Appendix 4E

Preliminary Final Report to the Australian Stock Exchange

Name of Entity	**1300SMILES Limited**
ABN	91 094 508 166
Financial Year Ended	30 June 2013
Previous Corresponding Reporting Period	30 June 2012

Results for Announcement to the Market

	$'000	**Percentage increase/ (decrease) over previous corresponding period**
Revenue from ordinary activities	36,183	(1.3%)
Profit / (loss) from ordinary activities after tax attributable to members	6,367	3.1%
Net profit / (loss) for the period attributable to members	**6,367**	**3.1%**

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	8.5 cents	100%
Interim Dividend	10.0 cents	100%

Record date for determining entitlements to the dividends (if any)	4 October 2013

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Refer to the accompanying Director's report, financial statements and notes.

Dividends

Date the dividend is payable	9 October 2013
Record date to determine entitlement to the dividend	4 October 2013
Amount per security	8.5 cents
Total dividend	$2,012,663
Amount per security of foreign sourced dividend or distribution	Nil
Details of any dividend reinvestment plans in operation	N/a
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/a

NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	61.8 cents	59.0 cents

Commentary on the Results for the Period

Refer to the accompanying Director's report, financial statements and notes.

Audit/Review Status

This report is based on accounts to which one of the following applies: (Tick one)			
The accounts have been audited	X	The accounts have been subject to review	
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	

Financial Statements

Refer to the accompanying Director's report, financial statements and notes.

By Order of the Board
William Bass
Company Secretary
16 August 2013

1300 SMILES DENTISTS

ANNUAL REPORT

For the year ended 30 June 2013

1300 SMILES Stadium

1300 Smiles™
We Care

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William Bass, Non-Executive Director

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Australian Securities Exchange Limited
ASX Code: ONT

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AUSTRALIAN BUSINESS NUMBER
ABN 91 094 508 166

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

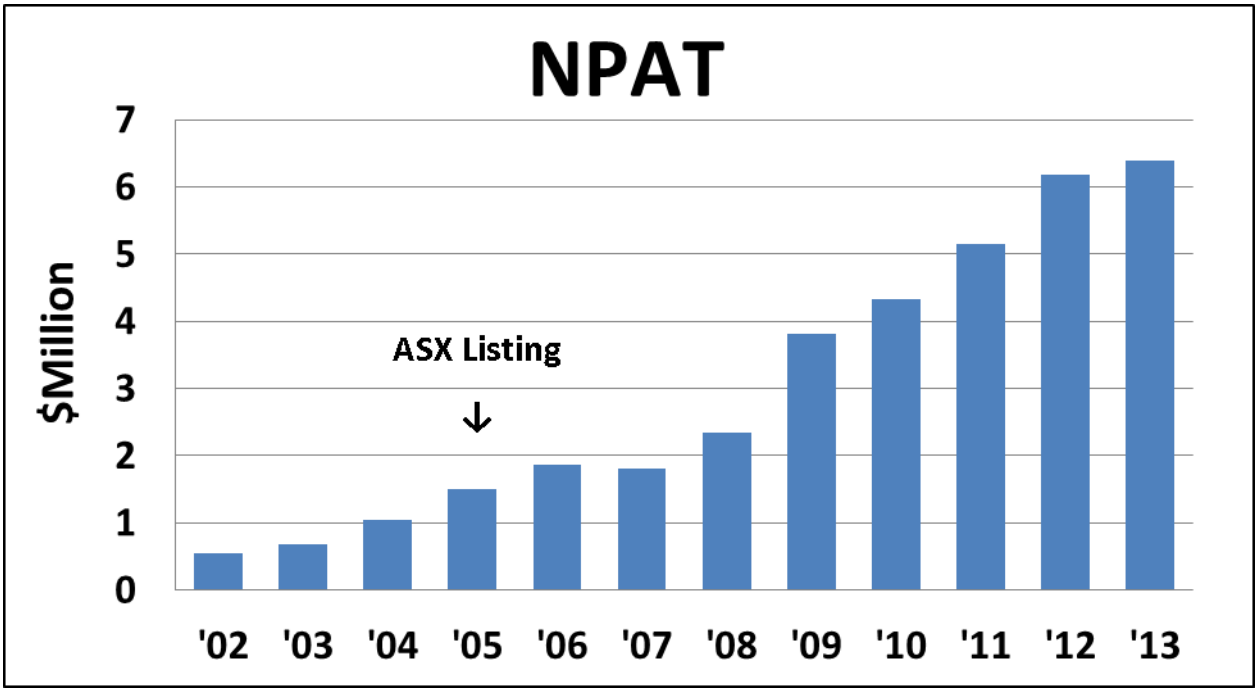
It gives me great pleasure to present to you this ninth Annual Report of 1300SMILES Ltd. The 2013 year was in many respects astonishing. I hope that you will take the time to read this letter and the full report in detail, as this will help you understand how your company has managed the extraordinary challenges and opportunities of the year to 30 June 2013.

In each of the six financial years to 2012, 1300SMILES delivered successive record results on all of the measures shareholders follow most closely: Revenue, Net Profit After Tax (NPAT), Earnings Per Share (EPS), and Dividends Per Share. In 2013, the key results of NPAT and EPS were up only slightly on the corresponding figures from 2012. Given the nature of the 2013 year, as discussed below, I regard these results as something of a triumph.

Financial results for the year ended 30 June 2013

- Revenue (Statutory) down 1.3% to $36.2 million
- NPAT up 3.1% to $6.4 million
- EBITDA up 1.8% to $11.1 million
- Retained Profit up 17% to $12.5 million
- Revenue (Over-the-Counter) up 5.4% to $48.5 million
- NPBT up 2.1% to $8.9 million
- Earnings Per Share up 1.1% to 26.9c
- Full year franked dividend up 3.9% to 18.5c per share

Outline of the 2013 financial year



The financial year started out normally enough, but that didn't last long. On 29 August 2012, the federal government announced the end of the Chronic Disease Dental Scheme (CDDS), which paid for dental care for people with dental conditions likely to impact their chronic medical problems.

The CDDS, which was little known outside the industry, actually funded around 20% of all dental treatment in Australia, and had done so for several years. When it was cancelled in August 2012, dentists and patients were given just three months to complete all required treatment. Any treatment not completed and paid by 30 November 2012 would be ineligible for further funding.

These three months were marked by furious activity throughout the industry and within 1300SMILES. We did everything we could to assist our CDDS-funded patients to get their treatments finished urgently. This caused a spike
in our Revenue, but it also placed some pressure on our margins, as we had to pay more overtime and generally provide more intensive support to dentists and staff who worked extra long hours.

From a financial point of view, this extra activity gave an artificial boost to first half Revenue. This distorted our full year results, because it was followed by a decline in revenue in the second half. Looking ahead, it also means that the results for the first half of the 2014 year will be compared to an artificially high base. In the second half of the 2014 year we would expect this situation to be reversed, and that a comparison of full year 2014 results against those of 2013 will be sensible and informative.

Then came the last day of November 2012. All CDDS-related work ceased. Within 1300SMILES we had of course been preparing for this throughout the three-month notice period. Thanks to the Christmas holidays, December is normally only about three-quarters of a month for Revenue purposes anyway, but the downturn in December 2012 was significant, particularly when measured against the all-time record monthly Revenue figures from October and November.

January and February of 2013 remained quiet. Within 1300SMILES, we used the quiet time to work on improvements in the areas of cost reduction, purchasing efficiency, substantial IT platform and software improvements, and the implementation of a more de-centralised management structure under which we moved a number of management staff out of the head office and into the regions they look after. As I have been saying since early in the financial year, our industry was facing a crisis, and a crisis is too important to waste.

In that crisis we saw the opportunity to make a real difference to dental care in Australia by making dentistry more affordable and available. In January 2013, following some testing late in 2012, we commenced offering our Dental Care Plan, a membership loyalty program which I discuss in detail farther along in this letter.

I might summarise the 2013 financial year in this way. Most of the first half was a period of frenzied activity. This was followed by a relatively deep lull during which we focussed on improving our operations and efficiency and during which the Dental Care Plan rollout began building momentum. The final quarter of the year was marked by consistent and strong month-on-month growth in Revenue and profitability, trends which have continued into the beginning of the 2014 year. There will be some discontinuities in our accounting results as we move from the old CDDS era to the new era, an era which we expect will be marked by the growth of the Dental Care Plan and the return of favourable acquisition opportunities.

Our responses to the changed circumstances of the dental industry

1300SMILES strives constantly to position itself to be the best company in the industry both now and in the future. Through all of the disruptions of 2013 the company benefitted from a number of ongoing projects as well as a number of new initiatives and innovations.

1. Dental Care Plan

(New Townsville Airport Billboard)

Perhaps the most important single innovation was the introduction and rollout of the Dental Care Plan. Under the Dental Care Plan, members pay either $14.95 per fortnight or $30.00 per month (about $1 per day either way, with all payments made by automatic direct debit). In return, they receive all their basic dental care and maintenance at no extra charge. This includes two six-monthly check-ups each year, comprising comprehensive examinations, periodontal care and cleaning, fluoride treatment, and x-rays as and where indicated.

The Dental Care Plan greatly reduces the main barrier to dental care by making it affordable. Dental Care Plan members enjoy a 10% discount on all treatments beyond basic dental maintenance, and they can spread these payments over six months, with no interest charge.

The Dental Care Plan is surprisingly powerful. It changes the affordability of dentistry to a far greater extent than you might at first expect. For a combination of reasons, a surprisingly small percentage of Australians receive regular dental care. It is precisely that regular care and maintenance which identifies small problems early and prevents them from progressing into major dental problems and, eventually, significant systemic health problems.

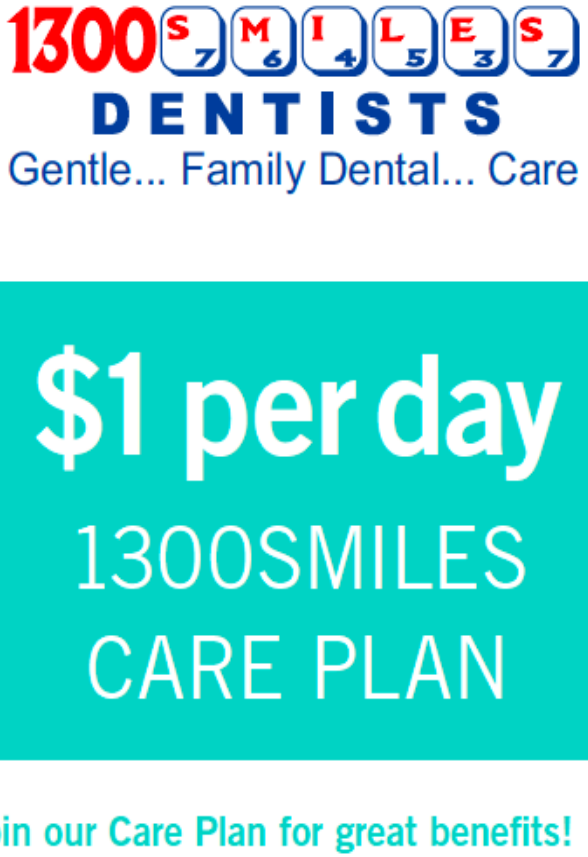
Our research suggested that many people avoid going to dentists because they're afraid that they'll suddenly face a bill they simply cannot afford to pay. They fear that they'll turn up for an examination, find out that they need some expensive corrective work, and have no choice but to go ahead with work they cannot afford. It doesn't work that way at 1300SMILES, nor at any respectable dental practice of which I'm aware, but that fear really does affect access to care. We knew we had to find some new way to get through to all those people who do not presently receive regular dental care.

