



Suite 4, 49 Bundock St,  
Belgian Gardens, Qld., 4810

P.O.Box 180,  
Belgian Gardens, Qld., 4810

Phone: +61 7 4721 1238  
Fax: +61 7 4771 5217

[www.1300SMILES.com.au](http://www.1300SMILES.com.au)  
[admin@1300SMILES.com.au](mailto:admin@1300SMILES.com.au)

## **ASX ANNOUNCEMENT**

**20 November 2006**

### **AGM presentation – Managing Director’s Report**

The year ended 30 June 2006 was marked by several new records: record profits, record earnings per share, and record dividends.

The company achieved these agreeable results by expanding its core business in three ways:

1. by attracting more dentists to base their practices within 1300 SMILES Ltd facilities.
2. by assisting our affiliated dentists to increase their individual turnover.
3. by careful and selective acquisition of existing practices, enabling us to establish operations in new locations.

At the end of the year the company had established facilities in all of the key growth centres in Queensland. In addition to our six centres in Townsville, we added a second CBD facility in Cairns. In the booming centre of Mackay, where we had been working in temporary facilities as a result of the extraordinarily tight real estate market, we opened (on the 10th of July this year) what is easily the biggest and best multiple-dentist facility in the region. We believe that our offering to dentists in Mackay is unmatched, and, for a while at least, unmatchable.

In Townsville, our flagship practice at Belgian Gardens Practice (now 12 years old) will move next door into a brand new, purpose-built, state-of-the-art facility with seven chair/operator capacity (compared with only two at present). This is an exciting and promising expansion.

In the southeast corner we acquired existing practices in both Brisbane and the Gold Coast. These are important to us for two reasons. First, they are located in major population centres and offer us access to significant revenue and profit. Second, we believe these metropolitan locations will assist the company in its efforts to recruit more dentists, some of whom remain convinced that they want to live in the big cities. There are also dental schools in both of these cities.

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## **Results Overview**

As you've seen from the annual report, net profit after tax rose 23.7% to \$1.86 million. Earnings per share were up 11.9% to a record 9.8c. The full year dividend, at 7.0c fully franked, was up 22.6% over the previous year. The year-end cash balance at \$4.9 million was also a record.

Accumulating a big cash balance is not in itself a primary objective, of course, but this balance shows that we can achieve sensible growth while maintaining a positive cash flow and that we are in position to make sensible acquisitions as and when they arise.

These very good results were achieved by maintaining a careful focus on building the business by judicious acquisition and organic expansion. We appreciate that this sort of growth does not lead to much in the way of dramatic news flow, but your board takes the view that shareholders in 1300 SMILES Ltd would prefer that we deliver steady profit and dividend growth rather than exciting news.

## **Investor returns**

I will take just a moment to thank once again our early investors, most of whom have stayed with the company right through our first year and a half as a listed company. Those early investors who took up shares in the public offer at 80c have seen the share price nearly triple, and they have so far enjoyed 10.8c per share in franked dividends, which equates to a compound rate of return well in excess of 75% per annum.

Obviously the company has no control over its share price. We can only do our best to run the company for growth and profit; the market sets the price. But we will admit that it's gratifying when the market endorses our approach, as it has done so far.

## **Capital Management**

I would like to make one extremely important point about how the company looks after shareholders. Obviously we seek to deliver a constant increase in our profit. But more important to each shareholder is the growth in earnings per share (EPS).

To keep EPS growing, we aim to do two things. First, keep our total profit moving ahead, as we have done. Second, we aim to keep the total number of shares on issue under control. We are committed to expand the issued share capital of the company *only* in circumstances in which we are confident that any such expansion will contribute to increased earnings per share. Given our solid cash balance and positive cash flow, it is unlikely that we will issue any additional shares any time soon.

While it remains open to us to exchange company shares for ownership of an existing business, to date we have not done so. During the 2006 year all acquisitions were made for cash.

## **Institutional investors**

During the year to 30 June 2006 we did welcome one significant new investor to the share register when we placed 1,200,000 shares at \$1.65 to the investment entity of the Gandel Family. This group is a long-term investor which appreciates our objectives and our approach, and we are grateful for the positive relationship we have with the Gandel Group. Shareholders should note that this placement was completed at the full market price at the time, and at a level higher than the volume weighted average price for the preceding month.

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Two other significant institutional investors have joined the register over the course of the year by buying the company's shares on-market.

### **Competitors and copycats**

There are a number of other companies seeking to copy the model established by 1300 SMILES Ltd. We view this as inevitable, and we take it as further evidence that the consolidation of the industry will accelerate.

### **Management Team**

Since 30 June 2006, we have actively identified and recruited a number of key personnel in the areas of finance, operations, human resources, asset management and business growth and development. This latter function focuses on actively identifying and realising opportunities to acquire existing practices and recruit dentists throughout Queensland and interstate.

We are now confident that with this expanded management team that we can further enhance our offer and appeal to dentists and continue to expand and grow in all areas and aspects.

### **Thanks**

I would like to take this opportunity to acknowledge the most important clients of our business: the dentists who operate their practices within our facilities utilising our management services. I'd like to thank each and every one of them for their ongoing excellent efforts and commitment. We continually seek ways to improve and enhance our services, support, and facilities for them. This is a challenging task and one which I, our staff, management team, and board take very seriously. We are committed to focus always on improving our services to dentists, as this is fundamental to our ongoing success.

### **Outlook**

We continue to work on acquisitions of all sorts, ranging from individual dental practices which can be consolidated into larger, more efficient 1300 SMILES Ltd facilities to existing multi-dentist operations which can benefit from integration into our system.

Having established our operating and administration processes across our multiple sites around Queensland, we are looking farther afield and would hope to establish a presence in other states soon.

As usual, we do not make any projections as to future revenue or profit. Our track record shows that when we grow by expansion or acquisition we do so in a way which increases the company's profit. We will remain focussed on careful, deliberate expansion and on continuous growth of our earnings and dividends.

I thank you for your support of the company during the year and look forward to a very long and profitable association.

## **Board expansion**

I am happy to advise that Mr. Guy Drummond has within the past few days agreed to join the board of directors. Guy brings to the board a number of talents and abundant enthusiasm, as well as lengthy listed public company experience. Guy is a director of Clover Corporation, headquartered in Sydney, and a resident of Townsville. I welcome him to our board and look forward to working with him.

A handwritten signature in black ink, appearing to read 'D. Holmes', with a long horizontal flourish extending to the right.

On behalf of the Board  
Daryl Holmes  
Managing Director