

# 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 2012
Previous Corresponding Reporting Period	30 June 2011

### Results for Announcement to the Market

	\$'000	Percentage increase/ (decrease) over previous corresponding period
Revenue from ordinary activities	36,661	28.4%
Profit / (loss) from ordinary activities after tax attributable to members	6,175	20.0%
<b>Net profit / (loss) for the period attributable to members</b>	<b>6,175</b>	<b>20.0%</b>
Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	9.2 cents	100%
Interim Dividend	8.6 cents	100%
Record date for determining entitlements to the dividends (if any)	5 October 2012	
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	10 October 2012
Record date to determine entitlement to the dividend	5 October 2012
Amount per security	9.2 cents
Total dividend	\$2,178,411
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

## 1300SMILES Limited – Appendix 4E Preliminary Final Report

### NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	59.0 cents	23.6 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  
9 August 2012

# 1300 **S**<sub>7</sub> **M**<sub>6</sub> **I**<sub>4</sub> **L**<sub>5</sub> **E**<sub>3</sub> **S**<sub>7</sub> **DENTISTS**

## **ANNUAL REPORT**

**For the year ended 30 June 2012**

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### DIRECTORS

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

### COMPANY SECRETARY

William Bass

### REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

1300SMILES Limited  
Ground Floor  
105 Denham Street  
Townsville QLD 4810  
Telephone: + 61 7 4720 1300  
Facsimile: +61 7 4771 5217

### LEGAL ADVISERS

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

### Corporate

Thomson Lawyers  
Level 16 Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000

### SHARE REGISTER

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

### AUDITOR

BDO Audit Pty Ltd  
Level 18  
300 Queen Street  
Brisbane, QLD, 4000

### COUNTRY OF INCORPORATION

Australia

### STOCK EXCHANGE LISTING

Australian Securities Exchange Limited  
ASX Code: ONT

### INTERNET ADDRESS

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

### AUSTRALIAN BUSINESS NUMBER

ABN 91 094 508 166



## LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

It is my great pleasure to present to you the eighth Annual Report of 1300SMILES Ltd.

Along with the rest of the board of directors, I am extremely pleased to summarise this report exactly as I did last year and in each of the past five years: in the full year to June 2012, 1300SMILES Ltd delivered record results in Revenue, Net Profit After Tax, Earnings Per Share, and Dividends Per Share.

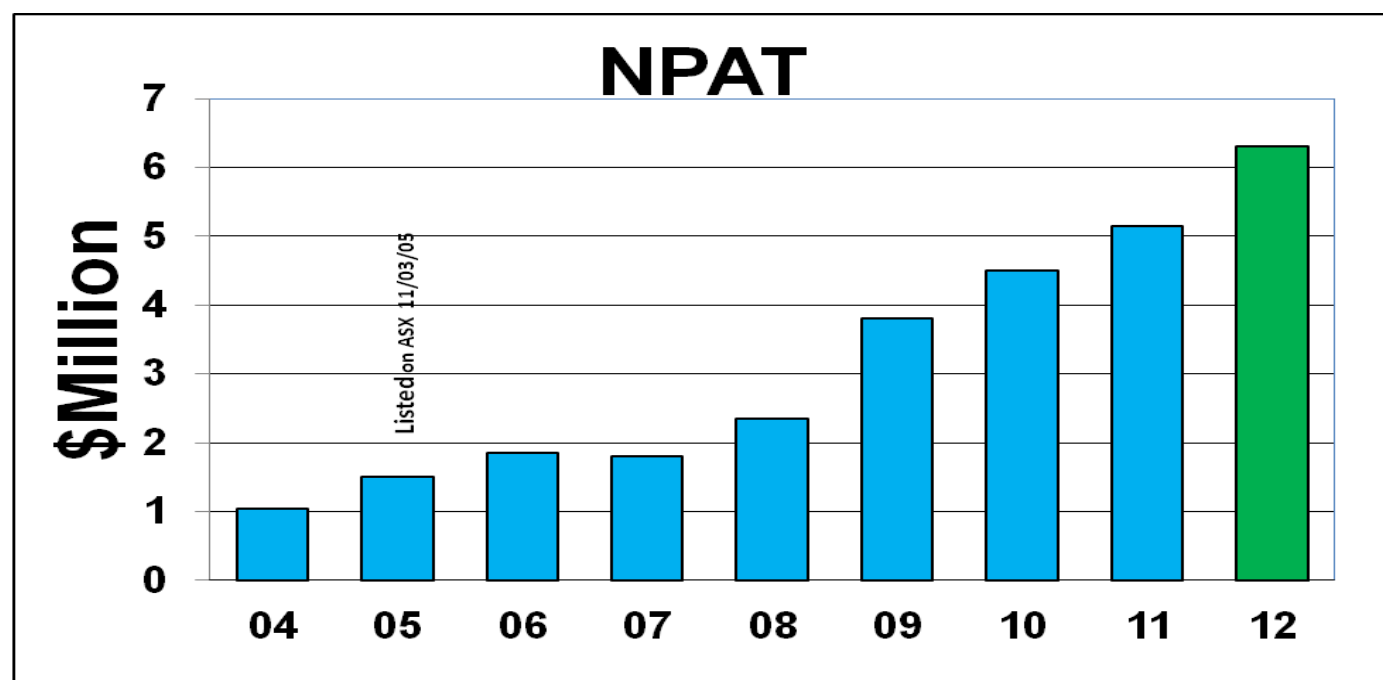
### Financial Results for the year ended 30 June 2012