This knowledge helped form both the structure of the Dental Care Plan and the way we promote it. The core feature of its structure is its known, fixed cost. Members know they can get all of their regular dental maintenance needs covered by the modest ongoing membership fee. This regular care will of course help prevent or greatly delay the development of more serious problems.

New members of the Dental Care Plan come with history, of course, and in many cases that history includes dental problems which have developed over time. Here again the Dental Care Plan makes the required treatment affordable. Where treatment beyond basic maintenance is required, each patient receives a written quotation showing the cost of that treatment before giving permission to proceed. Dental Care Plan members then enjoy a 10% discount from the normal fee for the proposed procedure, and they can extend their payments over the period of treatment or up to six months. This gives members the ability to split what might seem like a big lump sum into a series of manageable automated direct debit payments, over time.

From the outset we faced the question of how to bring this plan to the attention of people who previously avoided going to the dentist at all. We settled on a combination of social media, our web site, and door-to-door promotion, under a plan developed in conjunction with Dental Members Australia (DMA), an information technology company in which 1300SMILES now has an equity ownership position. DMA organised an energetic and productive team of direct salespeople for this purpose. We are at all times aware that direct sales can be a source of irritation for a nation tired of chasing mobile phone plan and energy sales people from the front door, and we're aware that this approach is probably unprecedented in the dental industry, but the reception of this plan has been positive, and the numbers speak for themselves.

The early response to the Dental Care Plan has been extremely encouraging. Membership growth has frankly exceeded even our optimistic projections. As at the end of July 2013 we had about 4,000 members, representing annual membership fee revenue of about $1.4 million, most of which is from patients who are new to 1300SMILES.



In addition to paying the basic $1/day membership fee, members of the Dental Care Plan are, unsurprisingly, taking the opportunity to receive further treatment beyond the basic dental maintenance covered by the fixed fee. To 30 June

2013, revenue from Dental Care Plan members in addition to their membership fees was already over $1 million. While this is not yet material in the context of our total revenue, I remind you that the Dental Care Plan was first offered less than six months before the end of the financial year. It gathered momentum quickly, and by the end of the first six months the growth chart had turned steeply upward, with a record number of new members in each successive month. This trend has continued subsequent to the end of the year.

In that short time our Dental Care Plan has gone from zero to annualised ongoing membership revenue of $1.4 million. Separately and in addition to these ongoing membership fees, Plan members have elected to receive further treatment which delivered actual revenue to 30 June 2013 of $1.1 million, most of which came in the last three months of the financial year. As with the trend in the number of Plan members, the trend in this revenue showed notable growth to the end of the financial year and continuing into the current year.

I am extremely proud of this early progress, as it moves 1300SMILES closer to achieving several goals:

- making dentistry affordable and available to many more Australians
- delivering essential dental care to people whose problems would lead to serious medical issues if left untreated
- creating for 1300SMILES an annuity-type income in the form of ongoing membership fees

- creating an additional flow of revenue for our dentists and our company as Dental Care Plan members undergo more complex procedures

2. 1300SMILES Stadium

In February 2013 we announced that we had procured the naming rights to the main stadium in Townsville, now known as the 1300SMILES Stadium. This stadium is home to the North Queensland Cowboys NRL team and hosts a number of other significant events each year.

We took on the naming rights as a way of enhancing awareness of the 1300SMILES brand, both locally in northern Queensland and throughout Australia. So far we have been favourably surprised by the sheer volume of publicity our association with the stadium has generated. If you do a web search on 1300SMILES, the first thing you'll see is the link to our main web site. After that, you'll see pages of search results referring to the 1300SMILES Stadium. I'm constantly surprised by how many times I now hear our name on the radio and on TV. I appreciate that this may not lead directly to dental appointments, but the oft-reinforced awareness of our name can only help, both in attracting new patients and in recruiting new dentists.

We believe that the repeated mention of 1300SMILES in connection with sports events helps bring up the whole topic of dentistry in family and social settings. This is part of our effort to bring basic dentistry to a larger portion of the Australian population, of whom a majority still receive no regular dental care. We also believe that promotions in connection with the stadium have created greater awareness of the "$1 per day" Dental Care Plan.

3. Ongoing contracts with Queensland Hospital and Health Service Boards

Soon after the federal government slammed the door on the CDDS scheme, regional agencies operating under Queensland Health opened up big opportunities for us. Public dental patients in Queensland have long endured extraordinary waiting times. The official waiting time in some regions was, until recently, up to ten years. In practical terms, there's little difference between ten years and never.

Public dentistry in Queensland is now administered by seventeen regional Hospital and Health Service Boards. During the 2013 year, 1300SMILES dentists began treating public patients under continuing out-sourcing contracts with many of these boards.

This has proven to a be a win-win-win situation: patients, the HHS Boards, and 1300SMILES all benefit. Thousands of public patients have received essential care for which they otherwise would have waited for years. In many places, waiting times have been reduced from ten years to a still-shocking two years, but we're working to reduce this just as fast as the various boards authorise us to go. Parts of Queensland

have finally made progress on a dreadful problem which has persisted for years. 1300SMILES dentists have enjoyed access (as always, at their individual discretion) to a reliable flow of important work.

This situation proves once again that the harder you work, the luckier you get. 1300SMILES had been working on arrangements with Queensland Health and the HHS boards for a long time, since long before there was any hint of the end of the CDDS. We didn't go looking for a replacement deal with a government when we heard about CDDS; rather we had been pursuing this obvious need and opportunity for a very long time.

4. Returning CDDS patients

In the final quarter of the 2013 we began to see increasing Revenue from patients who were previously treated under the CDDS. A portion of this Revenue arose from the natural development of dental care needs among the population. One of the controversial aspects of the CDDS (a creation of Tony Abbott, Health Minister in the Howard government) was that it was not means-tested, so CDDS funds paid for treatment delivered to many people who were potentially capable of paying for their own care. While many such people were absent from our practices for the first few months after Christmas, they started returning in the last months of the financial year and subsequently rather than sit on a public waiting list. I thank our dentists and staff for their excellent patient care, which helped encourage patients previously treated under the CDDS back to our practices. I am pleased to note that a number of these returning patients have also chosen to join the Dental Care Plan.

5. Decentralisation and efficiency improvements

During the year we moved a number of regional managers from the head office to locations within their regions. This has improved both head office responsiveness to regional issues and boosted enthusiasm within the regions for head-office initiatives of the sorts discussed above.

We also made an especially focused effort to control costs and improve efficiency. We believe that these improvements will carry forward and that we will see an improvement in our operating margins in the periods to come. Long term shareholders will be aware that 1300SMILES has always maintained an intense focus on cost control. Despite that, the unusual circumstances following the demise of the CDDS created opportunities for further improvement in this area.

6. Acquisitions and organic growth

the Dental Practice on king william

Preferred Dentist of the Adelaide Football Club

In June 2013 we announced the acquisition of a substantial, long-established, well-respected dental practice located in the Adelaide CBD. That practice's senior dentist, Dr. Mark Earl, has had a long association with the Adelaide Crows

Football Club as consultant dental surgeon. The expansion of 1300SMILES into South Australia is an important step toward our long term goal of establishing a truly national presence.

While 1300SMILES chose to complete relatively few acquisitions during the 2013 year, the ongoing effort to identify, qualify, and fully understand a large number of potential acquisition candidates continued at full speed. As noted in the Medium Term Outlook section below, it seems likely that the years ahead will offer

more favourable acquisition opportunities than the years just finished. We remain totally focused on making acquisitions which make an immediate positive contribution to our results. We won't be rushed, but we will be ready to act decisively as and when suitable opportunities present themselves.

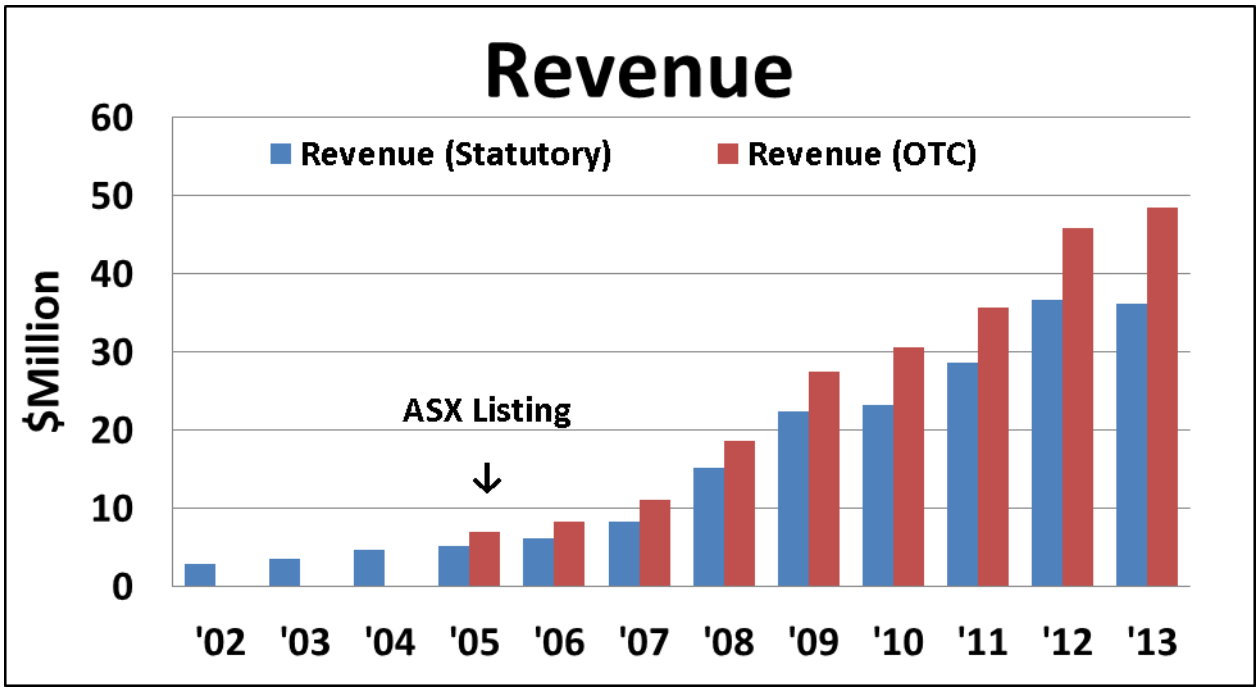
The static picture and the dynamic view

To understand the 2013 financial year fully, I would suggest that you distinguish between the static picture reflected in the annual accounts and the dynamic situation we faced at year end and continue to face today.

The static picture of the 2013 year is one in which first half revenue greatly exceeded both that of the preceding year's first half and that of the second half of 2013, and a full year in which the company's NPAT and EPS made little progress when measured against the previous year.

As an illustration I would note that our Over-the-Counter Revenue (that is, the total amount paid by all patients for all services, the best measure of the scale of our business activity) was 34.4% greater in the first half of 2013 than in the first half of 2012. I hasten to point out that the sustainable business of 1300SMILES did not grow at that rate, and that the spike in OTC Revenue in the first half of 2013 was a consequence of the year's unusual external circumstances.

Over the full year, OTC Revenue increased by 5.4%, to $48.5 million. I believe that this number gives an accurate view of the real progress of the business, from a proprietor's point of view.



