



ABN 91 094 508 166

1300SMILES LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2008

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DIRECTORS

Robert Jones, Chairman
Dr. Daryl Holmes, Managing Director
William Bass, Non-Executive Director

COMPANY SECRETARY

William Bass

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

1300SMILES Limited
Ground Floor
105 Denham Street
Townsville QLD 4810
Telephone: + 61 7 4721 1238
Facsimile: +61 7 4771 5217

LEGAL ADVISERS

Operational
MacDonnells Lawyers
Level 1
131 Denham Street
Townsville QLD 4810
Telephone: +61 7 4722 0220
Facsimile: +61 7 4772 5635

Corporate

DLA Phillips Fox
Level 29 Waterfront Place
1 Eagle Street
Brisbane QLD 4000

SHARE REGISTER

Security Transfer Registrars Pty Limited
770 Canning Highway
Applecross WA 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233

AUDITOR

PKF Chartered Accountants
Level 6
10 Eagle Street
Brisbane, QLD, 4000

COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Stock Exchange Limited
ASX Code: ONT

INTERNET ADDRESS

www.1300SMILES.com.au

AUSTRALIAN BUSINESS NUMBER

ABN 91 094 508 166



LETTER FROM THE MANAGING DIRECTOR

Dear Shareholder,

I am pleased to present this fourth Annual Report on behalf of the Board of 1300SMILES Limited. I have a great deal to report.

Growth: revenue, profit, dividends

Compared to the previous full year, the results for 2008 were as follows:

- Revenue up 81% to \$15.2 million
- Earnings per share up 30% to 11.7c per share
- NPAT up 30% to \$2.35 million
- Full-year dividend up 25% to 8.5c per share
- EBITDA up 43% to \$4.0 million

Shareholders may recall that the year to June 2007 was one in which we recorded significant revenue growth (+34%) but a slight decrease in Net Profit After Tax (-3%). At this time last year we advised you that the 2007 year was one of consolidation which we fully believed would lead to significant progress in the 2008 year. The results actually delivered in 2008 show that this faith was justified.

A number of acquisitions completed during the year made significant contributions to our profit. Our operations in Caloundra, Rockhampton, and Toowoomba performed particularly well. We also saw continuing growth from our long-established facilities as additional dentists have moved their practices to our facilities. The large Bundaberg practice acquired at the end of the year is performing in line with our high expectations, although it made only a minor contribution to the 2008 year as the acquisition was completed just prior to year end.

The average size of the practices we acquired during the 2008 year was significantly greater than in previous years. Going forward we expect to maintain this focus on larger acquisitions.

1300SMILES Ltd finished the 2008 year with multi-dentist facilities in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, Caloundra, Brisbane, Toowoomba, and the Gold Coast. We continue to seek growth by acquisition of suitable practices and by recruiting individual dentists to locate their practices within our facilities.

Earnings per share

Our top objective is that of increasing earnings per share (EPS). To grow our EPS, we must not only increase profit, but we must also keep the number of shares on issue under tight control. No new shares were issued in the year to 30 June 2008, so we finished the year once again with 20,059,235 issued shares.

We will from time to time use new shares as part of the purchase price of existing dental practices we acquire. We always balance this up carefully, on a case-by-case basis. If we issue new shares, that causes some dilution, but often it is still positive for earnings per share. To the extent we use cash to acquire practices, we will either need to pay interest on borrowed funds or raise further equity, which would have the result of increasing the total number of issued shares. The way we structure acquisitions varies, but I assure shareholders that every deal is structured so as to deliver increased EPS. Some acquisitions just can't be made to meet this standard, and in such cases we walk away.

At 30 June 2008, the company had completed acquisitions which will lead to the future issue of an additional 281,273 shares to vendor-dentists, a dilution of less than 1.5% of the number of shares already on issue.

Forgive me for belabouring this issue, but it is important. We observe that other listed companies with market capitalisation similar to ours often have vast pools of options and deferred shares and such standing ready to deliver enormous dilution, to the detriment of ordinary shareholders. I've recently had a look at one listed company which has about 60 million issued shares. But lurking in the background there are another 14 million employee and director options at strike prices way below the current share price. That company could deliver profit growth of 23% and find that the exercise of options dilutes the growth in EPS back to 0%. We do not believe that this sort of structure would be attractive to shareholders in 1300SMILES Ltd and we will continue to exercise restraint when we consider the issue of additional shares.

Dividends

Another key objective is that of enabling our shareholders to participate in the real results of the business by paying dividends which reflect our year-to-year profitability. We have maintained our commitment to pay generous and growing dividends by declaring a final dividend of 4.5 cents per share, bringing the total for the year to 8.5 cents per share, up by 25% on the previous year. The company has now paid a total of 26.1 cents per share in franked dividends since listing.

EBITDA

Shareholders may notice that we have not previously commented on EBITDA, which stands for Earnings Before Interest, Tax, Depreciation, and Amortisation. This is a measure commonly used in many industries to enable investors to compare the actual operating results of companies whose financial structures vary widely. We have included this figure in this report to assist such investors.

Borrowing and the financial markets

The company closed the year with net debt of \$4.5 million. All of this debt was incurred in the course of acquiring profitable dental practices. These funds were drawn from established facilities with our banks.

The ongoing turmoil in financial markets has no doubt increased our borrowing cost somewhat, as the cost of debt has risen for all borrowers. This is simply a factor we consider in deciding whether any particular acquisition makes sense.

Apart from the moderate increase in the cost of borrowed funds, the gyrations in the financial markets have caused us no difficulties of any kind. Our access to loan funds has not been affected in any way, and we believe that our ongoing acquisition campaign will not be inhibited by any restriction on funds available to us. We employ no fancy financial structures of any kind. We hold our surplus funds in conventional bank facilities. We have no exposure of any kind to any structured financial product.

Warren Buffett reminds us that we should not own shares in any company unless we would be happy to own the entire company. We try at all times to manage 1300SMILES Ltd as you would if you owned the whole company: we use debt judiciously, and only where we are confident that the use of such debt will increase earnings and earnings per share.

Focus

1300SMILES Ltd is in exactly the same business as always. We operate dental facilities as best we can. We seek growth by attracting additional dentists to join us, and by making prudent acquisitions. We believe that the growth in earnings and EPS which we have delivered since listing in 2005 confirm that our business model is sound, and we believe that the dental market continues to offer us scope for significant expansion.

Forecasts

As you know, we have always resisted the urge to forecast future results. There are good reasons for this approach. The main reason is that our business is growing fast, and some of that growth comes in big lumps. One big acquisition more or less would make a material difference to our forecasts in many cases, and our management would end up spending many days each quarter revising forecasts for the market. We hope you agree that our top management should spend its time delivering results rather than predicting them.

Despite that approach, the Australian Stock Exchange (ASX) occasionally requires us to make forecasts. In the case of the Bundaberg acquisition, for example, it was clear that this one facility would have a material effect on our results. Given that materiality, ASX rules require us to estimate the size of the profit increment we expect that acquisition to deliver. In our announcement to the ASX on 30 June 2008 we therefore advised the market that the estimated effect of the acquisition would be an increase in EPS of 3.0c in the 2009 full year. If the rest of our business were to stand still--which, I emphasise, we do not expect--this 3 cent increase in EPS would by itself amount to a 26% growth in EPS in the 2009 year.

During the 2009 year we intend to increase turnover and profit in our established facilities, and we intend to make further acquisitions. Our newly expanded facility in the booming centre of Mackay, for example, will double its capacity from September 2008, annoying delays in dealing with the city council there notwithstanding. We expect every one of these steps to make a positive contribution to earnings per share. We may from time to time be required by the ASX to estimate the EPS effect of specific acquisitions and in such cases we will do so to the best of our ability.

Taking all of these considerations together, we expect the coming year to be one in which revenue, profit, and EPS grow significantly. We do not think it would be of service to our shareholders or to the market to make more specific predictions at this early stage.

Thank you

As always, we thank you, our shareholders, for your support.

I would particularly like to thank our hard-working employees and the growing number of dentists who choose to conduct their practices in our facilities.

Yours faithfully,

Dr Daryl Holmes
Managing Director

ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

The Company provides the use of dental surgeries and practice management and other services to self employed dentists who carry on their own dental practices. The Company provides surgery facilities at seventeen sites located in the ten major population centres in Queensland. The head administrative office is in Townsville.

The services provided by the Company allow the dentists to focus on the delivery of dental services rather than on the administrative aspects of carrying on their businesses. The dentists pay fees to the Company for the provision of these services under a Dental Service Agreement with the Company.

The dentists who use the Company's services range from new graduates to experienced dental professionals. Several dentists who use the Company's services have special interest and experience in such areas as endodontics, oral surgery, implants and periodontics and cross-refer work to other dentists who use the Company's services.

The Company provides comprehensive services in the areas of marketing, administration, billing and collections, and facilities certificates and licensing to all participating dentists. The Company also provides all equipment and facilities, and sources all consumable goods using the buying power which derives from such a large group of dental businesses.

