, as such, participated in dividends.

Exandal Investments, an entity related to Alison Hughes, leased business premises to the consolidated entity during 2022 and 2021 on normal commercial terms and conditions.

The consolidated entity paid fees for consultancy services to PKF during 2021. The entity is related to Simon Rutherford, fees were based on normal commercial terms and conditions.

The following transactions occurred with related parties:

	2022 $	2021 $
Dividends paid	–	1,408,392
Rental expenses	345,115	444,333
Consulting fees paid	–	30,000

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2022 $'000	2021 $'000
Profit/(loss) after income tax	(4,354)	13,533
Total comprehensive income	(4,354)	13,533

Balance sheet

	2022 $'000	2021 $'000
Total current assets	24,179	19,213
Total assets	190,199	160,825
Total current liabilities	33,390	35,454
Total liabilities	130,048	98,591
Equity		
Contributed equity	51,917	51,917
Profits reserve	12,953	12,953
Share-based payments reserve	2,959	688
Accumulated losses	(7,678)	(3,324)
Total equity	60,151	62,234

Contingent liabilities

The parent entity had no contingent liabilities, other than bank guarantees as at 30 June 2022 totalling $3,823,493 (30 June 2021: $3,609,736).

Note 34. Events after the reporting period

No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 35. Cash flow information

Reconciliation of profit/(loss) after income tax to net cash from operating activities

	2022 $'000	2021 $'000
Profit/(loss) after income tax (expense)/benefit for the year	(4,531)	12,953
Adjustments for:		
Depreciation and amortisation	26,326	22,446
Impairment of property, plant and equipment	–	98
Impairment of intangibles	–	663
Net loss on disposal of property, plant and equipment	767	23
Share-based payments	2,271	18
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	(2,123)	2,709
Increase in inventories	(39)	(1,634)
Decrease/(increase) in deferred tax assets	1,758	(1,976)
Increase in other operating assets	(100)	(334)
Increase/(decrease) in payables	(1,762)	2,405
Increase in other provisions	630	288
Increase/(decrease) in income tax	(5,300)	1,268
Net cash from operating activities	17,897	38,927

Note 36. Earnings per share

	2022 $'000	2021 $'000
Profit/(loss) after income tax	(4,531)	12,953

	Cents	Cents
Basic earnings per share	(2.8)	8.3
Diluted earnings per share	(2.7)	8.2

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	159,581,938	155,492,882
Adjustments for calculation of diluted earnings per share:		
Performance rights	8,871,838	2,108,224
Weighted average number of ordinary shares used in calculating diluted earnings per share	168,453,776	157,601,106

Performance rights

Performance rights granted to employees under the consolidated entity'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. From 8,871,838 (FY21: 9,183,430) performance rights on issue, a total of 8,871,838 (FY21: 5,406,000) performance rights are included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and the conditions for these rights to be satisfied are probable as at 30 June 2022.

Note 37. Share-based payments

Long-term incentive plan overview

The consolidated entity has established a long-term incentive plan (LTI) 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 consolidated entity 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 2022, 2021, 2020, 2019 and 2018.

The performance rights will vest after a set term (the performance period), and are conditional on the achievement of relevant performance and service conditions.

During the financial year, the consolidated entities amended the conditions under the LTI plan to provide closer alignment between shareholder value creation and executive remuneration. The key changes are:

- Moving from an EPS measure to a TSR measure for the reasons given above.
- Increase the threshold for maximum vesting from 20% per annum to 25% per annum.
- Ensure there is a consistent vesting date each year, which is every 30th November.

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

Set out below are summaries of options granted under the plan:

2022

Grant date	Expiry date	Balance at the start of the year	Granted	Expired/ forfeited/ other	Balance at the end of the year
30/11/2017	30/11/2021	875,000	–	(875,000)	–
30/11/2018	30/11/2022	2,744,000	–	(1,148,500)	1,595,500
30/11/2019	30/11/2023	2,662,000	–	(271,000)	2,391,000
30/11/2020	30/11/2024	2,902,430	–	(271,000)	2,631,430
30/11/2021	30/11/2025	–	2,500,000	(246,092)	2,253,908
		9,183,430	2,500,000	(2,811,592)	8,871,838

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.05 years (2021: 2.51 years).

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:

	2022	2021
Grant date	30 November 2021	30 November 2020
Fair value of right	1.32	0.88
Share price at grant date	$2.90	$2.64
Exercise price	Nil	Nil
Term	4 years	4 years
Expected price volatility	51.0%	30.0%
Expected dividend yield	0.0%	4.0%
Risk free interest rate	0.5%	1.2%

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and Notes comply with the Corporations Act 2001, the Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and Notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
- the attached financial statements and Notes give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Zita Peach
Chairperson

16 August 2022

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 2022 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 2022;
- 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 (including Independence Standards)* (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.