Compared to those of the previous year, the key results for the year to 30 June 2012 were as follows:

- NPAT up 20.0% to \$6.2 million
- Revenue (statutory) up 28.4% to \$36.7 million (\$46 million OTC)
- EPS up 10.1% to 26.6c
- Retained Profits up 30.0% to \$10.7 million
- NPBT up 23.3% to \$8.7 million
- Cash-flow from operations up 55.8% to \$9.8 million
- EBITDA up 22.4% to \$10.9 million
- Full year franked dividend up 14.8% to 17.8c per share

These agreeable results mainly reflect the operation of our core business and derive mainly from increasing revenue and profit. But they are also supported and protected by our capital structure. During the year 1300SMILES issued a total of 2,371,284 new shares to a number of institutional investors. As always, our company only issues additional shares with great reluctance and only when we are certain that any such issue aligns with the long-term interests of existing shareholders.

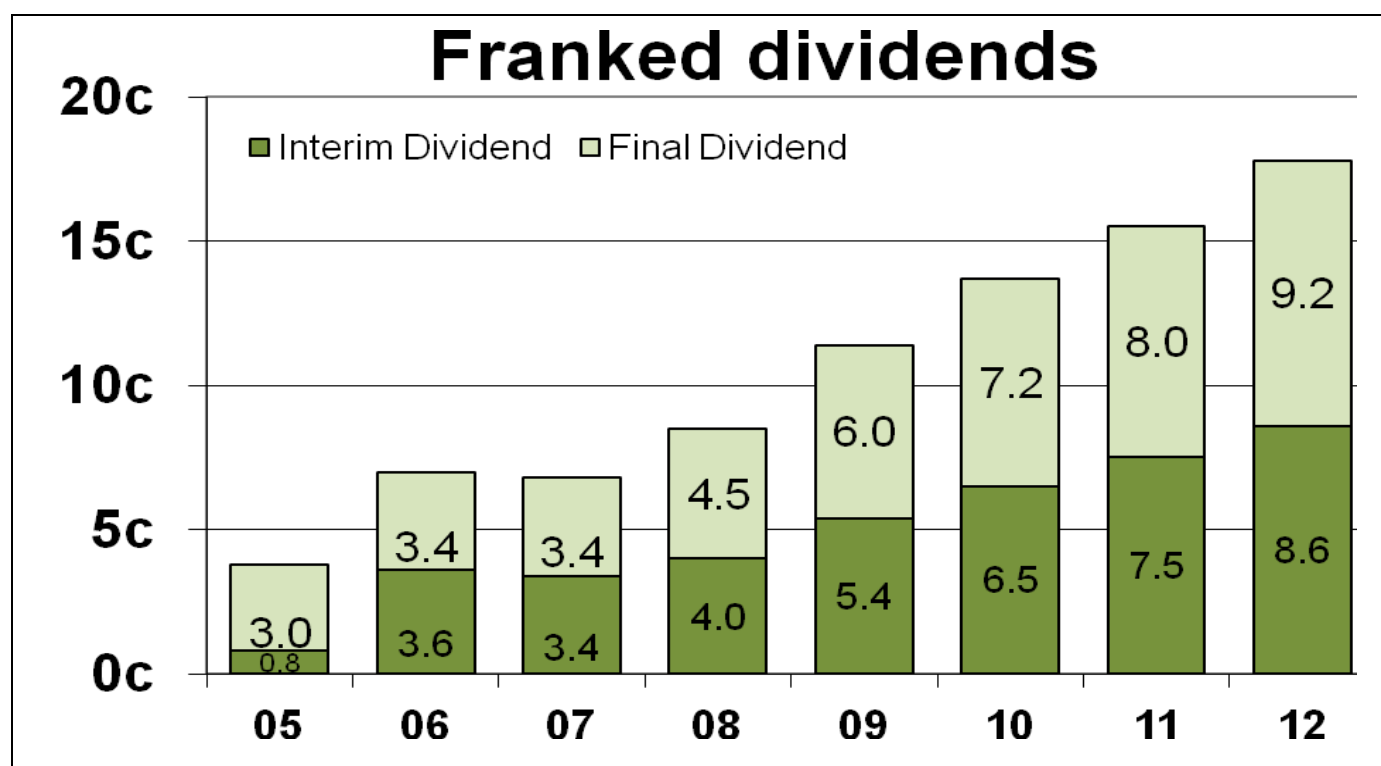
I believe that this expansion to the company's capital base has enhanced the security and sustainability of the key results of most interest to shareholders, namely growth in Earnings Per Share and Dividends Per Share. I acknowledge that any increase in the number of issued shares initially inhibits the growth in Earnings Per Share, but I am confident that the issue of new shares will make positive contributions of benefit to all shareholders for many years to come. That said, I must mention that this year's issue of shares has restricted growth in Earnings Per Share to just above 10%, as opposed to the growth in Net Profit After Tax of 20.0%.



As always, I would note that no one is more interested in Earnings Per Share and Dividends Per Share than I am, as my efforts on behalf of this company are rewarded mainly in the form of dividends and only slightly in the form of salary and benefits. (As an investor myself, I earnestly wish that more companies would do likewise.) My interests are the same as those of all shareholders, in that I seek both growing dividends and growing security and reliability in those dividends. To the very best judgement of the board of directors, this year's expansion of the capital base will serve the long-term interests of all shareholders.