FUTURE DEVELOPMENTS

The Company's core objective is to continue to increase profits and shareholder returns while providing a rewarding environment for our staff and the dentists using our facilities.

The Company aims to achieve a combination of organic growth in its existing locations and the addition of new practice management facilities.

The key drivers for future growth of the Company are:

- Increasing the number of dentists who use the Company's existing facilities.
- Assisting the dentists who use the Company's facilities to increase their turnover.
- Acquiring additional practices in existing and new regions.
- Establishing new practices in existing and new regions.

DENTIST ENQUIRIES

Owners of dental practices who are interested in unlocking the goodwill value of their businesses are invited to contact Dr. Daryl Holmes, Managing Director, on 07 4721 1238 or on md@1300SMILES.com.au.

Qualified dentists who wish to know more about joining one of our established facilities are also encouraged to contact Dr. Holmes directly, or email dentistrecruitment@1300SMILES.com.au.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of 1300SMILES Limited (the Company) and the entity it controlled at the end of or during the year ended 30 June 2008.

DIRECTORS

The names of the directors of the Company in office during the year and until the date of this report are shown below. Directors were in office for this entire period unless otherwise stated.

Robert Jones	Chairman (appointed 25 September 2007)
Daryl Holmes	Managing Director
William Bass	Non-Executive Director
Morris Marrinon	Non-Executive Chairman (resigned 25 September 2007)
Guy Drummond	Non-Executive Director (retired 28 November 2007)

CORPORATE INFORMATION

Corporate structure

1300SMILES Limited is a company limited by shares that is incorporated and domiciled in Australia. Gentle Dental Pty Limited, a wholly owned subsidiary of the Company, was deregistered during the year.

Employees

As at 30 June 2008, the Company employed 110 full-time equivalent employees (excluding the Directors) (2007: 74 full-time employees).

REVIEW OF FINANCIAL CONDITION

Capital structure

At 30 June 2008, and at the date of this report, the Company had 20,059,235 ordinary shares on issue.

Treasury policy

The Company does not have a formally established treasury function. The Board is responsible for managing the Company's finance facilities.

Liquidity and funding

The Company has sufficient funds to finance its operations and to allow the Company to take advantage of favourable business opportunities, not specifically budgeted for, or to fund unforeseen expenditure.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Company were to provide dentistry services in Australia.

DIVIDENDS

Dividends paid to or declared by the Company to the members since the end of the previous financial year were:

Final ordinary dividend in relation to the half-year ended 30 June 2007 of 3.4 cents (2006: 3.4 cents) per fully paid share paid on 16 September 2007.	682,014
Interim ordinary dividend in relation to the half-year ended 31 December 2007 of 4.0 cents (2007: 3.4 cents) per fully paid share paid on 12 March 2008.	802,369
Final ordinary dividend in relation to the half-year ended 30 June 2008 of 4.5 cents (2006: 3.4 cents) per fully paid share declared on 12 August 2008.	902,666

REVIEW OF OPERATIONS

Detailed comments on operations up to the date of this report are included separately in the Annual Report. Please refer to the Letter from the Managing Director.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes in the state of affairs of the Company occurred during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the Company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

INFORMATION ON DIRECTORS

Robert Jones (Appointed 25 September 2007) (Chairman)

Experience and Expertise

Mr Jones has been a director and chairman of the Mater Health Services North Qld Ltd since 2000. The company owns and operates two fully accredited private hospitals in Townsville, the Mater Hospital (Pimlico) and the recently acquired Mater Hospital (Hyde Park). The latter was formerly part of the Wesley group; it is presently being reconfigured to become the Mater Womens' and Childrens' Hospital.

The Mater Hospitals provide acute medical/surgical facilities with a present combined capacity of 223 beds and 14 private medical suites. Redevelopment and expansion at both sites are ongoing. The Mater Hospitals employ a total of 700 staff and the various facilities are used by more than 150 specialist practitioners.

Mr Jones sits on a number of committees that oversee the operation and governance of the company's hospitals. He is currently the chairman of both the Remuneration Committee and of the TQM and Compliance Committee.

Mr Jones is also a long-serving director of Hermit Park Bus Service Pty Ltd, one of Queensland's largest providers of school based transport under contracts with the Queensland Department of Transport. The company also has extensive coach charter operations. Mr Jones has been a member of numerous state government transport advisory committees.

Mr Jones is a member of the Australian Institute of Company Directors and the Chartered Institute of Logistics & Transport.

Other current directorships

Nil

Former directorships in last 3 years

Nil

Special responsibilities

Member of Remuneration and Nomination Committee and Audit Committee.

Interest in shares and options

27,606 ordinary shares in 1300SMILES Limited

Daryl Holmes
BDS (Hons) MAICD
(Managing Director)

Experience and Expertise

Dr. Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (BDS (Hons)) at Queensland University in 1987. During the last two years of his five year degree he accepted a scholarship from the Royal Australian Air Force (RAAF).

Upon completion of his degree he practised dentistry as a RAAF Dental Officer (1988-91). Thereafter, in 1991, he began private dental practice in Ayr and Home Hill, North Queensland later that year. Since that time he has operated dental surgeries in the Burdekin region, Townsville, Cairns and more recently throughout most of Queensland's major centres.

Dr. Holmes has been a member of the Australian Dental Association (ADA) for over 20 years.

Dr. Holmes has extensive experience in operating dental practices and an intimate knowledge of the management, administrative and other support services required in a dental practice. He has been instrumental in establishing the support network and suite of services that 1300SMILES Limited currently provides to its dentist clients.

Dr. Holmes has been a Director, and currently Deputy Chairman, of the Cowboys Leagues Club for the past 6 years.

Other current directorships

Nil

Former directorships in last 3 years

Nil

Special responsibilities

Member of Remuneration and Nomination Committee and Audit Committee.

Interest in shares and options

15,199,924 ordinary shares in 1300SMILES Limited

William Bass
BEcon, ACA, AInstIB, FCS, FTIA
(Non-Executive Director)

Mr William Bass was appointed Non-Executive Director on 25 January 2007. Mr Bass has considerable corporate and listed company experience. He brings extensive commercial and financial management experience from a range of leading Australian and international public companies including General Electric, Billabong, Country Road and On Card International.

Mr Bass has a Bachelor of Economics, is an Associate of the Institute of Chartered Accountants and the Institute of Independent Business and a Fellow of the Institute of Chartered Secretaries and Taxation Institute of Australia. Mr Bass has also been appointed as Chairman of the Company's Audit Committee.

Other current directorships

Business Advisory Network Limited

Former directorships in last 3 years

Nil

Special responsibilities

Member of Remuneration and Nomination Committee and Chairman of Audit Committee.
Company Secretary

Interest in shares and options

16,200 ordinary shares in 1300SMILES Limited

Guy Drummond (appointed 20 November 2006 retired 28 November 2007)

ACA

(Non-Executive Director)

Other current directorships

Clover Corporation Ltd

Former directorships in last 3 years

Nil

Special responsibilities

Member of Remuneration and Nomination Committee and Audit Committee.

Interest in shares and options

10,000 ordinary shares in 1300SMILES Limited

Morris Marrinon (appointed 22 December 2004 resigned 25 September 2007)

(Non-Executive Director)

Other current directorships

Nil

Former directorships in last 3 years

Nil

Special responsibilities

Member of Remuneration and Nomination Committee and Audit Committee.

Interest in shares and options

100,000 ordinary shares in 1300SMILES Limited

COMPANY SECRETARY

Mr Bass was appointed company secretary on 30 November 2007, previously Joint company secretaries were Duncan Cornish (resigned 30 November 2007) and Bradley Hardham (resigned 1 November 2007).

Mr Cornish was appointed to the position of company secretary on 1 May 2005. Mr Cornish was previously a Non-Executive Director resigning his appointment on 25 January 2007.

Mr Hardham was appointed to the position of company secretary on 4 July 2007. Mr Hardham resigned 1 November 2007.

MEETINGS OF DIRECTORS

The number of meetings of Directors (including meetings of committees of directors) held during the period and the number of meetings attended by each Director was as follows:

	Board		Audit Committee		Remuneration & Nomination Committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Robert Jones	6	6	1	1	1	1
Daryl Holmes	10	10	2	2	1	1
William Bass	10	10	2	2	1	1
Guy Drummond	5	5	1	1	-	-
Morris Marrinon	4	4	1	1	-	-

REMUNERATION REPORT

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

The Remuneration and Nomination Committee comprises the entire Board and is responsible for determining remuneration packages applicable to the board members and the Managing Director. The Managing Director determines the remuneration packages for the senior Executives of the Company in accordance with compensation guidelines set by the board.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of directors on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company. Further details on the remuneration of Directors and Executives are set out in this Remuneration Report.