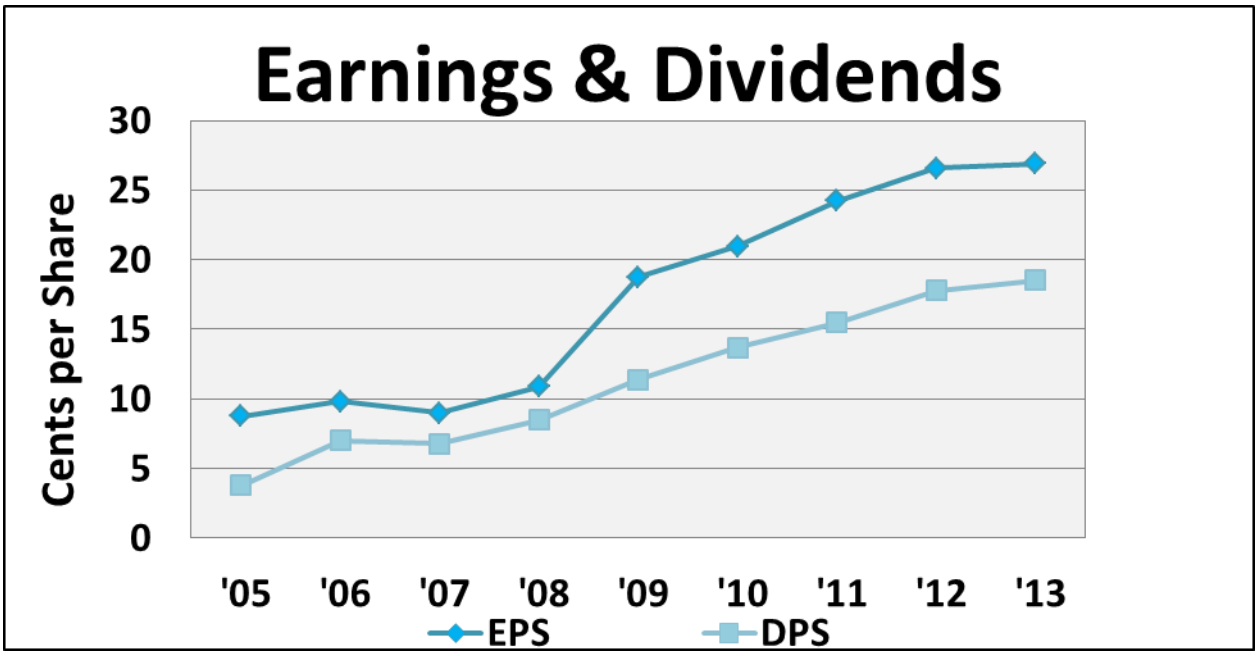
Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)									
	'05	'06	'07	'08	'09	'10	'11	'12	'13
OTC Revenue ($m)	7	8.3	11.2	18.6	27.6	30.7	35.7	45.9	48.5
Less amount retained by self-employed Dentists ($m)	1.9	2.1	2.8	3.4	5.2	7.4	7	9.2	12.3
Statutory Revenue ($m)	5.1	6.2	8.4	15.2	22.4	23.3	28.7	36.7	36.2

The results from the first half of the 2013 year are also likely to create some confusion when we come to report the results for the first half of the 2014 year. I expect 2014 to be a year in which we resume sensible, mainly organic growth plus several acquisitions. I have to say that I do not expect the results from the first half of 2014 to match those of the first half of 2013. I caution shareholders against comparing half year results against one another without keeping this distortion in mind.

In contrast to the static view summarised above, the dynamic picture is robust. Monthly revenue increased noticeably in April, May and June. After the year end, monthly revenue in July exceeded June's by more than 20%. Membership of our Dental Care Plan, already at around 4,000 people, is growing fast. Services to Dental Care Plan members represent a growing revenue stream from a large group of people who were not previously patients of 1300SMILES dentists.

Medium term outlook

I have always stressed the fact that 1300SMILES is managed to deliver the best possible results over the medium and long term. Good results in the short term are always agreeable, but I believe that most 1300SMILES shareholders take a long term view and expect management to focus always on stable and growing Earnings Per Share and dividends.



The medium term outlook for 1300SMILES is greatly enhanced by the after-effects of the shock delivered to the entire industry by the termination of the CDDS. The supply of qualified dentists has increased significantly, as those practices which were overly-reliant on CDDS funding have let go of many associate dentists. In addition, many practices which depended too heavily on CDDS are now unprofitable and will simply cease operating over the coming months and years. More qualified dentists are now working in part-time and casual positions than at any time before.

The market will remain over-supplied with dentists for the foreseeable future. This will be something of a problem for everyone in the dental industry, but this situation delivers both positives and negatives for 1300SMILES. On the negative side, the scale of the entire Australian dental industry has endured a step-change down to a lower level and future growth must start from that lower base. On the positive side, we doubt that dentists will be overly-aggressive in their negotiations over management fees in the coming years.

1300SMILES is in a good position to take advantage of these trends. As a matter of policy, we always build-in excess surgery capacity to accommodate quick, low-cost expansion whenever and wherever it is available to us. At present, the company would be capable of expanding its revenue by about 50% without making any significant capital expenditure. This is another positive side to the over-supply of dentists. We believe more dentists will be attracted by our facilities, our proven management expertise, and our proven ability to deliver patients.

The outlook for acquisitions over the next few years is particularly positive. I would point to the Adelaide acquisition as indicative of the quality of the businesses we seek to acquire. The absence of CDDS revenue will help reveal which practices have truly robust businesses of the quality we seek. At the same time, the price expectations of potential practice vendors have already been substantially adjusted by market conditions, and the attractiveness of joining 1300SMILES and its growing ability to attract patients would seem to be enhanced by the difficult market conditions. It may be that in some cases the owners of large and still-strong dental businesses will choose to retire sooner rather than learn to cope with the greatly-changed business environment in which dentists in Australia must operate.

Also on the positive side, there has been considerable change in the ownership and structure of certain competing dental groups who had been willing, over the previous years, to pay more for dental practices than we thought sensible. Our reading of the market suggests that these groups have become and may remain far less active as far as acquisitions are concerned.

Finally, of course, our balance sheet puts us in a singularly strong position. 1300SMILES Ltd has no net debt, cash holdings of $9.3 million, and continuing positive cash flow. This is the sort of strong financial position which enabled us to pursue new initiatives in the difficult conditions of the 2013 year, and it's the sort of strength which we believe will enable us to take advantage of the many and various opportunities which will arise from the continuing turmoil in the dental market.

Share market matters

As I have said on many previous occasions, the board and management of 1300SMILES do not seek to influence the price of shares in the company. We strive always to deliver the best possible results and leave the share market to its own activities. That said, allow me to mention a few developments which may be of interest to shareholders.

Most notably, 1300SMILES Ltd has since 15 March 2013 been included in the S&P/ASX All Ordinaries Index. This is of interest mainly to institutional investors, some of whom are barred from owning shares in companies which are not included in a particular index. Certain sorts of funds may even be required to own all of the shares included in the index, but we have no specific information about this.

The number of stockbrokers who follow 1300SMILES and maintain up-to-date research on the company has increased. Links to this research are available on our web site. I note that the opinions expressed in such research pieces are those of the authors, not of 1300SMILES Ltd.

Finally, this combination of inclusion in the All Ords and expanded broker coverage may have contributed to a significant widening of our shareholder base. At 30 June 2013 we had more than double the number of shareholders we had a year prior. Commensurate with this growth in the shareholder base we have seen an increase in the on-market liquidity of shares in 1300SMILES, with both the frequency and volume of trading greater than in previous years. While I hasten to add that this has no obvious benefit to long term shareholders, the market seems to look more favourably on companies whose shares are more liquid.

Revenue - Statutory vs Over-the-Counter (OTC)

For many years it has been our practice to report our Over-the-Counter (OTC) Revenue in addition to our Statutory Revenue. As I have explained many times before, our Statutory Revenue figure complies precisely to all relevant accounting standards, as it must.

OTC Revenue, on the other hand, is the figure you would probably use if you were the sole proprietor of the company. Over the years, growth in OTC Revenue has sometimes exceeded that of Statutory Revenue and sometimes it has lagged behind. The difference is driven by our ever-changing mix of (mainly) self-employed dentists who pay fees to use our facilities and employed dentists.

Please bear with me while I explain OTC Revenue in somewhat more detail. Most dentists in the 1300SMILES system are self-employed. These dentists pay fees to the company for the use of our facilities and services. These fees form part of our Statutory Revenue. This fee revenue is less than the total amount that patients pay for services rendered, because the dentists keep that portion of the revenue which is greater than the fees paid to 1300SMILES. OTC Revenue simply measures the full amount paid by our patients for dental services delivered.

For the same level of patient fees, an employed dentist delivers a bigger increment to both Statutory Revenue and salary expense than a self-employed dentist. An individual dentist's contribution to company profit is about the same whether that dentist is self-employed or company-employed.

In addition to our mainly self-employed dentists, we usually have a smaller and varying number of dentists who are employees of the company. There is a difference in the way the two groups of dentists contribute to revenue and profit.

In the case of employed dentists, all fees charged to patients are included in Statutory Revenue and in OTC Revenue. The salaries paid to these dentists are then included in the company's operating expenses.

In contrast, self-employed dentists pay to the company only a portion of the total paid by their patients. Only this portion is included in Statutory Revenue. The company does not then account for any compensation expense for the self-employed dentists, because it is the dentists that pay the company rather than the company paying the dentists. The entire amount paid by patients of self-employed dentists is included in OTC Revenue, as this allows the company to count all dental revenue in the same sensible way, and it delivers a clear view of the scale of the company's business.

In the 2013 year, Statutory Revenue decreased by 1.3%, while OTC Revenue increased by 5.4%. The difference is small but telling: for all of the drama of the 2013 year, the total amount billed for all services rendered increased by more than five percent.

I have been giving shareholders this information for many years, in the belief that it gives you an additional way of understanding the true position of 1300SMILES. Long term shareholders would know that we use OTC Revenue to help tell the full story either way: in some years, the growth in Statutory Revenue exaggerates our actual growth; in some years it understates it. For the 2013 year, the modest growth in OTC Revenue supports my view that the company finished the 2013 year headed in a positive direction.