Key Audit Matters	
The ***Key Audit Matters*** we identified are: • Carrying value of intangible assets • Revenue recognition	***Key Audit Matters*** are those matters that, in our professional judgement, 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 ($13,463,000)

Refer to Note 17 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The carrying value of intangible assets, including the Group's annual testing of goodwill for impairment was identified as a key audit matter due to the: • Size of the balance; and • Significant level of judgement required to assess the Group's forecasts and discounted future cashflows. We focused on the significant forward-looking assumptions the Group applied in its fair value less cost of disposal model, including: • Forecast operating cash flows, growth rates and terminal growth rates • Discount rates applied - these are complicated in nature and vary according to the conditions and environment the Cash Generating Units (CGUs) are subject to from time to time, • Complex modelling, particularly those containing highly judgemental allocations of corporate assets and costs to CGUs, using 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 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.	Our procedures included: • We considered the appropriateness of the Fair Value Less Cost of Disposal (FVLCOD) method applied by the Group to perform the annual impairment testing of intangible assets against the requirements of the relevant accounting standards. We: - Assessed the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the value in use model, for consistency with our understanding of the business and the criteria in the accounting standards; - Compared forecast cash flows contained in the model to Board approved forecasts reflecting current COVID-19 expected recovery rate; - Assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model; - Considered the sensitivity of the model by varying key assumptions, such as forecast 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; - 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; and

KPMG

	- 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 ($139,467,000)	
Refer to Note 5 to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**
A substantial amount of the Group's revenue relates to revenue from the rendering of services, being service fees charged to dentists who practice from the Group's fully serviced dental surgeries as well as revenue from the HBF Managed services Agreement. 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. In addition to the above, auditing standards drive a presumed risk in all for-profit organisations (particularly listed entities) regarding the fraudulent recognition of revenue to meet earnings targets and market expectations.	Our procedures included: • Evaluating the appropriateness of the Group's revenue recognition policies and their application to revenue streams against the requirements of *AASB15 Revenue from Contracts with Customers*; • Testing the operation of key controls in the service revenue recognition process. • Substantive vouching procedures including: - Checking total patient billings and dentist payments throughout the year to the Group's bank statements. We compared total patient billings less dentist payments to the amount recorded as revenue by the Group; - Agreeing the underlying inputs to supporting documents including contracts for a sample of service fees recognised throughout the financial year; - Recalculating service fees recognised in the last month of the financial year by multiplying the average dentist fee percentages by the total patient billings per the Group's bank statements for the month; and - Evaluating and testing the recognition of HBFD revenue to determine if the relevant performance obligations had been met and revenue has been recorded in accordance with AASB 15.

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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 Operational overview and insights, Directors' Report, the Remuneration Report, the Shareholder Information, and the Corporate Directory.

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 and Company'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 and Company or to cease operations, or have no realistic alternative but to do so.

KPMG

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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2022, 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 11 to 18 of the Directors' report for the year ended 30 June 2022.

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

KPMG

KPMG

Kevin Leighton

Partner

Newcastle

16 August 2022

Shareholder Information

The shareholder information set out below was applicable as at 30 June 2022.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares Number of holders
1 to 1,000	380
1,001 to 5,000	379
5,001 to 10,000	197
10,001 to 100,000	238
100,001 and over	66
	1,260
Holding less than a marketable parcel	255

Equity security holders

Twenty largest quoted equity security holders

The names of the 20 largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
HSBC Custody Nominees (Australia) Limited	31,472,575	19.72
JP Morgan Nominees Australia Pty Limited	27,568,610	17.28
Alison J Hughes	15,797,850	9.90
National Nominees Limited	14,511,586	9.09
Dr Alexander J Abrahams	12,836,547	8.04
Citicorp Nominees Pty Limited	7,779,579	4.87
UBS Nominees Pty Limited	6,220,866	3.90
Just Paddling Pty Limited	3,454,646	2.16
Susan L Abrahams	2,774,314	1.74
Robert G Cameron and Paula S Cameron	2,108,480	1.32
Channings Holdings Pty Limited	2,090,150	1.31
Karen Wright	2,022,000	1.27
Sudemo Pty Limited	1,744,863	1.09
Citicorp Nominees Pty Limited	1,560,000	0.98
Lodka Pty Limited	1,377,854	0.86
Sterling Surgical Pty Limited	1,200,000	0.75
Trevor Collins and Dianne E Collins	1,128,480	0.71
Sandhurst Trustees Limited	810,437	0.51
Dianne A Wheeldon	789,132	0.49
Dr David Roessler	766,200	0.48
	138,014,169	86.47

Shareholder Information
Continued

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the consolidated entity's LTI plan	8,871,838	9

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
Mr Alexander J Abrahams	19,256,660	12.07
HBF Health	16,000,000	10.03
Ms Alison J Hughes	15,797,850	9.90
QVG Capital	11,451,850	7.18
MA Asset Mgt	10,264,985	6.43
Celeste Funds Mgt	9,748,728	6.11
ICE Investors	8,644,576	5.42

Voting rights

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

There are no other classes of equity securities.

Corporate Directory

Directors

Ms Zita Peach
Non-Executive Chairperson and
Non-Executive Director

Mr Phil McKenzie
Managing Director and Chief Executive Officer

Mr Mark Bloom
Non-Executive Director

Mr Hilton Brett
Non-Executive Director

Mr Simon Rutherford
Non-Executive Director

Dr Scott Kalniz
Non-Executive Director

Mr Andrew Knott
(appointed 6 February 2022)
Non-Executive Director

Company Secretary

Belinda Cleminson

Registered office

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Share register

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Auditor

KPMG
Level 6, 18 Honeysuckle Drive
Newcastle NSW 2300

Stock exchange listing

Pacific Smiles Group Limited shares are listed on the Australian Securities Exchange (ASX code: PSQ)

Corporate Governance Statement

The corporate governance statement is dated 30 June 2022 and reflects the corporate governance practices in place for the 2022 financial year.
The corporate governance statement was approved by the Board on 16 August 2022; a copy can be found on the Pacific Smiles website.

The 2022 Pacific Smiles Group Limited annual report is printed using ecoStar+ 100% Recycled Silk. ecoStar+ is a FSC® certified paper. ecoStar+ is an environmentally responsible paper made Carbon Neutral and the fibre source is FSC (CoC) Recycled certified. ecoStar+ is manufactured from 100% post-consumer recycled paper in a process chlorine free environment under the ISO 14001 environmental management system.

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