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

Non-Executive Director Remuneration

The Company seeks to set aggregate remuneration at a level which provides the Company with the ability to attract, retain and motivate Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that Non-Executive Directors are entitled to receive remuneration for their services as determined by the Company in a General Meeting. The Company has resolved that the maximum aggregate amount of Directors' fees (which does not include remuneration of Executive Directors and other Non-Director services provided by directors) is \$150,000 per annum. Non-Executive Directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the Company. A Director may also be remunerated as determined by the Directors if that Director performs additional or special duties for the Company. A former Director may also receive a retirement benefit of an amount determined by the Directors in recognition of past services, subject to the ASX Listing Rules and the Corporations Act.

The remuneration of Non-Executive Directors for the period ending 30 June 2008 is detailed in part (b) of this Remuneration Report.

Executive Director and Key Management Personnel Remuneration

The Company aims to develop remuneration packages properly reflecting each person's duties and responsibilities and the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive Directors and senior Executives may receive bonuses based on the achievement of specific goals relating to the performance of the Company.

The remuneration of the Executive Director and Key Management Personnel for the period ending 30 June 2008 is set out in Table 1 of this report.

Employment contracts

It is the Board's policy to establish employment agreements with all Executive Directors, Executives and employees. The current executive service agreement with the Managing Director has a three month notice period. All other employment agreements have one month (or less) notice periods. No current employment contracts contain early termination clauses.

Managing Director

The Company has entered into an executive service agreement with Dr Daryl Holmes in relation to his role as Managing Director of the Company.

Under the agreement, Dr Holmes was appointed managing director commencing on 8 March 2005. The remuneration comprises a salary of \$89,927 per year plus statutory superannuation entitlements and reviewable on a yearly basis. In addition, Dr Holmes is entitled to be reimbursed for reasonable expenses incurred by him in carrying out his obligations under the agreement. Dr Holmes also provides dental services pursuant to a Dental Service Agreement on normal commercial terms and conditions. The Directors believe that the remuneration is appropriate for the duties allocated to Dr Holmes, the size of the Company's business, the industry in which the Company operates and that Dr Holmes also receives income from a Dental Service Agreement with the Company.

The agreement may be terminated by either the Company or Dr Holmes after two years by giving not less than three months notice or by the Company in the event of material breach of misconduct by Dr Holmes.

Key Management Personnel

Employment contract entered into with Greg Kentish contain the following key terms:

Event	Company Policy
Performance based salary increases and/or bonuses	Board discretion
Resignation / notice period	1 month
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (ie 'golden handshakes')	None

(a) Details of Directors and Key Management Personnel

(i) Directors

Robert Jones	Chairman (appointed 25 September 2007)
Daryl Holmes	Managing Director
William Bass	Non-Executive Director, Company Secretary
Morris Marrinon	Non-Executive Chairman (resigned 25 September 2007)
Guy Drummond	Non-Executive Director (retired 28 November 2007)

(ii) Key Management Personnel

Greg Kentish	Chief Operating Officer (appointed 11 November 2007)
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(b) Remuneration of Directors and Key Management Personnel

	Short-term Salary & Fees	Cash Bonus	Post-Employment Superannuation	Total
	\$	\$	\$	\$
Directors				
Robert Jones ⁽⁴⁾				
2008	20,642	-	1,858	22,500
2007	-	-	-	-
Morris Marrinon ⁽²⁾				
2008	10,625	-	-	10,625
2007	42,250	-	-	42,250
Daryl Holmes ⁽¹⁾				
2008	99,983	-	41,429	141,412
2007	122,279	-	41,429	163,708
Guy Drummond ⁽³⁾				
2007	11,468	-	1,032	12,500
2006	17,500	-	-	17,500
William Bass ⁽⁵⁾				
2008	92,573	-	2,477	95,050
2007	12,500	-	-	12,500
Total Remuneration: Directors				
2008	235,291	-	46,796	282,087
2007	194,529	-	41,429	235,958
Key Management Personnel				
Greg Kentish				
2008	84,458	-	7,601	92,059
2007	-	-	-	-
Duncan Cornish ⁽⁶⁾				
2008	12,500	-	-	12,500
2007	30,000	-	-	30,000
Total Remuneration: Key Management Personnel				
2008	96,958	-	7,601	104,559
2007	150,474	8,708	11,380	170,562

(1) Includes dental service fees earned as disclosed in Note 20.

(2) Mr Marrinon resigned as a non-executive director on 25 September 2007.

(3) Mr Drummond resigned as a non-executive director on 28 September 2007.

(4) Mr Jones was appointed as a non-executive director/chairman on 25 September 2007.

(5) Includes secretarial and practice acquisition services as disclosed in Note 20. Mr Jones and Dr Holmes are of the view that these services are of independent expertise in character, and do not compromise Mr Bass in acting as a non executive director of the company.

(6) Mr Cornish resigned from company secretary duties 30 November 2007.

(c) Options issued as part of remuneration for the period ended 30 June 2008

No options were granted as remuneration during the period ended 30 June 2008.

(d) Shares issued on exercise of remuneration options

There have been no shares issued during the year on exercise of remuneration of options.

(e) Shareholdings of Director and Key Management Personnel

<i>Shares held in 1300SMILES Limited (number)</i>	Balance 1 July 2007 \$	Granted as Remuneration \$	On Exercise of Options \$	Net Change Other \$	Balance 30 June 2008 \$
Directors					
Robert Jones	-	-	-	27,606	27,606
Daryl Holmes	15,187,539	-	-	11,685	15,199,224
William Bass	14,200	-	-	2,000	16,200
Key Management Personnel					
Greg Kentish	-	-	-	-	-
Total	15,201,739	-	-	41,291	15,243,030

SHARE OPTIONS

Unissued shares

As at the date of this report (and at the balance date) there were no unissued ordinary shares under options.

Shares issued as a result of the exercise of options

There were no options on issue during the year. Therefore, no options were exercised and converted into ordinary shares during the year (2007: no options were exercised and converted into ordinary shares).

DIRECTORS' DEED OF INDEMNITY, INSURANCE AND ACCESS

Each of the directors and the secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those directors.

The Company has insured all of the directors of 1300SMILES Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

Details of the amounts paid to the auditor of the Company, PKF Chartered Accountants, and its related practices for audit and non – audit services provided during the year are set out below.

The Board has considered the non - audit services provided during the year by the auditor and was satisfied that the provision of those non – audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non – audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact on the integrity and objectivity of the auditor.
- The non – audit services provided do not undermine the general principles relating to auditor independence as set out in APES 1100 Code of Ethics, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, or acting as an advocate for the Company or jointly sharing risks and rewards.

Consolidated

Non-Audit services:	30 June 2008	30 June 2007
	\$	\$
Non-audit service – tax compliance	8,150	8,150

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

This report is made in accordance with a resolution of directors.

1300SMILES Limited

Dr Daryl Holmes
Director

13th August 2008

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of 1300SMILES Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of 1300SMILES Limited and the entity it controlled during the period.

Signed in Brisbane this 13th day of August 2008.



Kim Colyer - Partner
PKF Chartered Accountants

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Liability limited by a scheme approved under Professional Standards Legislation

CORPORATE GOVERNANCE STATEMENT

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the ASX Corporate Governance Principles.

The board of Directors of 1300SMILES Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of 1300SMILES Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

1300SMILES Limited's Corporate Governance Statement is structured with reference to the Australian Stock Exchange ("ASX") Corporate Governance Council's (the "Council") "Principles of Good Corporate Governance and Best Practice Recommendations", which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Remunerate fairly and responsibly

A copy of the Eight Essential Corporate Governance Principles and the Best Practice Recommendations can be found on the ASX's website at www.asx.com.au.

Any departures to the Council's best practice recommendations as at the date of this report, or throughout the year ended 30 June 2008, are set out below.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of the Annual Report is included in the Director's Report. Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Director's are considered to be independent at the date of this report:

Name	Position
Robert Jones	Chairman
William Bass	Non-Executive Director

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Director is not considered to be independent:

Name	Position	Reason for non-compliance
Dr. Daryl Holmes	Managing Director	Dr. Holmes is a substantial shareholder and employed by the Company in an executive capacity.

Therefore, according to the Council's definition of independence above, at the date of this report, the majority of the Board were considered independent. 1300SMILES Limited considers broad commercial and corporate experience, plus specific knowledge of the 1300SMILES Limited business, to be important attributes of its board members. The directors noted above have been appointed to the Board of 1300SMILES Limited for these reasons.

Wherever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that the directors:

- fully and frankly inform the Board about the circumstances giving rise to the conflict; and
- abstain from voting on any motion relating to the matter and absenting himself or herself from board deliberations relating to the matter including receipt of Board papers bearing on the matter.

If the Board resolves to permit a Director to have any involvement in a matter involving possible circumstances of conflicting interests, the Board will minute full details of the basis of the determination and the nature of the conflict including a formal resolution concerning the matter.

If a Director believes that he may have a conflict of interest or duty in relation to a particular matter, the Director should immediately consult with the Chairman. The Company Secretary will maintain a register of all possible conflict of interest situations.