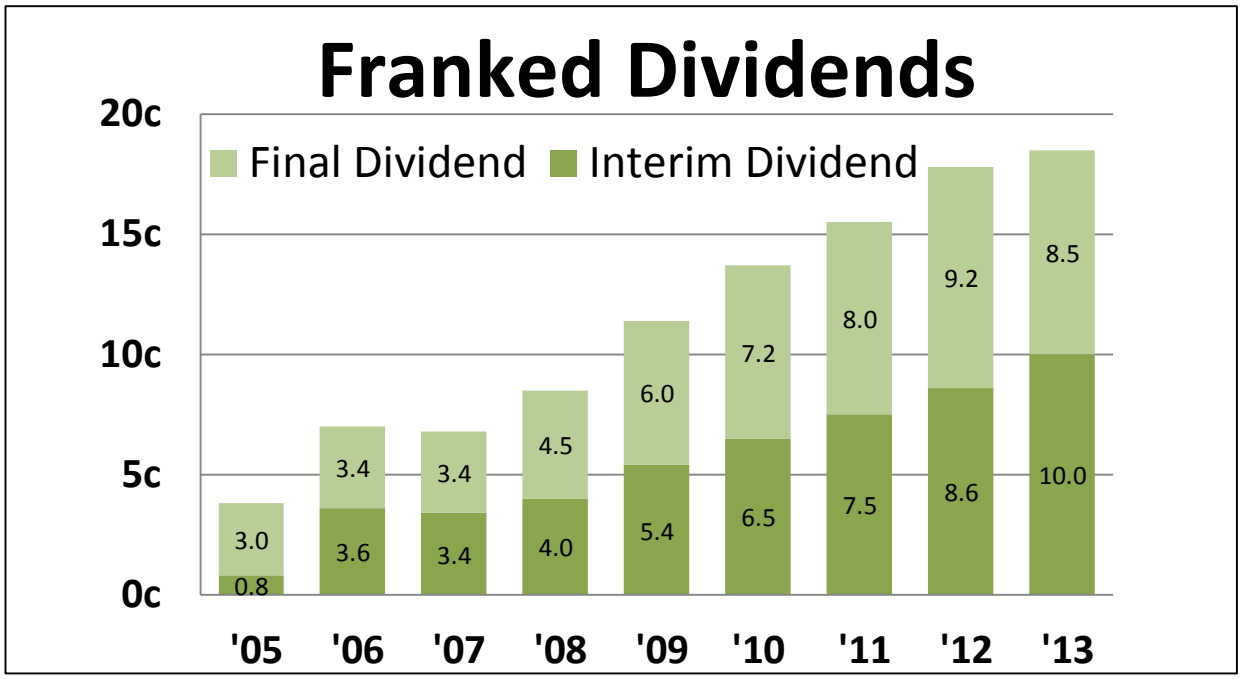
Dividend

The board of 1300SMILES determines each dividend based on a consideration of the results delivered in previous periods and the outlook for future periods. The board's policy since 2005, when 1300SMILES first listed on the Australian Stock Exchange, has been that the dividend target would be between 40% and 80% of Net Profit After Tax. On a per-share basis, that means that each year's dividend would be between 40% and 80% of that year's Earnings Per Share.

For the last four years, the Dividend Payout Ratio has ranged from 61% to 67% of Earnings Per Share. In the three years before that, it ranged from 71% to 78%.

For 2013, the full year dividend has been increased by 3.9% to 18.5 cents per share. This represents a Dividend Payout Ratio of 68.8%, fractionally higher than those of the most recent four years but below the range of the three years before those. The increase in the dividend is in line with the 3.1% increase in NPAT.

In setting the dividend at this level, your board considered both the company's ongoing ability to deliver Revenue and EPS on the one hand, and the strength of its balance sheet on the other. The board's continuing policy has been to pursue both dividend growth and growing security in that dividend, and the board believes that the final dividend for the 2013 year of 8.5 cents per share meets these requirements. While there can never be any promise that the dividend will increase in every year, the board believes that this modest increase in the full-year dividend sensibly reflects the company's position and prospects.



I would note that some shareholders have argued that we should reduce or eliminate dividends, on the theory that 1300SMILES can make better use of the funds employed to pay dividends than individual shareholders. This is a flattering suggestion, and not entirely without merit. However, the board has asked me to remind you that 1300SMILES has not and is not now contemplating any change to the dividend policy first set out in its prospectus eight years ago. We believe that our long-established and long-honoured dividend policy is a key element in the relationship between 1300SMILES and its shareholders. We believe further that there should be no surprises in that relationship between our company and its shareholders, just as there should be no surprises in the relationships between dentists and patients.

Charitable Activities—Youth With A Mission

We are extremely proud to note that YWAM's CEO, Ken Mulligan OAM, was in 2013 awarded a Medal of the Order of Australia for his service to the community.

1300SMILES has long supported YWAM's activities, most particularly the YWAM Medical Ship, which delivers medical and dental care to remote settlements in Papua New Guinea. In addition to financial and material support, 1300SMILES encourages its dentists and staff to donate their time to serve in this extraordinary service to the people of PNG, our closest neighbours and some of the poorest people on the planet.

I personally have recently returned from my fourth YWAM outreach to PNG in four years. I am no less amazed at the dedication of the YWAM volunteers and the gratitude of the thousands of people who have received treatment. This work gives me greater personal reward than I can possibly tell you, and I renew my call to all 1300SMILES dentists and staff to make the time to volunteer.

Thank you

I have many people to thank, as I do every year. I thank our dentists and staff, many of whom put in extraordinary extra effort in this extraordinary year. I thank you, our shareholders, and I look forward to seeing as many of you as possible at the Annual General Meeting.

Yours faithfully,

Dr Daryl Holmes
Managing Director

ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

1300SMILES Ltd owns and operates full-service dental facilities at its sites in the ten major population centres in Queensland and also in Adelaide, South Australia. The company continually seeks to expand its presence into other geographical areas throughout Australia. It does so both by establishing its own new operations and by acquiring existing dental practices. The administrative and corporate offices are in Townsville.

1300SMILES enables the delivery of services to patients by providing the use of dental surgeries, practice management and other services to self employed dentists who carry on their own dental practices. 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. In some circumstances the company also employs qualified dentists.

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 interests 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 certification and licensing to all participating dentists. The company also provides all support staff, 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 profits by attracting more dentists to our existing facilities and expanding those facilities which are already at full capacity;
- Assisting dentists who already practice within the 1300SMILES system to increase their turnover and income through benchmarking, training, and mentoring;
- Establishing new practices in existing and new regions (greenfield sites);
- Acquiring substantial existing practices where we can do so on favourable terms; and
- Managing dental facilities owned by others.

DENTIST ENQUIRIES

Owners of dental practices who are interested in unlocking the goodwill value of their businesses (or freeing themselves from all the management hassles) are invited to contact Dr. Daryl Holmes, Managing Director, on +61 (7) 4720 1300 or md@1300SMILES.com.au.

Qualified dentists who wish to know more about joining one of our established facilities are encouraged to contact Dr. Holmes directly or email dentalcareers@1300smiles.com.au or visit our website www.dentalcareersaustralia.com.au.

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of 1300SMILES Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2013.

Directors

The following persons were Directors of 1300SMILES Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Robert Jones (Chairman)
Dr Daryl Holmes (Managing Director)
William Bass (Non-Executive Director)

Principal activities

During the financial year the principal continuing activity of the group was to provide dental and management services in Australia.

Dividends

Dividends paid during the financial year were as follows:

	2013 $'000	2012 $'000
Final dividend for the year ended 30 June 2012 of 9.2 cents (2012: 8.0 cents) per ordinary share paid on 8 October 2012 fully franked based on a tax rate of 30%	2,205	1,705
Interim dividend for the half year ended 31 December 2012 of 10.0 cents (2012: 8.6 cents) per ordinary share paid on 28 March 2013 fully franked based on a tax rate of 30%	2,354	2,011
	4,559	3,716

Since the end of the financial year, the Directors declared, for the year ended 30 June 2013, a final fully franked ordinary share dividend of 8.5 cents ($2,012,663) which is payable on 9 October 2013.

Review of operations

The profit for the group after providing for income tax amounted to $6,367,000 (30 June 2012: $6,175,000).

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

Significant changes in the state of affairs of the group during the financial year were as follows:

The group repaid the term loan in full during the year ending 30 June 2013.

The group acquired a dental practice in Adelaide.

Matters subsequent to the end of the financial year

A fully franked final dividend of 8.5 cents per share has been declared and is payable on 9 October 2013.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

- Ongoing opportunistic acquisitions
- Continued organic growth of existing practices
- Ongoing investigation of greenfield sites for new practices

Environmental regulation

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

Information on Directors

Robert Jones
Chairman
MAICD

Experience and expertise:
Mr Jones was a Director and Chairman of the Mater Health Services North Qld Ltd from 1993 until 2013. Mater Health Services North Qld Ltd owns and operates two fully accredited private hospitals in Townsville, the Mater Hospital (Pimlico) and Mater Hospital (Hyde Park).

Mr Jones is a member of the Australian Institute of Company Directors.

Other current Directorships:
None.

Former Directorships (in the last 3 years):
Hermit Bus Park Service Pty Ltd (unlisted)
Mater Health Services North QLD Ltd (unlisted).

Special responsibilities:
Chairman of Remuneration and Nomination Committee and member of Audit and Risk Committee.

Interests in shares:
32,606 ordinary shares in 1300SMILES Limited.

Interests in options:
None.

Dr. Daryl Holmes
Managing Director
BDSc (Hons) MAICD

Experience and expertise:
Dr. Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (BDSc (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 26 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 dental clients.

Dr. Holmes has been a Director, and currently Deputy Chairman, of the Cowboys Leagues Club for the past 11 years.

Other current Directorships:
Cowboys Leagues Club Ltd (unlisted)
Dental Members Australia Pty Ltd.

Former Directorships(in the last 3 years):
None.

Special responsibilities:
Chairman of Audit and Risk Committee and Member of Remuneration and Nomination Committee.

Interests in shares:
14,711,729 ordinary shares in 1300SMILES Limited.

Interests in options:
None.

William Bass
Non-Executive Director and Company Secretary
BEcon, CA, FCS, FInstIB, MAICD, JP(Qual)

Experience and expertise:
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 a Fellow of the Institute of Independent Business, the Institute of Chartered Secretaries and a member of the Australian Institute of Company Directors.

Other current Directorships:
China Magnesium Corporation Limited
Silicon Lakes Limited (unlisted)

Former Directorships (in the last 3 years):
None.

Special responsibilities:
Member of Audit and Risk Committee and Remuneration and Nomination Committee.
Company Secretary.

Interests in shares:
16,200 ordinary shares in 1300SMILES Limited.

Interests in options:
None.

Meeting of Directors

	Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Robert Jones	11	11	1	1	2	2
Daryl Holmes	11	11	1	1	2	2
William Bass	11	11	1	1	2	2

Remuneration report (audited)

The remuneration report, which has been audited, outlines the Director and executive remuneration arrangements for the group and the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:
(a) Principles used to determine the nature and amount of remuneration
(b) Details of remuneration
(c) Service agreements
(d) Share-based compensation
(e) Additional information

(a) Principles used to determine the nature and amount of remuneration

The objective of the group executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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

The Nomination and Remuneration 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 Nomination and Remuneration 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 Directors and executive remunerations are separate.

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.

ASX listing rules requires that the aggregate non-executive Directors' remuneration shall be determined periodically by 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 2001.

The remuneration of Non-executive Directors is detailed in part (b) of this remuneration report.

Executive director and other key management personnel remuneration

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

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

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

Group performance and link to remuneration

Remuneration is reviewed on an annual basis by the Board and increases are at the discretion of the Board. Bonuses and incentive payments are at the discretion of the Board. Refer to section (e) of the remuneration report for details of the last five years earnings.

(b) Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the group) of 1300SMILES Limited are set out in the following table.

The key management personnel of the group consisted of the Directors of 1300SMILES Limited and the following executives:

- Debra Burden - General Manager (resigned 28 February 2012).
- Eric van Niekerk – Group Operations Manager (appointed 21 November 2011).

Remuneration of Directors and Key Management Personnel

	Short-term benefits	Post-employment benefits	Share based payments	
Name	Salary and fees	Super-annuation	Equity settled shares	Total
	$	$	$	$
Non-Executive Directors:				
Robert Jones				
2013	27,523	2,477	-	30,000
2012	27,523	2,477	-	30,000
William Bass*				
2013	57,523	2,477	-	60,000
2012	57,523	2,477	-	60,000
Executive Directors:				
Daryl Holmes				
2013	102,443	9,220	-	111,663
2012**	83,185	6,947	-	90,132
Other Key Management Personnel:				
Debra Burden				
2013	-	-	-	-
2012	76,656	5,729	-	82,385
Eric van Niekerk				
2013	159,556	14,360	-	173,916
2012	77,884	7,010	-	84,894
Total				
2013	347,045	28,534	-	375,579
2012	322,771	24,640	-	347,411

* Includes Company secretarial services.

** Restated remuneration table for the year ended 30 June 2012. The June 2012 remuneration table included in the 30 June 2012 financial statements contained errors which have been corrected in the table above which:

- understated salary and fees by $13,073 and overstated superannuation post-employment benefits by $13,073
- included net DSA income of $49,549 which is income from patients rather than remuneration

(c) Service agreements

Remuneration and other terms of employment for certain key management personnel are formalised in service agreements. Details of these agreements are as follows:

Daryl Holmes (Managing Director)
Agreement commenced:
8 March 2005

Term of agreement:
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.

Details:
Dr Holmes' remuneration comprises a salary of $89,370 inclusive of statutory superannuation entitlements and is 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. There are no pay-outs upon resignation or termination, outside of industrial regulations.

Eric van Niekerk (Group Operations Manager)
Agreement commenced:
21 November 2011.

Term of agreement:
The agreement may be terminated by either the Company or Mr van Niekerk by giving not less than one months notice or by the Company in the event of material breach of misconduct by Mr van Niekerk.

Details:
Mr van Niekerk's remuneration comprises a salary of $173,916 inclusive of statutory superannuation entitlements and is reviewable on a half-yearly basis. There are no pay-outs upon resignation or termination, outside of industrial regulations.

Debra Burden (General Manager)
Agreement commenced:
18 January 2010.

Resignation:
Mrs Burden resigned on 28 February 2012.

Details:
Mrs Burden's remuneration comprised a salary of $82,385 inclusive of statutory superannuation entitlements and was reviewable on a yearly basis. Performance based salary increases or bonuses were at the Board's discretion. There were no pay-outs upon resignation, outside of industrial regulations.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

(d) Share-based compensation

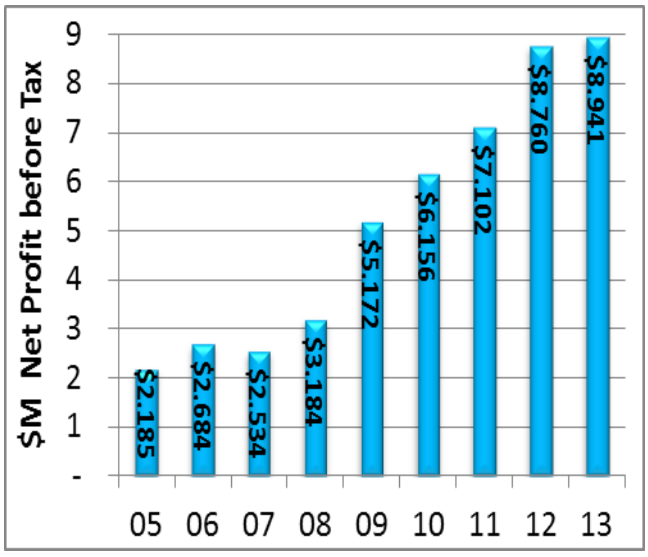
Issue of shares
No shares were issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2013 (2012: nil).

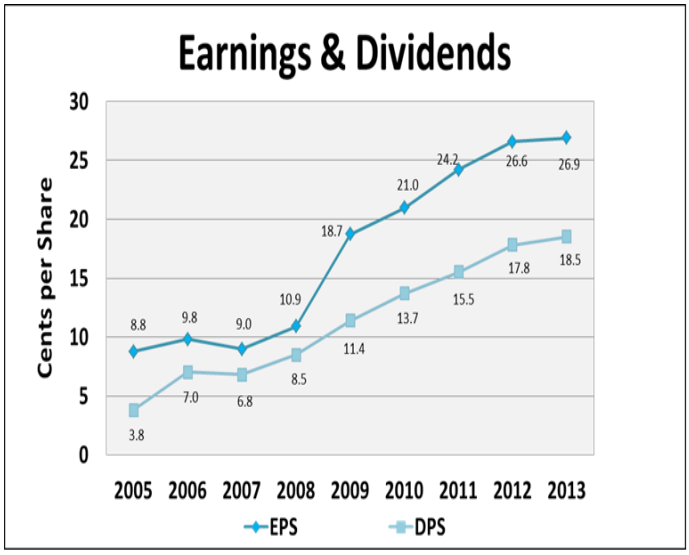
Options
There were no options issued to Directors and other key management personnel as part of compensation that were outstanding as at 30 June 2013.

There were no options granted to or exercised by Directors and other key management personnel as part of compensation during the year ended 30 June 2013.

(e) Additional information

The performance of the group and the comparison of net profit before tax (NPBT), earnings per share (EPS) and dividends paid per share (DPS) for the last 9 years is illustrated in the graphs below. Whilst company performance is a key KPI there is no direct link between remuneration set for KMPs and company performance.





	2008	2009	2010	2011	2012	2013
Share price at financial year end ($A)	2.60	2.60	3.15	3.59	5.99	5.93

This concludes the remuneration report, which has been audited.

Shares under option

There were no options outstanding as at 30 June 2013.

Shares issued on the exercise of options

There were no shares of 1300SMILES Limited issued on the exercise of options during the year ended 30 June 2013.

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium. During or since the end of the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

The Company has not, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related entity against a liability incurred by the auditor. The indemnity is limited to liabilities arising out of their duties as officer or auditor of 1300SMILES Limited, and legal costs incurred in defending an action for said liabilities but only to the extent that the liability arises out of conduct in good faith.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

The following non-audit services were provided by the group's auditor, PricewaterhouseCoopers. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

PricewaterhouseCoopers received or are due to receive the following amounts for the provision of non-audit services:

	2013 $	2012 $
PricewaterhouseCoopers		
Tax compliance and consulting services	2,200	2,100

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is appended to the Directors' Report.

Auditor

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

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

On behalf of the Directors

Dr Daryl Holmes
Director

16 August 2013
Townsville

Auditor's Independence Declaration

As lead auditor for the audit of 1300SMILES Limited for the year ended 30 June 2013, 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.

PJ Clarke
Partner
PricewaterhouseCoopers

Townsville
16 August 2013

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1300SMILES Limited
Corporate governance statement
30 June 2013

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 Securities 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; and
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 2013, 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 Directors 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
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	5 years and 8 months
Daryl Holmes	12 years and 11 months
William Bass	6 years and 6 months

Diversity and Workplace Gender Equality

1300SMILES values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. We have developed a diversity policy and lodged our Annual Report with the Workplace Gender Equality Agency, copies of which can also be accessed via our website.

This policy outlines the company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the company's progress in achieving them.

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 3 to 5 years as director and senior executive positions become vacant and appropriately skilled candidates are available:

	Objective		Actual	
	Number	%	Number	%
Number of women employees in the whole organisation	236	80	233	79
Number of women in senior executive positions	4	50	4	50
Number of women on the Board	1	20	-	-

Responsibility for diversity has been included in the Board charter, the nomination committee charter (Board diversity) and the remuneration committee charter (diversity at all levels of the company below Board level).

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 and Risk 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 Holmes appointed Chairman. The Audit Committee structure is reviewed on an annual basis. A policy of rotation of audit committee members applies. All Committee members are financially literate and have suitable skills to discharge the responsibilities of the Committee. The Company Secretary (Mr Bass) has a Bachelor of Economics and is an Associate of the Institute of Chartered Accountants.

Corporate Governance Council Recommendation 4.3 requires composition of an Audit and Risk 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 compensation to the Company's financial and operational 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.

Risk management

The Company adopts a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. All matters of risk are addressed by the full Board in regular meetings, including approval of the strategic plan and annual budget, and monitoring of performance against the budget.

Corporate reporting

In complying with recommendation 7.3, the CEO and CFO have made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and group and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

1300SMILES Limited
Statement of comprehensive income
For the year ended 30 June 2013

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Revenue	5	**36,183**	36,661
Other income	6	**5**	6
Expenses			
Consumables, lab fees and other supplies		**(5,284)**	(5,361)
Employee benefits expense		**(15,044)**	(16,055)
Depreciation and amortisation expense	7	**(2,120)**	(1,772)
Property expenses	7	**(2,207)**	(1,730)
Operating expenses		**(2,187)**	(2,110)
Corporate and administration expenses		**(302)**	(381)
Finance costs	7	**(106)**	(498)
		(27,250)	(27,907)
Share of net profit of joint venture	15	**3**	-
Profit before income tax expense		**8,941**	8,760
Income tax expense	8	**(2,574)**	(2,585)
Profit after income tax expense for the year attributable to the owners of 1300SMILES Limited		**6,367**	6,175
Other comprehensive income for the year, net of tax			
Items that may be reclassified to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
		6,367	6,175
Total comprehensive income for the year attributable to the owners of 1300SMILES Limited		**6,367**	6,175
		Cents	**Cents**
Basic earnings per share	9	**26.9**	26.6
Diluted earnings per share	9	**26.9**	26.6

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

1300SMILES Limited
Statement of financial position
As at 30 June 2013

	Note	Consolidated 2013 $'000	Consolidated 2012 $'000
Assets			
Current Assets			
Cash and cash equivalents	11	**8,051**	13,471
Trade receivables	12	**795**	356
Other	13	**202**	382
Total current assets		**9,048**	14,209
Non-current Assets			
Loans receivable	14	**1,827**	1,702
Investments accounted for using the equity method	15	**333**	-
Property, plant and equipment	16	**8,747**	9,690
Intangible assets	17	**13,314**	12,251
Deferred tax assets	18	**546**	635
Other	13	**31**	32
Total non-current assets		**24,798**	24,310
Total Assets		**33,846**	38,519
Liabilities			
Current Liabilities			
Trade and other payables	19	**4,178**	4,166
Borrowings	20	**-**	7,500
Current tax liability		**886**	519
Provisions	21	**36**	39
Other liabilities	22	**154**	25
Total current liabilities		**5,254**	12,249
Non-current Liabilities			
Provisions	21	**290**	257
Other liabilities	22	**350**	-
Total non-current liabilities		**640**	257
Total liabilities		**5,894**	12,506
Net Assets		**27,952**	26,013
Equity			
Contributed equity	23	**15,501**	15,370
Retained profits		**12,451**	10,643
Total Equity		**27,952**	26,013

The above statement of financial position should be read in conjunction with the accompanying notes.

1300SMILES Limited
Statement of changes in equity
For the year ended 30 June 2013

		Contributed equity $'000	Retained profits $'000	Total equity $'000
Consolidated				
Balance at 1 July 2012		15,370	10,643	26,013
Profit after income tax expense for the year		-	6,367	6,367
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	6,367	6,367
Transactions with owners in their capacity as owners:				
Deferred tax benefit - share issue costs	23	131	-	131
Dividends paid	10	-	(4,559)	(4,559)
Balance at 30 June 2013		15,501	12,451	27,952
Balance at 1 July 2011		7,506	8,184	15,690
Profit after income tax expense for the year		-	6,175	6,175
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	6,175	6,175
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	23	7,864	-	7,864
Dividends paid	10	-	(3,716)	(3,716)
Balance at 30 June 2012		15,370	10,643	26,013

The above statement of changes in equity should be read in conjunction with the accompanying notes.