The Company also has a Director's Code of Conduct which sets out standards to which each Director will adhere whilst conducting his duties. The code requires a Director, amongst other things, to:

- act honestly, in good faith and in the best interests of the company as a whole;
- perform the functions of office and exercise the powers attached to that office with a degree of care and diligence that a reasonable person would exercise if he were a Director in the same circumstances; and
- consider matters before the board having regard to any possible personal interests, the amount of information appropriate to properly consider the subject matter and what is in the best interests of the Company.

The Company considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board for these reasons.

There are procedures in place, agreed by the board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Robert Jones	8 months
Daryl Holmes	7 years and 11 months
William Bass	1 year and 6 months

Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee to determine and review compensation arrangements for the Directors and to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of Director.

The Committee comprises the entire Board.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The Committee comprises the full Board with Mr Bass appointed Chairman. All Committee members are financially literate (i.e. they are able to read and understand financial statements) and Mr Bass has specific financial expertise as a chartered accountant.

Corporate Governance Council Recommendation 4.3 requires composition of Audit Committee to be a majority of independent Directors and the committee have at least three members, the composition of the Audit Committee satisfies Recommendation 4.3.

For additional details of directors' attendance at Audit Committee meetings and to review the qualifications of the members of the Audit Committee, please refer to the Directors' Report.

Performance

The full Board, in carrying out the functions of the Remuneration and Nomination Committee, considers remuneration and nomination issues annually and otherwise as required in conjunction with the regular meetings of the Board.

The performance of the individual members of the Board is reviewed annually and otherwise as required in conjunction with the regular meetings of the Board by the other Directors against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of 1300SMILES Limited.

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and Key Executives fairly and appropriately with reference to relevant and employment market conditions. To assist in achieving this objective, the Board will link the nature and amount of Executive Director's and Officer's emoluments to the Company's financial and operations performance.

For details on the amount of remuneration for each of the highest paid (non-director) executives during the year, and for all Directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses and retirement benefits, discretion is exercised by the Board, having regard to the overall performance of 1300SMILES Limited and the performance of the individual during the period.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, subject to the Company's constitution and prior shareholder approvals, and the Executive team. As noted above, the Board has established a Remuneration and Nomination Committee.

1300SMILES Limited

INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue	3	15,190,745	8,376,620	15,436,744	8,080,853
Direct costs of sales		(1,914,458)	(1,198,599)	(1,914,458)	(1,144,386)
Employee benefits expense		(7,251,983)	(2,987,464)	(7,251,983)	(2,893,821)
Depreciation and amortisation expense		(603,733)	(244,184)	(603,733)	(237,875)
Equipment rental expense		-	(37,695)	-	(24,504)
Property expenses		(845,496)	(483,829)	(845,496)	(458,248)
Operating expenses		(870,260)	(531,894)	(870,260)	(502,710)
Corporate and administration expenses		(307,399)	(346,373)	(307,399)	(340,588)
Finance costs		(51,094)	(12,194)	(51,094)	(11,902)
Profit before income tax		3,346,322	2,534,388	3,592,320	2,466,819
Income tax expense	5	(998,361)	(733,953)	(998,361)	(723,840)
Profit for the period		2,347,961	1,800,435	2,593,959	1,742,979
Earnings per share					
		Cents	Cents		
Basic Earnings Per Share	21	11.7	9.0		
Diluted Earnings Per Share	21	11.7	9.0		

The above income statements should be read in conjunction with the accompanying notes.

1300SMILES Limited

BALANCE SHEETS AS AT 30 JUNE 2008

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	7	433,927	1,931,533	433,927	1,949,950
Trade and other receivables	8	353,406	213,968	353,406	213,968
Inventories	9	175,896	207,178	175,896	207,178
Current tax assets	5	28,853	-	28,853	-
Other financial assets	13	597	597	597	597
Other current assets	10	175,645	59,681	175,645	59,681
TOTAL CURRENT ASSETS		1,168,324	2,412,957	1,168,324	2,431,374
NON-CURRENT ASSETS					
Property, plant and equipment	11	5,591,122	2,899,472	5,591,122	2,899,472
Intangible assets	12	9,043,888	1,470,170	9,043,888	1,470,170
Other financial assets	13	-	-	-	14,765
Deferred tax asset	5	38,412	-	38,412	-
TOTAL NON-CURRENT ASSETS		14,673,422	4,369,642	14,673,422	4,384,407
TOTAL ASSETS		15,841,746	6,782,599	15,841,746	6,815,781
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	14	1,729,501	512,982	1,729,501	797,059
Current tax liabilities	5	-	93,761	-	103,629
Provisions	15	84,344	95,758	84,344	95,758
Financial liabilities	16	86,687	102,828	86,687	102,828
TOTAL CURRENT LIABILITIES		1,900,532	805,329	1,900,532	1,099,274
NON-CURRENT LIABILITIES					
Trade and other payables	14	2,586,470	32,500	2,586,470	32,500
Provisions	15	27,950	-	27,950	-
Financial liabilities	16	4,545,249	-	4,545,249	-
Deferred tax liabilities	5	-	26,803	-	26,803
TOTAL NON-CURRENT LIABILITIES		7,159,669	59,303	7,159,669	59,303
TOTAL LIABILITIES		9,060,201	864,632	9,029,416	1,158,577
NET ASSETS		6,781,545	5,917,967	6,781,545	5,657,204
EQUITY					
Share capital	17	3,991,716	3,991,716	3,991,716	3,991,716
Retained earnings		2,789,829	1,926,251	2,789,829	1,665,488
TOTAL EQUITY		6,781,545	5,917,967	6,781,545	5,657,204

The above balance sheets should be read in conjunction with the accompanying notes.

1300SMILES Limited

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

Consolidated Entity

2008	Share Capital \$	Retained Earnings \$	Total \$
Balance from 1 July 2007	3,991,716	1,926,251	5,917,967
Net profit	-	2,347,961	2,347,961
Dividends recognised during the year	-	(1,484,383)	(1,484,383)
Balance at 30 June 2008	3,991,716	2,789,829	6,781,545

2007	Share Capital \$	Retained Earnings \$	Total \$
Balance from 1 July 2006	3,991,716	1,489,844	5,481,560
Net profit	-	1,800,435	1,800,435
Dividends recognised during the year	-	(1,364,028)	(1,364,028)
Balance at 30 June 2007	3,991,716	1,926,251	5,917,967

Parent

2008	Share Capital \$	Retained Earnings \$	Total \$
Balance from 1 July 2007	3,991,716	1,665,488	5,657,204
Net profit	-	2,593,959	2,593,959
Return of capital from subsidiary	-	14,765	14,765
Dividends recognised during the year	-	(1,484,383)	(1,484,383)
Balance at 30 June 2008	3,991,716	2,789,829	6,781,545

2007	Share Capital \$	Retained Earnings \$	Total \$
Balance from 1 July 2006	3,991,716	1,286,538	5,278,254
Net profit	-	1,742,979	1,742,979
Dividends recognised during the year	-	(1,364,028)	(1,364,028)
Balance at 30 June 2007	3,991,716	1,665,488	5,657,204

The above statements of changes in equity is to be read in conjunction with the attached notes.

CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Entity		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of goods and services tax)		16,653,200	8,540,090	16,653,200	8,215,571
Payments to suppliers and employees (inclusive of goods and services tax)		(11,516,223)	(6,109,106)	(11,534,940)	(5,796,262)
Interest received		56,191	261,925	56,191	261,655
Interest and other costs of finance paid		(51,094)	(12,194)	(51,094)	(11,902)
Income tax paid		(1,201,202)	(956,159)	(1,201,202)	(936,643)
GST paid		(930,086)	(87,752)	(930,086)	(72,569)
Net cash flows from operating activities	22(a)	<u>3,010,486</u>	<u>1,636,804</u>	<u>2,992,069</u>	<u>1,659,850</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		10,602	16,300	10,602	16,300
Acquisition of plant and equipment		(1,497,787)	(1,205,284)	(1,497,787)	(1,202,005)
Payment for the purchase of dental practices (net of cash equivalents)	22(b)	(5,896,925)	(1,957,477)	(5,965,925)	(1,957,477)
Payment for additional costs related to the acquisition of dental practices		-	(9,483)	-	(9,483)
Net cash flows used in investing activities		<u>(7,384,110)</u>	<u>(3,155,944)</u>	<u>(7,384,110)</u>	<u>(3,152,665)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds/(repayment) of borrowings		4,360,401	(128,778)	4,360,401	(128,778)
Dividends paid		(1,484,383)	(1,364,028)	(1,484,383)	(1,364,028)
Net cash flows from/(used in) financing activities		<u>2,876,018</u>	<u>(1,492,806)</u>	<u>2,876,018</u>	<u>(1,492,806)</u>
Net decrease in cash and cash equivalents		(1,497,606)	(3,011,946)	(1,516,023)	(2,985,621)
Cash and cash equivalents at beginning of financial year		<u>1,931,533</u>	<u>4,943,479</u>	<u>1,949,950</u>	<u>4,935,571</u>
Cash and cash equivalents at end of financial year	7	<u><u>433,927</u></u>	<u><u>1,931,533</u></u>	<u><u>433,927</u></u>	<u><u>1,949,950</u></u>

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTE 1: INTRODUCTION

1300SMILES Limited (covering the financial statements of 1300SMILES Limited and its subsidiary) for the year ended 30 June 2008 is a public company incorporated in Australia. The parent is 1300SMILES Limited, its subsidiary Gental Dental Pty Ltd was deregistered during the year.

Operations and principal activities

During the year the principal continuing activities of the Company were to provide dentistry services in Australia. Further information can be found in the Directors' Report under Review of Operations.

Currency

The financial report is presented in Australian Dollars. Amounts in the financial report and Directors' Report have been rounded to the nearest dollar.

Authorisation of the financial report

The financial report was authorised for issue on the 13th of August 2008 by Daryl Holmes. The Directors have the power to amend the financial report after issue.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by 1300SMILES Limited comprising the parent entity and its subsidiary are stated in order to assist in a general understanding of the financial report.

(a) Statement of Compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

Compliance with AIFRS ensures the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(b) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

(c) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Employees benefits

Salaries, Wages, Annual Leave and Long Service Leave

Liabilities for salaries, wages and annual leave are recognised, and are measured as the amount unpaid at the reporting date at amounts expected to be paid when the liability is settled plus on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(e) Property, plant & equipment

Property, Plant and Equipment is impairment tested when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant and equipment which is impaired must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expensed through the income statement.

All Company assets of property, plant and equipment are tested to ensure the carrying amount does not exceed recoverable amount and write downs are made to reflect losses arising.

The depreciable amount of all fixed assets including capitalised lease assets are depreciated over their useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The depreciation rates used for each class of assets are:

Class of Fixed Assets	Depreciation Rate
Plant and Equipment	7.5% - 50% Diminishing Value
Improvements	15% Diminishing Value
Leased Assets	15% Diminishing Value

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the profit before income tax of the Company in the year of disposal.

(f) Goods & Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis.

(g) Revenue

Revenue from dental fees received and service fees from contract dentists is recognised upon the performance of services for customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

h) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected useful life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense. Lease Liabilities are secured against the relevant assets they relate to. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangibles – goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

(j) Cash and cash equivalents

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

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories are recorded at cost using the first-in first-out method.

(l) Trade and other receivables

Trade and other receivables are stated at their cost less any impairment losses.

(m) Equity

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit applicable.

(n) Financial assets and liabilities

Financial assets and liabilities are recognised on the balance sheet when the Company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

(o) Tax consolidation

1300SMILES Limited and its Controlled Entity has not formed a tax consolidated group.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Capital Management

The Company considers its share capital and retained earnings as capital.

When managing capital, the objective is to ensure the Company continues as a going concern, as well as to maintain optimum returns to shareholders and benefits for other stakeholders. The Company also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Company does not have any specific capital targets and nor is it subject to any external capital restrictions. The board and senior management meet monthly and review in detail the current cash position and cashflow forecasts having regard to planned expansions and takes the necessary action to ensure sufficient funds are available.

The Company also ensures it has sufficient reserves available to pay 2 dividends each year. The board reviews the Company's position before declaring any dividend.

(q) Future Reporting Requirements

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing these financial statements:

- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Company's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments. The Company has not yet determined the potential effect of the revised standard on the Company's disclosures.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement, the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's disclosures.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Company's 30 June 2010 financial statements and will constitute a change in accounting policy for the Company. In accordance with the transitional provisions the Company will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Company has not yet determined the potential effect of the revised standard on future earnings.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's financial report.
- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's financial report.
- Improvements to IFRSs resulted from the International Accounting Standards Board's annual improvements project. Part I contains amendments that result in accounting changes for presentation, recognition or measurement purposes. Part II contains amendments that are terminology or editorial changes only. The Company has not yet determined the potential effect of the revised standards on the Company's financial report.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)**(r) Going Concern**

At 30 June 2008 the Company had a deficit of working capital of \$732,208. Included in trade and other payables is a deferred payment for the Bundaberg practice amounting to \$782,523. This amount will be settled by allotting shares and consequently will not negatively impact on the Company's working capital. In addition the Company has unused borrowing facilities of \$534,310 which will be utilised to address any working capital shortfalls if required. The Directors are confident the Company has adequate working capital capacity and reserves to meet current and expected needs.

(s) New Accounting Standards and Interpretations

The Company has adopted AASB 7 'Financial Instruments: Disclosures' and AASB 2005-10 'Amendments to Australian Accounting Standards arising from AASB 7 [1, 4, 101, 114, 117, 132, 133, 139, 1023 & 1038]', applicable beginning on or after 1 January 2007. The adoption of this standard has only affected disclosure in the financial statements. There has been no effect on profit and loss or the financial position of the Company.

Also adopted is AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]'. In principle, all options that currently exist under IFRS should be included and additional Australian disclosures should be eliminated, other than those now considered particularly relevant to the Australian reporting environment. The adoption of this standard has had no impact on the reported results or financial position of the Company.

The Company has adopted AASB 2008-4 "Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities" which amends AASB 124 to relieve disclosing entities that are companies from complying with the paragraphs in AASB 124 that have been included in the Corporations Act and Regulation 2M.3.03 to avoid each disclosing entity that is a company having to disclose this information twice – in its directors' report and in its financial statements.

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 3: REVENUE*Operating Revenue*

Dental fees received	10,587,765	3,778,072	10,587,765	3,709,995
Service fees contract dentists	4,517,587	4,334,451	4,517,587	4,071,031
	15,105,352	8,112,523	15,105,352	7,781,026
<i>Non-Operating Revenue</i>				
Interest	56,191	261,925	56,191	261,655
Forgiveness of loan by subsidiary	-	-	245,999	-
Other revenue	29,202	2,172	29,202	38,172
	15,190,745	8,376,620	15,436,744	8,080,853

NOTE 4: ITEMS INCLUDED IN PROFIT

Depreciation and amortisation of non-current assets	603,733	244,184	603,733	237,875
Operating lease payments - minimum lease payments	800,301	501,209	800,301	462,458
Audit services				
Audit and review of financial reports – PKF	48,500	34,000	48,500	34,000
Non-audit services – tax compliance - PKF	8,800	8,150	8,800	8,150

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 5: INCOME TAX

The components of tax expense comprise:

Current tax	1,054,005	745,126	1,054,005	728,450
Deferred tax	(88,553)	86,588	(88,553)	87,534
Under/(over) provision for tax in prior period	32,909	(97,761)	32,909	(92,144)
	<u>998,361</u>	<u>733,953</u>	<u>998,361</u>	<u>723,840</u>

Explanation of the relationship between tax expense and accounting profit:

Accounting profit before income tax	3,346,322	2,534,388	3,592,320	2,466,819
Tax at the applicable rate of 30%	1,003,897	760,316	1,077,696	740,046
Under/(over) provision for tax in prior period	32,909	(97,761)	32,909	(92,144)
Non deductible expenses	289	71,398	289	75,938
Non assessable income	-	-	(73,799)	-
Deductible capitalised business acquisition costs	(38,734)	-	(38,734)	-
Income tax expense	<u>998,361</u>	<u>733,953</u>	<u>998,361</u>	<u>723,840</u>
Current tax asset/(liability)	<u>28,853</u>	<u>(93,761)</u>	<u>28,853</u>	<u>(103,629)</u>

Deferred tax assets and liabilities for each type of temporary difference:

Deferred tax assets

Accrued expenses	121,450	14,317	121,450	14,317
Provision for employee benefits	33,688	28,727	33,688	28,727
Lease liabilities	-	5,917	-	5,917
Deferred tax asset	<u>155,138</u>	<u>48,961</u>	<u>155,138</u>	<u>48,961</u>

Deferred tax liabilities

Inventory	52,769	62,135	52,769	62,135
Property, plant and equipment	63,958	-	63,957	-
Other	-	13,629	-	13,629
Deferred tax liability	<u>116,726</u>	<u>75,764</u>	<u>116,725</u>	<u>75,764</u>

Net deferred tax asset/(liability)

	<u>38,412</u>	<u>(26,803)</u>	<u>38,412</u>	<u>(26,803)</u>
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Movements in deferred tax balances recognised in income tax expense:

Provision for employee benefits	(4,961)	(9,441)	(4,961)	(17,766)
Accruals	(99,189)	(6,771)	(99,189)	(7,158)
Leases	-	25,358	-	25,358
Inventory	(9,367)	62,135	(9,367)	62,135
Property, plant and equipment	24,964	-	24,964	-
Other	-	15,307	-	24,965
Deferred tax expense	<u>(88,553)</u>	<u>86,588</u>	<u>(88,553)</u>	<u>87,534</u>

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 6: DIVIDENDS

Final fully franked ordinary dividend in relation to the half-year ended 30 June 2006 of 3.4 cents per fully paid share paid on 16 October 2006.