1300SMILES Limited
Statement of cash flows
For the year ended 30 June 2013

	Note	Consolidated 2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**37,050**	38,330
Payments to suppliers and employees (inclusive of GST)		**(26,621)**	(26,241)
	34	**10,429**	12,089
Insurance claims refunds and other income		**5**	6
Interest received		**684**	815
Interest and other finance costs paid		**(229)**	(498)
Income taxes paid		**(2,272)**	(2,645)
Net cash from operating activities		**8,617**	9,767
Cash flows from investing activities			
Investments in share loans	14	**(110)**	-
Payments for property, plant and equipment	16	**(672)**	(2,622)
Payments for intangible assets	17	**(532)**	(945)
Payment for purchase of businesses, net of cash acquired	31	**(557)**	(1,540)
Net cash used in investing activities		**(1,871)**	(5,107)
Cash flows from financing activities			
Repayment of borrowings		**(7,607)**	-
Share issue transaction costs		**-**	(435)
Proceeds from share issue		**-**	8,299
Dividends paid		**(4,559)**	(3,716)
Net cash from/(used in) financing activities		**(12,166)**	4,148
Net increase/(decrease) in cash and cash equivalents		**(5,420)**	8,808
Cash and cash equivalents at the beginning of the financial year	11	**13,471**	4,663
Cash and cash equivalents at the end of the financial year	11	**8,051**	13,471

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

Note 1. Corporate information

The financial report of 1300SMILES Ltd and its subsidiary (together, the group) was authorised for issue in accordance with a resolution of directors on 16 August 2013. 1300SMILES Ltd is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the group are described in the Directors' Report. The financial report is presented in Australian dollars.

Note 2. Significant accounting policies

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. The consolidated financial statements of the group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ('IASB'). The financial report has also been prepared on an historical cost basis.

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning on 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are not mandatory and have not been early adopted in preparing these consolidated financial statements. None of these standards are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Early adoption of standards

The group has elected to apply AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures (as amended in 2011)*, AASB 127 *Separate Financial Statements* (as amended in 2011) and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* from July 2012, because the new accounting policies provide more reliable and relevant information for users to assess the composition of the group and the amounts, timing and uncertainty of future cash flows. Comparative figures have not been restated as comparative amounts were not affected by the changes. See the notes below for further details on the effect of the change in accounting policies on the accounting for a joint venture.

AASB 10 – Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Adoption of this standard resulted to a change in the definition of subsidiaries used in the principals of consolidation as follows:

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The adoption of this standard had no other effect on the group's financial statements. Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.

Note 2. Significant accounting policies (continued)

Basis of preparation (continued)

Early adoption of standards (continued)

AASB 11 – Joint Arrangements,
AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Joint operations that give the parties a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give the parties a right to the net assets are accounted for using the equity method. The option to account for jointly controlled entities using proportionate consolidation was removed from the standard. There was no impact from the adoption of AASB 11, as the group did not have any joint arrangements prior to the current year. Going forward, the group is adopting the following accounting policy for its interest in the joint venture:

Accounting policy – Joint Ventures

Joint venture

Interests in joint ventures are accounted for using the equity method. Under the equity method, the interests are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary, to ensure consistency with the policies adopted by the group.

Consequential amendments were also made to other standards *via AASB 2011-7* and amendments to AASB 128.

AASB 12 – *Disclosure of Interests in Other Entities*
AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about certain joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

Note 2. Significant accounting policies (continued)

Basis of preparation (continued)

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of 1300SMILES Limited ('Company' or 'parent entity') as at 30 June 2013 and the results of all subsidiaries for the year then ended. 1300SMILES Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

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

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

(ii) Joint ventures

Joint venture entities

Interests in joint ventures are accounted for using the equity method. Under the equity method, the interests are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income in profit or loss and other comprehensive income respectively.

When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary, to ensure consistency with the policies adopted by the group.

Note 2. Significant accounting policies (continued)

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM') - being the Board of Directors. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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

Licence fees
Revenue from licence fees is recognised over the life of the licence fee agreement.

Interest revenue
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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

Income tax

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

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

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

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

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

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

1300SMILES and its subsidiary have not formed a tax consolidated group.

Note 2. Significant accounting policies (continued)

Cash and cash equivalents

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

Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Financial assets

Financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recorded had the impairment not been recognised and is reversed to profit or loss.

Property, plant and equipment

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

Note 2. Significant accounting policies (continued)

Property, plant and equipment (continued)

Depreciation is calculated using the diminishing value method to allocate the cost of property, plant and equipment, net of their residual values, over their estimated useful lives. Depreciation on leasehold improvements is calculated using the straight line method to allocate the cost of the asset over the shorter period of the life of the asset or the lease term as follows:

- Plant and equipment 5 to 10 years
- Leasehold improvements 5 to 10 years

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

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

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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 leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Goodwill
Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Intellectual property
Intellectual property has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate cost of the intellectual property over the estimated useful life of the intellectual property which is 20 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Note 2. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within contracted terms.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

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

- interest on short-term and long-term borrowings;
- interest on finance leases.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in payables. All other short-term employee obligations are presented as payables.

Long service leave

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

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

Profit sharing and bonus plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration key performance criteria. The group recognises a payable where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Deferred Income

The Group defers income on cash received from customers for dental services and releases amounts to income as the Group performs its contractual service obligations to the patient.

Note 2. Significant accounting policies (continued)

Make good provision
A provision for make good obligations is recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Contributed equity
Ordinary shares are classified as equity.

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

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

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

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

On the acquisition of a business, the group assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.
Where the business combination is achieved in stages, the group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

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

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

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

Note 2. Significant accounting policies (continued)

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of 1300SMILES Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and services tax ('GST') and other similar taxes

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

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

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

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

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 3. Critical accounting judgements, estimates and assumptions

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

Business combinations
The acquisition of businesses requires the identification of net assets acquired, including any identifiable intangible assets, and an assessment of their fair value. Judgement is required in determining whether intangible assets are identifiable in the acquisition of dental practices. No intangible assets are identifiable as there are no such assets that are either separable from the business or arise from contractual or other legal rights.

Management estimates the fair value of the tangible assets acquired. The group uses its judgement to select a variety of methods and make assumptions based mainly on market conditions existing at the time of the business combination.

Note 3. Critical accounting judgements, estimates and assumptions

Goodwill
The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital, and growth rates of the estimated future cash flows. Refer to note 17 for further information.

Note 4. Operating segment

Identification of reportable operating segment

Operating segments have been determined on the basis of reports reviewed by the Board of Directors (who are identified as the chief operating decision makers). The Board considers the business from a geographic perspective and assess performance and allocate resources on this basis.

The reporting segments derive revenue from dental services of $15,795,000 (2012: $19,814,000) and dental management services of $19,589,000 (2012:$15,874,000) within a particular geographic area. The operating segments are aggregated into the one reportable segment as the long term financial performance and economic characteristics of the operating segments are similar.

The financial results from this reportable segment are equivalent to the financial statements of the group as a whole.

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Note 5. Revenue		
Sales revenue		
Service fees	**35,384**	35,688
Other revenue		
Interest	**578**	815
Licence fees	**-**	83
Other revenue	**221**	75
	799	973
Revenue	**36,183**	36,661
Note 6. Other income		
Other income	**5**	6

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Note 7. Expenses		
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	**720**	458
Plant and equipment	**1,245**	1,230
Total depreciation	**1,965**	1,688
Amortisation		
Amortisation – intellectual property		
Software	**103**	60
Intellectual property	**47**	24
Other	**5**	-
	155	84
Finance costs		
Interest and finance charges paid/payable	**106**	498
Rental expense relating to operating leases		
Minimum lease payments	**1,931**	1,661
Defined contribution superannuation expense	**794**	1,058
Note 8. Income tax expense		
Income tax expense		
Current tax	**2,858**	2,782
Deferred tax	**220**	(161)
Under/(over) provision of current tax in prior years	**(504)**	(36)
Aggregate income tax expense	**2,574**	2,585
Deferred tax included in income tax expense comprises:		
(Increase)/ decrease in deferred tax assets	**(175)**	(158)
Under/ (over) provision in prior years	**395**	(3)
(Increase)/ decrease in deferred tax assets (note 18)	**220**	(161)
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**8,941**	8,760
Tax at the Australian tax rate of 30% (2012: 30%)	**2,682**	2,628
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Deductible capitalised business acquisition costs	**-**	(4)
Under/(over) provision in prior years	**(108)**	(39)
Income tax expense	**2,574**	2,585

Note 9. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2013 $'000	2012 $'000
Net profit attributable to ordinary equity holders	**6,367**	6,175

	2013	2012
	No of shares	
Weighted number of ordinary shares for basic earnings per share	**23,678,384**	23,678,634
Earnings per share	**26.9**	26.6
Diluted earnings per share	**26.9**	26.6

Note 10. Dividends

Dividends	Consolidated 2013 $'000	Consolidated 2012 $'000
Final dividend for the year ended 30 June 2012 of 9.2 cents (2012: 8.0 cents) per ordinary share paid on 8 October 2012 fully franked based on a tax rate of 30%	**2,205**	1,705
Interim dividend for the half year ended 31 December 2012 of 10.0 cents (2012: 8.6 cents) per ordinary share paid on 28 March 2013 fully franked based on a tax rate of 30%	**2,354**	2,011
	4,559	3,716

Since the end of the financial year, the Directors declared, for the year ended 30 June 2013, a final fully franked ordinary share dividend of 8.5 cents ($2,012,663) which is payable on 9 October 2013.

Franking credits	Consolidated 2013 $'000	Consolidated 2012 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**5,183**	4,054

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $885,842 (2012 – $934,000).

	Consolidated 2013 $'000	Consolidated 2012 $'000
Note 11. Cash and cash equivalents		
Cash on hand	**8**	8
Cash at bank	**8,043**	13,463
	8,051	13,471
Note 12. Trade receivables		
Trade receivables*	**517**	356
Membership and treatment plan receivables **	**278**	-
	795	356

*$204,000 of the $517,000 trade receivables at 30 June 2013 was received in July 2013 from Oral Health Services (Queensland Government).

**Membership and treatment plan receivables are recognised in the accounting period in which the dental services are provided. The instalments receivable under these plans are allocated over pre-specified time periods usually twelve months. Of the $277,909 Membership and treatment plan receivable at 30 June 2013, $277,909 is not yet due for settlement and will be collected within twelve months from reporting date.

Impairment of receivables
The group has not recognised any loss in profit or loss in respect of impairment of receivables in the current or prior years.

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $337,630 as at 30 June 2013 ($217,000 as at 30 June 2012). These past due debtors were all 1 to 3 months overdue. The group considered there to be no credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

	Consolidated 2013 $'000	Consolidated 2012 $'000
Note 13. Other assets		
Current assets		
Prepayments	**64**	178
Other current assets	**138**	204
	202	382
Non-current assets		
Other non-current assets	**31**	32
Note 14. Loans receivable		
Share loan principal	**1,610**	1,500
Share loan interest	**217**	202
	1,827	1,702

Note 14. Loans receivable (continued)

Ordinary share loans were made pursuant to a Company loan funded program to incentivise consultants. Shares are held in voluntary escrow. The voluntary escrow is progressively released over a five year period. The loans are fully recourse and repayable 13 months after the company makes a call on the borrowers. The loans are secured by lien over the shares acquired from proceeds of the share loan. In the event the borrowers sell any shares, a proportionate percentage of the outstanding loan is required to be repaid. Interest on loans is charged on a commercial basis. (Refer to note 24 for further information on the share loan.)