682,014 682,014

Interim fully franked ordinary dividend in relation to the half-year ended 31 December 2006 of 3.4 cents per fully paid share paid on 12 March 2007.

682,014 682,014

Final ordinary dividend in relation to the half-year ended 30 June 2007 of 3.4 cents per fully paid share paid on 16 September 2007.

682,014 682,014

Interim ordinary dividend in relation to the half-year ended 31 December 2007 of 4.0 cents per fully paid share paid on 12 March 2008.

802,369 802,369

1,484,383 1,364,028 1,484,383 1,364,028

Franking credits

Balance of franking account at financial year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years

813,076 407,668 813,076 287,549

Note: A final fully franked dividend of 4.5 cents per share (\$902,665) has been declared since 30 June 2008. This will reduce the balance of the franking account by \$386,857.

NOTE 7: CASH AND CASH EQUIVALENTS

Cash on hand	5,020	2,800	5,020	2,800
Cash at bank and on deposit	428,907	1,928,733	428,907	1,947,150
	<u>433,927</u>	<u>1,931,533</u>	<u>433,927</u>	<u>1,949,950</u>

NOTE 8: TRADE & OTHER RECEIVABLES

Trade receivables	<u>353,406</u>	<u>213,968</u>	<u>353,406</u>	<u>213,968</u>
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NOTE 9: INVENTORIES

Stock on hand	<u>175,896</u>	<u>207,178</u>	<u>175,896</u>	<u>207,178</u>
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NOTE 10: OTHER ASSETS

Prepayments	150,681	45,367	150,681	45,367
Other current assets	24,964	14,314	24,964	14,314
	<u>175,645</u>	<u>59,681</u>	<u>175,645</u>	<u>59,681</u>

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
NOTE 11: PROPERTY, PLANT AND EQUIPMENT				
Plant and equipment under finance lease at cost	743,443	574,735	743,443	574,735
Less accumulated amortisation	(574,735)	(519,696)	(574,735)	(519,696)
Total plant and equipment under finance lease	168,708	55,039	168,708	55,039
Capital works at cost	476,788	214,848	476,788	214,848
Less accumulated amortisation	-	-	-	-
Total capital works	476,788	214,848	476,788	214,848
Plant and equipment at cost	3,800,560	1,873,974	3,800,560	1,873,974
Less accumulated depreciation	(663,439)	(323,910)	(663,439)	(323,910)
	3,137,121	1,550,064	3,137,121	1,550,064
Leasehold improvements at cost	2,045,015	1,109,413	2,045,015	1,109,413
Less accumulated amortisation	(236,510)	(29,892)	(236,510)	(29,892)
	1,808,505	1,079,521	1,808,505	1,079,521
Total property, plant and equipment	5,591,122	2,899,472	5,591,122	2,899,472

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (continued)

Movements during the year

Consolidated Entity

2008	Plant and equipment under finance lease	Capital works	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Balance from 1 July 2007	55,039	214,848	1,550,064	1,079,521	2,899,472
Additions	-	1,400,423	97,364	-	1,497,787
Additions through business acquisitions	168,708	-	1,563,467	73,552	1,805,727
Transfers	-	(1,138,483)	276,433	862,050	-
Disposals	-	-	(8,131)	-	(8,131)
Depreciation/Amortisation	(55,039)	-	(342,076)	(206,618)	(603,733)
Balance at 30 June 2008	168,708	476,788	3,137,121	1,808,505	5,591,122

2007	Plant and equipment under finance lease	Capital works	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Balance from 1 July 2006	143,419	243,858	429,566	24,985	841,828
Additions	-	930,384	274,900	-	1,205,284
Additions through business acquisitions	-	-	570,000	546,514	1,116,514
Transfers	-	(959,394)	421,480	537,914	-
Disposals	-	-	(19,970)	-	(19,970)
Depreciation/Amortisation	(88,380)	-	(125,912)	(29,892)	(244,184)
Balance at 30 June 2007	55,039	214,848	1,550,064	1,079,521	2,899,472

Parent Entity

2008	Plant and equipment under finance lease	Capital works	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Balance from 1 July 2007	55,039	214,848	1,550,064	1,079,521	2,899,472
Additions	-	1,400,423	97,364	-	1,497,787
Additions through business acquisitions	168,708	-	1,563,467	73,552	1,805,727
Transfers	-	(1,138,483)	276,433	862,050	-
Disposals	-	-	(8,131)	-	(8,131)
Depreciation/Amortisation	(55,039)	-	(342,076)	(206,618)	(603,733)
Balance at 30 June 2008	168,708	476,788	3,137,121	1,808,505	5,591,122

2007	Plant and equipment under finance lease	Capital works	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Balance from 1 July 2006	143,419	241,321	402,525	22,429	809,694
Additions	-	930,384	300,725	-	1,231,109
Additions through business acquisitions	-	-	570,000	546,514	1,116,514
Transfers	-	(956,857)	416,895	539,962	-
Disposals	-	-	(19,970)	-	(19,970)
Depreciation/Amortisation	(88,380)	-	(120,111)	(29,384)	(237,875)
Balance at 30 June 2007	55,039	241,848	1,550,064	1,079,521	2,899,472

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 12: INTANGIBLE ASSETS

Goodwill at cost	9,043,888	1,470,170	9,987,404	1,470,170
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Movements during the year

Opening balance	1,470,170	614,724	1,470,170	614,724
Acquisitions through business combinations	7,656,218	855,446	7,656,218	855,446
Reductions from changes in contingent consideration payable	(82,500)	-	(82,500)	-
	9,043,888	1,470,170	9,043,888	1,470,170

The total amount of goodwill has been allocated to the following individual cash generating units (dental practice):

Cash generating unit (dental practice)

Belgian Gardens	145,000	135,000	145,000	135,000
Fulham Road	40,109	40,109	40,109	40,109
The City	106,233	106,233	106,233	106,233
Upper Ross	83,750	83,750	83,750	83,750
Mackay	20,173	20,173	20,173	20,173
Chevron Island	71,727	71,727	71,727	71,727
Minnie Street	-	66,613	-	66,613
Cairns Central	66,613	-	66,613	-
Gladstone	107,935	127,935	107,935	127,935
Carindale	756,130	818,630	756,130	818,630
Caloundra	1,049,412	-	1,049,412	-
Rockhampton	214,042	-	214,042	-
Toowoomba	2,169,721	-	2,169,721	-
Bundaberg	4,211,843	-	4,211,843	-
Other	1,200	-	1,200	-
	9,043,888	1,470,170	9,043,888	1,470,170

During the prior period the goodwill relating to the Minnie Street practice was transferred to the Cairns Central practice to reflect the merging of the operations and staff associated with the Minnie Street practice into the Cairns Central practice to improve synergies and reduce operating costs.

The recoverable amount of goodwill is based on value in use calculations. Value in use has been determined by reference to the expected future performance of each dental practice. Each dental practice's future cash flows are projected over a 5 year period and are discounted using the Company's weighted average cost of capital. Future cash flows for each practice are based on historical results extrapolated using historical growth rates.

Details of each practice's contribution to the Company's profit:

1300SMILES operates multiple dental practices through a central head office to achieve cost savings. Head office expenses attributable to each operation cannot be determined and consequently it is not practical to determine the amount of each practice's profit included in the Company's profit for the period.

Notes to the Financial Statements for the year ended 30 June 2008

During the period the following dental practices were acquired:

2008

Dental Practice	Consideration paid or payable	Net fair value of assets acquired	Goodwill arising on acquisition
	\$	\$	\$
Caloundra	1,401,032	351,620	1,049,412
Rockhampton	401,042	187,000	214,042
Toowoomba	2,650,268	480,547	2,169,721
Bundaberg	5,035,676	823,833	4,211,843
	9,488,018	1,843,000	7,645,018

2007

Dental Practice	Consideration paid or payable	Net fair value of assets acquired	Goodwill arising on acquisition
	\$	\$	\$
Carindale	1,702,929	1,051,514	651,415
Other	329,548	135,000	194,548
	2,032,477	1,186,514	845,963

During the period, the Company incurred minor additional acquisition costs of \$11,200 (2007: \$9,483) relating to several practices which are not included in the above acquisitions.

Prior to acquisition each practice operated as a stand alone entity. Due to the differing cost structures, it is not practicable to determine the amount of each practices' profit that would be included in the Company's profit for the period if the practices were owned for the whole period.

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 13: OTHER FINANCIAL ASSETS

CURRENT

Available for sale financial asset	597	597	597	597
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NON CURRENT

Investment in controlled entity at cost	-	-	-	14,765
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Details of controlled entity	Balance Date	Country of Incorporation	% of shares held	
			30 June 2008	30 June 2007
Gentle Dental Pty Limited	30 June	Australia	-	100

Gentle Dental Pty Limited was deregistered on 18 January 2008. This was a result of its sole practice being relocated to Cairns Central during the period.