Note 15. Joint arrangements

The group acquired a 33% equity interest in Dental Members Australia Pty Ltd on 17 August 2012, a company incorporated and domiciled in Australia. DMA has share capital consisting solely of ordinary shares which are held directly by the group. The proportion of ownership interest is the same as the proportion of voting rights held. The key decisions of the governing body of Dental Members Australia Pty Ltd require unanimous consent from all shareholders and accordingly the investment is classified as a joint venture. Dental Members Australia Pty Ltd provides the only dental plan that caters for all routine oral hygiene visits as well as high value treatments, offering patients interest-free dental solutions and discounted dental treatment. The table below provides summarised financial information for the joint venture. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not the group's share of those amounts. They have been amended to reflect adjustments made by the group when using the equity method, including modifications for differences in accounting policy and fair value adjustments. The group's share of profits from its equity accounted investment for the year was $3,000 (2012: nil). The group did not receive any dividends from its equity accounted investment during the year.

	Consolidated	
	2013	2012
	$'000	$'000
Shares in Dental Members Australia Pty Ltd (ownership interest 33%)	**333**	-
Summarised balance sheet		
Current assets		
Cash and cash equivalents	**156**	-
Receivables	**524**	-
Total current assets	**680**	-
Non-current assets	**453**	-
Total assets	**1,133**	-
Current liabilities		
Trade payables and accruals	**124**	-
Total liabilities	**124**	-
Net assets	**1,009**	-
Reconciliation to carrying amounts		
Opening net assets 1 July	**-**	-
Investment in joint venture	**330**	
Profit/ (loss) for the period	**3**	-
Other comprehensive income	**-**	-
Dividends paid	**-**	-
Closing net assets	**333**	-
Group's share in %	**33%**	-
Group's share in $	**333**	-
Carrying amount	**333**	-

	Consolidated	
	2013	2012
	$'000	$'000
Note 15. Joint arrangements (continued)		
Revenue	**282**	-
Interest income	**-**	-
Depreciation and amortisation	**18**	-
Interest expense	**-**	-
Income tax expense	**4**	-
Profit from continuing operations		
Profit for the period	**9**	-
Other comprehensive income	**-**	-
Total comprehensive income	**9**	-
Dividends received from joint ventures	**-**	-

	Consolidated 2013 $'000	2012 $'000
Note 16. Property, plant and equipment		
Leasehold improvements - at cost	**4,924**	4,947
Less: Accumulated depreciation	**(2,147)**	(1,564)
	2,777	3,383
Plant and equipment - at cost	**10,680**	9,719
Less: Accumulated depreciation	**(4,710)**	(3,528)
	5,970	6,191
Capital works - at cost	**-**	116
	-	116
	8,747	9,690

Reconciliations

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

Consolidated	Capital works $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Balance at 1 July 2012	116	6,190	3,384	9,690
Capitalised	(116)	116	-	-
Additions	-	507	165	672
Additions through business combinations (note 31)	-	305	45	350
Transfers	-	97	(97)	-
Depreciation expense	-	(1,245)	(720)	(1,965)
Balance at 30 June 2013	-	5,970	2,777	8,747
Balance at 1 July 2011	116	5,879	2,477	8,472
Additions	-	1,541	1,054	2,595
Additions through business combinations (note 31)	-	-	311	311
Depreciation expense	-	(1,230)	(458)	(1,688)
Balance at 30 June 2012	116	6,190	3,384	9,690

Assets pledged as security

All assets of the group were pledged as security against facilities outstanding and disclosed in note 20.

Consolidated	Software *	Goodwill	Intellectual property *	Other intangible assets *	Total
		$'000	$'000	$'000	$'000
Note 17. Intangible assets					
Balance at 1 July 2012					
Cost and net book amount	209	11,121	921	-	12,251
Additions	219	-	-	313	532
Additions through business combinations (note 31)	-	686	-	-	686
Amortisation charge	(103)	-	(47)	(5)	(155)
Balance 30 June 2013	325	11,807	874	308	13,314
Balance at 1 July 2011					
Cost	39	10,670	-	-	10,709
Additions	230			-	230
Additions through business combinations (note 31)	-	451	-	-	451
Acquisition of intellectual property	-	-	945	-	945
Amortisation charge	(60)	-	(24)	-	(84)
Balance at 30 June 2012	209	11,121	921	-	12,251

*Software, intellectual property and other intangible assets are separately acquired

	Consolidated 2013 $'000	Consolidated 2012 $'000
Intangible assets		
Cost	**13,607**	12,389
Accumulated amortisation	**(293)**	(138)
	13,314	12,251

Impairment tests for goodwill
The total amount of goodwill has been allocated to identified CGU's, being geographical regions.

	Consolidated 2013 $'000	Consolidated 2012 $'000
North Queensland	**502**	502
Central Queensland	**5,148**	5,148
South East Queensland	**3,323**	3,323
Toowoomba	**2,148**	2,148
Adelaide	**686**	-
	11,807	11,121

The recoverable amount of goodwill is based on value-in-use calculations which use cash flow projections based on financial budgets approved by management covering a five-year period. Future cash flows are projected over a five-year period and use an implied annual growth rate of 5% (2012: 5%) and are discounted using the group's weighted average cost of capital of 11.8% (2012: 12%). Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 2% (2012: 3%) which does not exceed the long-term average growth rate for the industry in which each CGU operates.

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Note 18 Deferred tax		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Deferred tax assets		
Property, plant and equipment	**309**	153
Intellectual property	**-**	7
Employee benefits	**116**	115
Accrued expenses	**50**	360
Equity raising costs	**78**	-
Unearned revenue	**120**	-
Total deferred tax assets	**673**	635
Deferred tax liabilities		
Intellectual property	**(92)**	-
Other	**(35)**	-
Total deferred tax liabilities	**(127)**	-
Net deferred tax assets	**546**	635
Deferred tax assets expected to be recovered within 12 months	**262**	473
Deferred tax assets expected to be recovered after more than 12 months	**411**	162
Deferred tax liabilities expected to be recovered within 12 months	**(35)**	-
Deferred tax liabilities expected to be recovered after more than 12 months	**(92)**	-
	546	635
Movements:		
Opening balance	**635**	474
(Debited)/ Credited to profit or loss (note 8)	**(220)**	161
Credited to equity	**131**	-
Closing balance	**546**	635

Note 19. Trade and other payables

Current		
Trade payables	**1,718**	1,672
Sundry payables and accruals	**1,840**	2,494
Unearned revenue	**400**	-
Payable to related parties (note 15)	**220**	-
	4,178	4,166

Refer to note 24 for detailed information on financial instruments.

	Consolidated	
	2013	**2012**
	$'000	**$'000**

Note 20. Borrowings

Current

Term loan	-	7,500

Refer to note 24 for detailed information on financial instruments.

(i) The term loan (interest only term loan) was repaid in October 2012.
(ii) The interest rate charged on the term loan was 5.57% (2012: 6.72%).
(iii) The carrying amount of the group's borrowings approximates their fair value.
(iv) The term loan was secured by a charge over all assets of the group.

	Consolidated	
	2013	**2012**
	$'000	**$'000**

Note 21. Provisions

Make good provision (a)	**240**	230
Provision for employee benefits	**86**	66
	326	296
Current		
Provision for employee benefits	**36**	39
Non-current		
Make good provision	**240**	230
Provision for employee benefits	**50**	27
	290	257
Make good provision		
Balance at 1 July	**230**	197
Charged/ (credited) to income statement	**10**	33
Balance at 30 June	**240**	230

(a) Make good provision
1300SMILES Limited is required to restore the leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements.

	Consolidated 2013 $'000	Consolidated 2012 $'000
Note 22. Other liabilities		
Current		
Contingent settlement payable	154	25
Non-current		
Contingent settlement payable	350	-
Contingent settlement payable		
Balance at 1 July	**25**	657
Additions through business combinations	**479**	-
Settled / utilised during the year	**-**	(632)
Balance at 30 June	**504**	25

	Consolidated 2013 Shares	Consolidated 2012 Shares	Consolidated 2013 $'000	Consolidated 2012 $'000
Note 23. Contributed equity				
Ordinary shares - fully paid	**23,678,384**	23,678,384	**15,501**	15,370

At 30 June 2013 143,266 (2012: 368,557) shares were held under escrow. Expiry dates range between financial years ending 2014 and 2018.

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$'000
Balance	1 July 2011	21,307,100		7,506
Shares issued on private placement *	9 September 2011	2,371,284	$3.50	8,299
Share issue costs		-		(435)
Balance	30 June 2012	23,678,384		15,370
Deferred tax – share issue costs	30 June 2013	-		131
Balance	30 June 2013	23,678,384		15,501

* *The shares issued on private placement during the 2012 financial year were shares issued to wholesale investors.*

Ordinary shares
Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares. Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 23. Contributed equity (continued)

Capital risk management
The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company would look to raise capital when an opportunity to invest in a business or Company was seen as value adding relative to the current parent entity's share price at the time of the investment.

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 cash flow forecasts having regard to planned expansions and take 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.

The group's strategy was to repay the loan facility during 2013. The gearing ratios at 30 June 2013 and 30 June 2012 were as follows:

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Total borrowings	**-**	7,500
Less: cash and cash equivalents	**(9,353)**	(13,471)
Net (cash)/debt	**(9,353)**	(5,971)
Total equity	**27,952**	26,013
Total capital	**27,952**	26,013

Note 24. Financial instruments

Financial risk management objectives

The group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group does not use derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and ageing analysis for credit risk.

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 reports regularly to the Board of Directors on issues and compliance. Risk management policy is to identify and analyse the risks faced by the group, 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 group activities. The group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Market risk

Foreign currency risk

The group does not undertake any significant transactions denominated in foreign currency and is not exposed to any significant foreign currency risk through foreign exchange rate fluctuations.

Price risk

The group is not exposed to any significant price risk.

Interest rate risk

The group's main interest rate risk arises from cash and cash equivalents. The group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and investing options and the mix of fixed and variable interest rates. The group repaid all borrowings during the year and is only exposed to interest rate risk on cash and cash equivalents at 30 June 2013.

As at the reporting date, the following assets and liabilities were exposed to Australian variable interest rates:

	Weighted Average interest rate %	2013 $'000	Weighted Average Interest rate %	2012 $'000
Consolidated				
Term loan *	-	**-**	6.72	(7,500)
Cash and cash equivalents	5.32	**8,051**	6.10	13,471
Share loans	5.32	**1,827**	6.72	1,702
Net exposure to cash flow interest rate risk		**9,878**		7,673

*The term loan was an interest only loan

A movement in interest rates of 1% (2012: 1%) would have an adverse/favourable effect on profit before tax of $89,000 (2012: $48,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Note 24. Financial instruments (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The entity's exposure to risk is minimised due to the majority of clients paying for their services up front. The group 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 is made, that represents the estimate of incurred losses in respect to trade and other receivables.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The group does not hold any collateral.

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

With respect to share loans the group may at any time, by written notice, call on the borrowers to repay all or part of the outstanding amount within 13 months after the company makes a call. A lien will remain effective after escrow has been removed on the proportionate percentage of the total shares subject to the loan outstanding. $1,827,000 (2012: $1,702,000) of the share loans is receivable from two parties that are consultants to the group.

The group limits its cash investment risk exposure on cash investments by investing in a variety of Australian deposit taking institutions.

Liquidity risk

Vigilant liquidity risk management requires the group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The group manages liquidity risk by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The group maintained the following line of credit until it was repaid in October 2012:

- $7.5 million (2012: $7.5 million) interest only term loan.