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

NOTE 14: TRADE AND OTHER PAYABLES

CURRENT

Trade creditors	325,738	211,487	325,738	211,487
Sundry creditors and accruals	1,403,763	301,495	1,403,763	303,177
Payable to wholly owned subsidiary	-	-	-	282,395
	<u>1,729,501</u>	<u>512,982</u>	<u>1,729,501</u>	<u>797,059</u>

NON-CURRENT

Deferred settlement	<u>2,586,470</u>	<u>32,500</u>	<u>2,586,470</u>	<u>32,500</u>
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Included in sundry creditors is a Deferred settlement of \$782,523 on the purchase of the Bundaberg practice. By way of consideration the Company will allot shares under escrow, ex-dividend with the number of shares based on the greater of:

- The volume weighted average price for the 6 month period up to 30 June 2008; or
- A share price of \$2.75 per share

Further Deferred settlement of \$1,636,697 for the Bundaberg practice is payable over the next 5 years with the last instalment due September 2012 upon certain revenue and profit benchmarks being reached.

Also included in non-current Deferred settlement is \$949,773 on the purchase of the Toowoomba practice which is payable over the next three years with the last instalment due by 30 September 2011 upon certain revenue and profit benchmarks being reached.

NOTE 15: PROVISIONS

CURRENT

Employee benefits	<u>84,344</u>	<u>95,758</u>	<u>84,344</u>	<u>95,758</u>
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NON-CURRENT

Employee benefits	<u>27,950</u>	<u>-</u>	<u>27,950</u>	<u>-</u>
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NOTE 16: FINANCIAL LIABILITIES

CURRENT

Lease liabilities	<u>86,687</u>	<u>102,828</u>	<u>86,687</u>	<u>102,828</u>
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NON-CURRENT

Term loan (net of borrowing costs)	4,453,758	-	4,453,758	-
Lease liabilities	<u>91,491</u>	<u>-</u>	<u>91,491</u>	<u>-</u>
	<u>4,545,249</u>	<u>-</u>	<u>4,545,249</u>	<u>-</u>

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$

NOTE 17: SHARE CAPITAL

Issued and paid up capital	3,991,716	3,991,716	3,991,716	3,991,716
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(a) Ordinary Shares

	2008		2007	
	Number of Shares	\$	Number of Shares	\$
Balance 30 June	20,059,235	3,991,716	20,059,235	3,991,716

Ordinary shares participate in dividends and the proceeds on winding up of the Parent Entity 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.

(b) Options

During the 2008 financial year, no options were issued over ordinary shares. At 30 June 2008 there were no (2007: Nil) unissued ordinary shares in respect of which options were outstanding.

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$

NOTE 18: COMMITMENTS**Operating lease commitments**

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable				
- not later than one year	896,614	448,644	896,614	448,644
- later than one year and not later than five years	2,201,246	835,774	2,201,246	835,774
- later than five years	162,201	-	162,201	-
Aggregate lease expenditure contracted for at reporting date	3,260,061	1,284,418	3,260,061	1,284,418

Operating leases relate to the lease of premises and the hire of dental equipment.

Finance lease commitments

Reconciliation of Finance lease commitments of the Company to the carrying amount of Lease liabilities:

Time expected to elapse to expected date of payment:

- not later than one year	94,470	106,598	94,470	106,598
- later than one year and not later than five years	94,740	-	94,740	-
	189,210	106,598	189,210	106,598
- future finance charges	(11,032)	(3,770)	(11,032)	(3,770)
Carry amount of lease liabilities	178,178	102,828	178,178	102,828
Current lease liability - Note 16	86,687	102,828	86,687	102,828
Non current lease liability – Note 16	91,491	-	91,491	-
Total lease liability	178,178	102,828	178,178	102,828

NOTE 19: DIRECTORS AND KEY MANAGEMENT PERSONNEL COMPENSATION

Information about the remuneration of Directors and Key Management Personnel Compensation which is currently required under Section 300A of the Corporations Act and under Accounting Standard AASB 124 "Related Parties" is included in the Remuneration Report within the Director's Report. The Company has taken the relief provided by AASB 2008-4 "Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities"

NOTE 20: RELATED PARTY DISCLOSURES

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

a) Transactions with Directors and Director-Related Entities

The Company has entered into the following agreements with the managing director, Dr Daryl Holmes, or entities related to Dr Holmes.

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
(i) Dentist Income*				
Daryl Holmes provided dental services and has been remunerated based on normal commercial terms and conditions for this work	51,485	73,781	51,485	73,781
(ii) Rental Expense				
Ashbourne Park Pty Limited ATF the Holmes Family Trust provides equipment rental based on normal commercial terms and conditions	-	82,144	-	82,144
Golden Arch Pty Limited ATF the Whistler Trust provides rental on normal commercial terms and conditions	90,765	31,834	90,765	31,834
Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage on normal commercial terms and conditions	59,082	56,284	59,082	56,284

* Forms part of remuneration included in the remuneration report on page 11

The Company has entered into the following agreements with Non Executive Director Mr William Bass.

(iii) Secretarial				
William Bass provides company secretarial services on normal commercial terms and conditions	10,050	-	10,050	-
(iv) Practice acquisition				
William Bass provides practice acquisition services on normal commercial terms and conditions	55,000	-	55,000	-

(b) Share and Option transactions of Directors and Director-Related Entities are shown in the Remuneration Report within the Directors Report

Transactions within the wholly owned group

Amount payable to subsidiary at beginning of the year	-	-	282,395	199,288
Return of capital	-	-	(14,765)	-
Forgiveness of loan by subsidiary	-	-	(245,998)	-
Assumption of subsidiary liabilities	-	-	(21,362)	-
Management fee received from subsidiary	-	-	-	(36,000)
Cash distribution from subsidiary	-	-	-	119,106
Amounts payable to subsidiary at end of the year	-	-	-	282,395

NOTE 21: EARNINGS PER SHARE

	Consolidated 2008	Consolidated 2007
Basic earnings per share (cents)	11.7	9.0
Diluted earnings per share (cents)	11.7	9.0
Earnings used in the calculation of basic and diluted earning per share	\$2,347,961	\$1,800,435
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	20,059,235	20,059,235

Note: please refer to note 14

NOTE 22(a): RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Profit for the year	2,347,961	1,800,453	2,593,959	1,742,979
<i>Non-cash flows in profit from ordinary activities</i>				
Depreciation	603,733	244,184	603,733	237,875
Net (gain) / loss on disposal of property, plant and equipment	(2,471)	3,670	(2,471)	3,670
Gain on forgiveness of subsidiary loan	-	-	(245,998)	-
Return of capital from subsidiary	-	-	14,765	-
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in receivables	(139,438)	(31,143)	(139,438)	(33,828)
(Increase)/decrease in other assets	(38,310)	(36,930)	(38,310)	(41,773)
(Increase)/decrease in inventories	31,282	(11,401)	31,282	(28,358)
Increase/(decrease) in payables	396,708	(100,247)	363,526	(29,682)
Increase/(decrease) in income tax payable	(122,614)	(309,154)	(122,614)	(297,100)
Increase/(decrease) in deferred taxes	(65,215)	86,588	(65,215)	87,534
Increase/(decrease) in employee benefits	(14,665)	31,472	(14,665)	59,221
GST clearing	13,515	(40,688)	13,515	(40,688)
Cash flows from operations	3,010,486	1,636,804	2,992,069	1,659,850
(b) Businesses Acquired				
<i>Aggregate purchase consideration:</i>				
Cash and cash equivalents	5,897,745	1,957,477	5,897,745	1,957,477
Trade and other payables	3,601,473	75,000	3,601,473	75,000
	9,499,218	2,032,477	9,499,218	2,032,477
<i>Aggregate fair value of assets and liabilities acquired:</i>				
Cash	820	-	820	-
Inventory	-	70,000	-	70,000
Other assets	77,654	-	77,654	-
Accruals	(10,000)	-	(10,000)	-
Provision for employee entitlements	(31,201)	-	(31,201)	-
Plant and equipment	1,805,727	1,116,514	1,805,727	1,116,514
	1,843,000	1,186,514	1,843,000	1,186,514
Goodwill on acquisition	7,656,218	845,963	7,656,218	845,963
Outflow of cash	5,965,924	1,957,477	5,965,924	1,957,477

(c) Non-cash Investing Activities

During the period the Company acquired property, plant and equipment totalling \$168,707 (2007: Nil) by way of finance lease.

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

There have been no events since the end of the financial year that impact upon the financial report as at 30 June 2008.

NOTE 24: SEGMENT INFORMATION

The Company operates predominantly in one business and geographical segment being in the provision of dental services in Australia.

NOTE 25: FINANCIAL INSTRUMENTS**Overall Policy**

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework. The Managing Director is responsible for developing and monitoring risk management policy, and report regularly to the Board of Directors on issues and compliance. Risk management policy is to identify and analyse the risks faced by the entity, to set limits and controls, and to monitor risks and adherence to limits. Risk management policy and systems are reviewed regularly to reflect changes in market conditions and Company's activities. The Company aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk arises principally from the Company's receivables from receivables and cash and cash equivalents.

Credit risk is kept continually under review and managed to reduce the incidence of material losses being incurred by the non-receipt of monies due.

	Consolidated Entity		Parent Entity	
	2008	2007	2007	2007
	\$	\$	\$	\$
<i>Maximum exposure to credit risk</i>				
Trade accounts receivable	353,406	213,968	353,406	213,968
Cash and cash equivalents	433,927	1,931,533	433,927	1,949,950
	<u>787,333</u>	<u>2,145,501</u>	<u>787,333</u>	<u>2,161,918</u>

Receivables

The entity's exposure to risk is minimised due to the majority of clients paying for their services up front. The Company monitors and follows-up its accounts receivable to ensure collections are being made promptly in accordance with contractual terms and conditions and actively pursues amounts past due.

Where applicable, an allowance for impairment has been made, that represents the estimate of incurred losses in respect to trade and other receivables.

Impairment Considerations

The ageing of trade receivables at the reporting date was:

Not past due	106,807	154,601	106,807	154,601
Past due 0-30 days	98,230	45,971	98,230	45,971
Past due 31-60 days	85,594	13,396	85,594	13,396
Past due 60+ days	62,775	-	62,775	-
	<u>353,406</u>	<u>213,968</u>	<u>353,406</u>	<u>213,968</u>

The Company has not provided for amounts past due as management believes these amounts are not impaired.

NOTE 25: FINANCIAL INSTRUMENTS (continued)Cash Investments

The Company limits its risk exposure on cash investments by investing in term deposits or similar, with major banking institutions, and management does not expect any counterparty to fail to meet its obligations.

(b) Market Risk

Market risk is the risk that changes in market prices such as interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Company's exposure to market interest rates relates primary to the Group's long-term debt obligations. No interest rate swaps had been entered into during the term of the facility.

The Company constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternate hedging positions and the mix of fixed and variable interest rate.

*Sensitivity analysis for movement in interest rates:**Variable rate instruments*

	Consolidated Entity		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
1% increase in interest rates - effect on profit after tax and equity	(28,257)	13,501	(28,257)	13,610
1% decrease in interest rates - effect on profit after tax and equity	28,257	(13,501)	28,257	(13,610)

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. This process involves the review and updating of cash flow forecasts and, when necessary, the obtaining of credit standby arrangements and loan facilities.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit lines.

During the year, the Company negotiated a new banking facility with Suncorp which will help fund future growth.

The Company maintains the following lines of credit:

- \$5 million interest only term loan expiring in March 2013

NOTE 25: FINANCIAL INSTRUMENTS (continued)

Contractual maturity analysis for financial instrument liabilities:

2008

Consolidated	Contractual Repayment Amount	6 mths or less	6-12 mths	1-5 years
Trade payables	325,738	325,738	-	-
Sundry creditors and accruals	1,403,763	1,403,763	-	-
Deferred consideration	2,957,541	-	-	2,957,541
Finance lease liabilities	189,210	47,235	47,235	94,740
Term Loan	4,465,690	-	-	4,465,690
	<u>9,341,942</u>	<u>1,776,736</u>	<u>47,235</u>	<u>7,517,971</u>

2008

Parent	Contractual Repayment Amount	6 mths or less	6-12 mths	1-5 years
Trade payables	325,738	325,738	-	-
Sundry creditors and accruals	1,403,763	1,403,763	-	-
Deferred consideration	2,957,541	-	-	2,957,541
Finance lease liabilities	189,210	47,235	47,235	94,740
Term Loan	4,465,690	-	-	4,465,690
	<u>9,341,942</u>	<u>1,776,736</u>	<u>47,235</u>	<u>7,517,971</u>

2007

Consolidated	Contractual Repayment Amount	6 mths or less	6-12 mths	1-5 years
Trade payables	211,487	211,487	-	-
Sundry creditors and accruals	301,495	301,495	-	-
Deferred consideration	32,500	-	-	32,500
Finance lease liabilities	106,598	53,299	53,299	-
	<u>652,080</u>	<u>566,281</u>	<u>53,299</u>	<u>32,500</u>

2007

Parent	Contractual Repayment Amount	6 mths or less	6-12 mths	1-5 years
Trade payables	211,487	211,487	-	-
Sundry creditors and accruals	303,177	303,177	-	-
Payable to subsidiary	282,395	282,395	-	-
Deferred consideration	32,500	-	-	32,500
Finance lease liabilities	106,598	53,299	53,299	-
	<u>936,157</u>	<u>850,358</u>	<u>53,299</u>	<u>32,500</u>

(d) Fair Value

The carrying amount of the Entity's financial assets and financial liabilities approximate their fair value.

NOTE 26: CONTINGENT LIABILITIES

The Company is subject to bank guarantees totalling \$144,971 (2007: \$Nil).

1300SMILES Limited and Controlled Entity

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes on pages 18 to 39, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 6 to 13, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001
 - (ii) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2008 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 10 to 12 of the directors' report comply with Accounting standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and
- (d) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

The directors have been given the declarations by the managing director and chief financial officer required by section 295A of the Corporations Act 2001.

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

Dr. Daryl Holmes
Director

Dated at Townsville this 13th Day of August 2008

INDEPENDENT AUDITOR'S REPORT

To the members of 1300SMILES Limited

Report on the Financial Report

We have audited the accompanying financial report of 1300SMILES Limited, which comprises the balance sheets as at 30 June 2008, and the income statements, statement of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of both 1300SMILES Limited ('Parent Entity') and its controlled entity. The Consolidated Entity comprises both the Parent Entity and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the 1300SMILES Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

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

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Chartered Accountants
& Business Advisers

Auditor's Opinion

In our opinion:

- (a) the financial report of 1300SMILES Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the entity's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 10 to 12 of the Directors' Report for the year ended 30 June 2008. 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 responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of 1300SMILES Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Acts 2001*.

A handwritten signature in blue ink that reads 'PKF'.

PKF
CHARTERED ACCOUNTANTS

A handwritten signature in blue ink that reads 'Kim Colyer'.

Kim Colyer
Partner

Dated at Brisbane this 13th Day of August 2008

1300SMILES Limited and Controlled Entity

Notes to the Financial Statements for the year ended 30 June 2008

1300SMILES Limited and Controlled Entity

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 7 August 2008.

(a) Distribution of equity securities

The number of holders, by size of holding, in each class of security are:

	Ordinary shares	
	Number of holders	Number of shares
1 – 1,000	26	14,852
1,001 – 5,000	279	787,240
5,001 – 10,000	51	387,854
10,001 – 100,000	39	1,392,235
100,001 and over	8	17,477,054
Total	403	20,059,235

There are no shareholders holding less than a marketable parcel of ordinary shares.

(b) Twenty largest holders

The names of the twenty largest holders, in each class of security are:

Ordinary shares:

1	Dr Daryl Holmes <TFD Hybrid Fixed A/C>	14,352,137	71.5%
2	Gandel Springwest Pty Ltd <Gandel Investment No 1 A/C>	1,200,000	6.0%
3	Upper Avalon Pty Ltd <Avalon Family Account>	613,000	3.1%
4	Golden Arch (Qld) Pty Ltd <Whistler Discretionary A/C>	481,685	2.4%
5	J P Morgan Nominees Australia Limited	465,605	2.3%
6	Ashbourne Park Pty Ltd <TFD Hybrid Fixed A/C>	265,402	1.3%
7	Kent Gush	102,500	0.5%
8	Landel Pty Ltd <Lancini Family Discret A/C>	100,580	0.5%
9	Ashbourne Park Pty Ltd <Super Fund A/C>	100,000	0.5%
10	Mr Morris & Mrs Ingrid Marrinon<The MJ & IM Super Fund A/c>	100,000	0.5%
11	Cogent Nominees Pty Limited	90,064	0.4%
12	Dr Alex Taurany	77,826	0.4%
13	Ancam Pty Ltd <Ancam Family Discret Account>	77,500	0.4%
14	Mr Kevin John Holmes & Mrs Janita Dawn Holmes	75,829	0.4%
15	CJ & CA Christofides	60,000	0.3%
16	Mr John Patrick Baynes	53,729	0.3%
17	Mr Kevin Holmes & Mrs Janita Holmes<Holmes Super Fund A/C>	50,000	0.2%
18	Mr Bradley John Holmes & Mrs Seiko Holmes	44,600	0.2%
19	Mr John Honnery & Mrs June Honnery <Honnery Super Fund A/C>	43,000	0.2%
20	S M P Dawson Pty Ltd <No 2 Fund Account>	42,500	0.2%

Top 20

18,395,957

91.7%

Total

20,059,235

100.0%

1300SMILES Limited and Controlled Entity

Shareholder Information continued:

(c) **Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 is:

Dr. Daryl Holmes	15,199,224 Ordinary Shares
Gandel Springwest Pty Ltd	1,200,000 Ordinary Shares

(d) **Voting rights**

All ordinary shares carry one vote per share without restriction.

(e) **Restricted securities**

There are no restricted securities (held in escrow).

(f) **Business objectives**

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.