Note 24. Financial instruments (continued)

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

Consolidated	Weighted Average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total $'000
Balance at 30 June 2013						
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	1,718	-	-	-	1,718
Sundry payables and accruals	-	1,840	-	-	-	1,840
Payables to related parties	-	220	-	-	-	220
Other liabilities	-	154	350	-	-	504
Total non-derivatives		3,932	350	-	-	4,282
Balance at 30 June 2012						
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	1,672	-	-	-	1,672
Sundry payables and accruals	-	2,177	-	-	-	2,177
Other liabilities	-	25	-	-	-	25
Interest-bearing - variable rate						
Term loan	6.72%	7,712	-	-	-	7,712
Total non-derivatives		11,586	-	-	-	11,586

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

Fair value

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments. The fair value of current borrowings approximates the carrying amount.

Note 25. Key management personnel disclosures

Compensation

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

	Consolidated 2013 $	2012 $
Short-term employee benefits	**347,045**	322,771
Post-employment benefits	**28,534**	24,640
	375,579	347,411

Shareholdings

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

2013	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Robert Jones	32,606	-	-	-	32,606
Daryl Holmes	14,711,729	-	-	-	14,711,729
William Bass	16,200	-	-	-	16,200
	14,760,535	-	-	-	14,760,535

2012	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Robert Jones	27,606	-	5,000	-	32,606
Daryl Holmes	14,711,729	-	-	-	14,711,729
William Bass	16,200	-	-	-	16,200
Debra Burden*	220,000	-	-	(220,000)	-
	14,975,535	-	5,000	(220,000)	14,760,535

* Mrs Burden resigned on 28 February 2012.

Related party transactions

Transactions with related entities of the key management personnel are set out in note 29.

Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by the auditors of the Company, and their related practices:

	Consolidated	
	2013	**2012**
	$	**$**
PricewaterhouseCoopers		
(i) Audit and other assurance services		
Audit and review of financial statements	**61,700**	-
(ii) Taxation services		
Tax compliance services	**2,200**	2,100
Total remuneration of PricewaterhouseCoopers	**63,900**	2,100
Non PricewaterhouseCoopers firms		
(i) Audit and other assurance services		
Audit and review of financial statements	-	71,300
(ii) Taxation services		
Tax compliance services	-	-
Total remuneration of non PricewaterhouseCoopers firms	-	71,300

Note 27. Contingent liabilities

The group had no contingent liabilities as at reporting date (2012: nil).

Note 28. Commitments for expenditure

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	**1,851**	2,221
One to five years	**3,988**	4,223
More than five years	**456**	525
	6,295	6,969

Lease commitments – finance
As at 30 June 2013 and 30 June 2012 there were no commitments in relation to finance leases payable.

Note 29. Related party transactions

Parent entity
1300SMILES Limited is the parent entity.
The ultimate controlling party is Dr Daryl Holmes who has a 62.13% interest in 1300SMILES Limited.

Subsidiaries
Interests in subsidiaries are set out in note 32.

Key management personnel
Disclosures relating to key management personnel are set out in note 25 and the remuneration report in the Directors' report.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2013	**2012**
	$	**$**
Received for goods and services:		
Commission revenues*	**110,000**	-
Dental management services**	**79,378**	73,179
Payment for other expenses:		
Rental expense paid to related parties**	**539,720**	338,171

*The group entered into an agreement on normal commercial terms and conditions with Dental Members Australia Pty Ltd to introduce and refer new members to the dental plan, in return for commission.

**The group has entered into the following agreements on normal commercial terms and conditions with the managing Director, Dr Daryl Holmes, or entities related to Dr Holmes:

- Golden Arch Pty Limited ATF the Whistler Trust provides rental premises to an amount of $460,225 (2012: $266,500). During the year ending June 2013, additional premises were leased to accommodate expansion of the head office at a cost of $105,378.
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage premises to an amount of $79,495 (2012: $71,671).
- The company received revenue of $79,378 (2012: $73,197) for dental management services from Golden Arch (Qld) Pty Ltd for services provided under a Dental Service Agreement.

Included in operating lease commitments in note 30 is $356,424 committed to Ashbourne Park Pty Ltd over a period of 5 years and $1,404,275 committed to Golden Arch Pty Ltd over a period of 5 years.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the reporting date.

Loans to/from related parties
There were no loans to or from related parties at the reporting date, other than the trade payable to Dentist Members Australia Pty Ltd (refer Note 19).

Other transactions
During the year, the group made payments of $313,000 (2012: nil) to Dentist Members Australia Pty Ltd for dental plans.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 30. Parent entity information

At 30 June 2013 and 2012 parent disclosures are not presented as these are not materially different to the consolidated accounts.

Note 31. Business combinations

(a) Summary of acquisition

On 5 June 2013 The Dental Practice on King William Street located in Adelaide was acquired.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2013 $'000	2012 $'000
Purchase consideration (refer to (b) below):		
Cash paid	**557**	881
Contingent consideration	**479**	25
Total purchase consideration	**1,036**	906

The provisionally determined assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value $'000	Fair value $'000
Property, plant and equipment	**350**	483
Net identifiable assets acquired	**350**	483
Add: goodwill	**686**	423
Net assets acquired	**1,036**	906

In 2013 and 2012 goodwill has arisen from customer relationships that do not meet the definition of an identifiable intangible asset at the date of acquisition and synergies expected to be achieved from integrating the back office processing of the acquired practices with the existing business of 1300SMILES Limited. None of the goodwill is expected to be deductible for tax purposes. At the end of the current and prior year there have been no adjustments to this balance of goodwill.

Contingent consideration
In the event that certain pre-determined sales and profit targets are achieved by the Adelaide practice for the year ended 2014 through to 2017, additional consideration of $479,360 plus a sliding scale percentage of the excess over benchmark EBIT (Earnings before Interest) achieved may be payable in cash between 2014 and 2017. This has been recognised as a contingent settlement payable at balance date. (Refer to note 22.)

At the time the financial statements were authorised for issue, the group had not yet completed the accounting for the acquisition of the Adelaide practice. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as the valuations have not been finalised. It is also not yet possible to provide detailed information about each class of property plant and equipment and any contingent liabilities of the acquired practice.

Note 31. Business combinations (continued)

The acquired business contributed revenues of $110,461 and net profit before tax of $23,438 to the group for the period from 6 June 2013 to 30 June 2013. If the acquisition had occurred on 1 July 2012, consolidated revenue and profit before tax for the year ended 30 June 2013 would have been $37,563,000 and $9,242,000 respectively. These amounts had been calculated using the group's accounting policies and by adjusting the results of the business to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from 1 July 2012, together with the consequential tax effects.

(b) Purchase consideration – cash outflow

	Consolidated	
	2013 $'000	2012 $'000
Cash used to acquire the Adelaide dental practice (2012: Caloundra and Warana), net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	**1,036**	906
Less: contingent consideration	**(479)**	(25)
Net cash used	**557**	881

Acquisition-related costs
During the current year acquisition-related costs of $26,830 (2012: $25,000) are included in operating expenses in profit or loss and in operating cash flows in the statement of cash flows.

	Consolidated	
	2013 $'000	2012 $'000
Summary of cash payments:		
Cash paid for acquisition of practices	**557**	881
Contingent payment for Bundaberg practice previously acquired	**-**	456
Contingent payment for Bray Park practice previously acquired	**-**	175
Additional payment for Cairns practice previously acquired	**-**	28
Net cash used	**557**	1,540

(c) Business combinations in the prior year

The details of practices acquired in the prior year are described in the financial statements of the group for the year ending 30 June 2012.

Note 32. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 2:

		Equity holding	
Name of entity	Country of incorporation	2013 %	2012 %
1300SMILES (WA) Pty Ltd	Australia	100	100

Note 33. Events occurring after the reporting date

A fully franked final dividend of 8.5 cents per share has been declared and is payable on 9 October 2013. (Refer note 10.)

Apart from the dividend declared, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Note 34. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2013	**2012**
	$'000	**$'000**
Profit after income tax expense for the year	**6,367**	6,175
Adjustments for:		
Equity accounting	**(3)**	-
Depreciation and amortisation	**2,120**	1,773
Change in operating assets and liabilities:		
Decrease in trade and other receivables	**(454)**	703
Increase in deferred tax assets	**220**	(161)
Decrease in other assets	**180**	-
Increase in trade and other payables	**(210)**	1,024
Increase/(decrease) in current tax payable	**367**	101
Increase in provisions	**30**	152
Net cash from operating activities	**8,617**	9,767

Note 35. Non-cash investing activities

The group acquired a 33% interest in Dental Members Australia Pty Ltd on 17 August 2012 in exchange for $330,000 which is payable to the joint venture (note 15).

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the group's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Dr Daryl Holmes
Director

16 August 2013
Townsville

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 (the disclosing entity), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for 1300SMILES (the consolidated entity). The consolidated entity comprises the disclosing entity and the entity it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the disclosing entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those 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 consolidated 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.

Our procedures include reading the other information in the Annual report to determine whether it contains any material inconsistencies with 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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Liability limited by a scheme approved under Professional Standards Legislation.

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 consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 19 of the directors' report for the year ended 30 June 2013. The directors of the disclosing entity 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 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PJ Clarke
Partner

Townsville
16 August 2013

1300SMILES Limited
Shareholder information
30 June 2013

The shareholder information set out below was applicable as at 31 July 2013.

Distribution of equitable securities

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

	Number of holders of ordinary shares
1 to 1,000	727
1,001 to 5,000	500
5,001 to 10,000	84
10,001 to 100,000	70
100,001 and over	13
	1,394
Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
Dr Daryl Holmes	14,169,237	59.84
JP Morgan Nom Aust Ltd	1,068,480	4.51
Evelin Inv PL	980,000	4.14
National Nom LTD	604,302	2.55
Kredithaus Pty Ltd	566,000	2.39
Upper Avalon Pty Ltd	399,500	1.69
Hancock Russell Kay	320,000	1.35
Citicorp Nom Pty Ltd	267,751	1.13
Ashbourne Park Pty Ltd	265,402	1.12
B P J Inv Pty Ltd	250,000	1.06
Ashbourne Park Pty Ltd as trustee for Superannuation Fund	182,900	0.77
ABN Amro Clearing Sydney	105,735	0.45
Landel Pty Ltd	100,580	0.42
Morris J & IM Marrinon	100,000	0.42
Golden Arch Qld Pty Ltd	94,190	0.40
Bond Street Custs LTD	91,307	0.39
Kent Gush	86,500	0.37
BNP Paribas Noms Pty Ltd	83,000	0.35
Gang – Gang Pty Ltd	81,799	0.35
Holmes Kevin John and JD Holmes	75,829	0.32
	19,892,512	84.02

There are no unquoted equity securities.

1300SMILES Limited
Shareholder information
30 June 2013

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
Dr. Daryl Holmes	14,711,729	62.13

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Restricted securities

Shares held under voluntary escrow, by escrow expiry date, comprise:

Month	2013	2014	2015	2016	2017	2018
January	-	60,600	4,000	4,000	4,000	4,000
February	-	-	-	-	-	
March	-	16,667	-	-	-	
April	-	-	-	-	-	
June	-	-	-	-	-	
September	33,333	16,666	-	-	-	
October	-	-	-	-	-	
November	-	-	-	-	-	
Annual payment	33,333	93,933	4,000	4,000	4,000	4,000
Total payments						143,266