## Dividends

One of our core financial objectives is to deliver sustainable, secure growth in Dividends Per Share. The final dividend for the 2012 year, at 9.2c per share, represents an increase of 15% on the previous year's final dividend. The total fully franked dividend for 2012 will be 17.8c per share, an increase of 15% for the full year.



## Expansion and Growth

In January 2012 the company completed the acquisition of two practices in the Sunshine Coast, located at Warana and Caloundra. These practices bring the company's presence in the southeast Queensland region to a total of ten facilities, and they help the company to develop ever greater efficiencies in the deployment of dentists, staff, and other resources. As well, of course, the southeast Queensland network now offers convenient access to 1300SMILES facilities to almost everyone in Brisbane and the entire surrounding region. We plan to enhance this access further by intensifying our presence in the region where we can do so profitably.

In keeping with the company's main emphasis over the past few years, a large portion of the growth in turnover and profit derives from our endless focus on in-filling and growing our established facilities. Whenever we build, consolidate, or renovate a practice we build in abundant extra capacity, as we have demonstrated over many years that such capacity can be managed to deliver rapid growth in Revenue.

During the year we opened our new North Shore (Townsville) practice in a medical centre serving the high growth corridor on the north side of the city. The brisk growth of turnover from this facility demonstrates once again that many of the best growth opportunities are still to be found in regional centres.

In the 2012 year, our Revenue grew by 28.4% to \$36.7 million. Even so, at the end of the year we still had in-fill capacity which would accommodate fully 50% growth in the delivery of dental services with little capital expenditure required and without needing to acquire any additional dental practices.

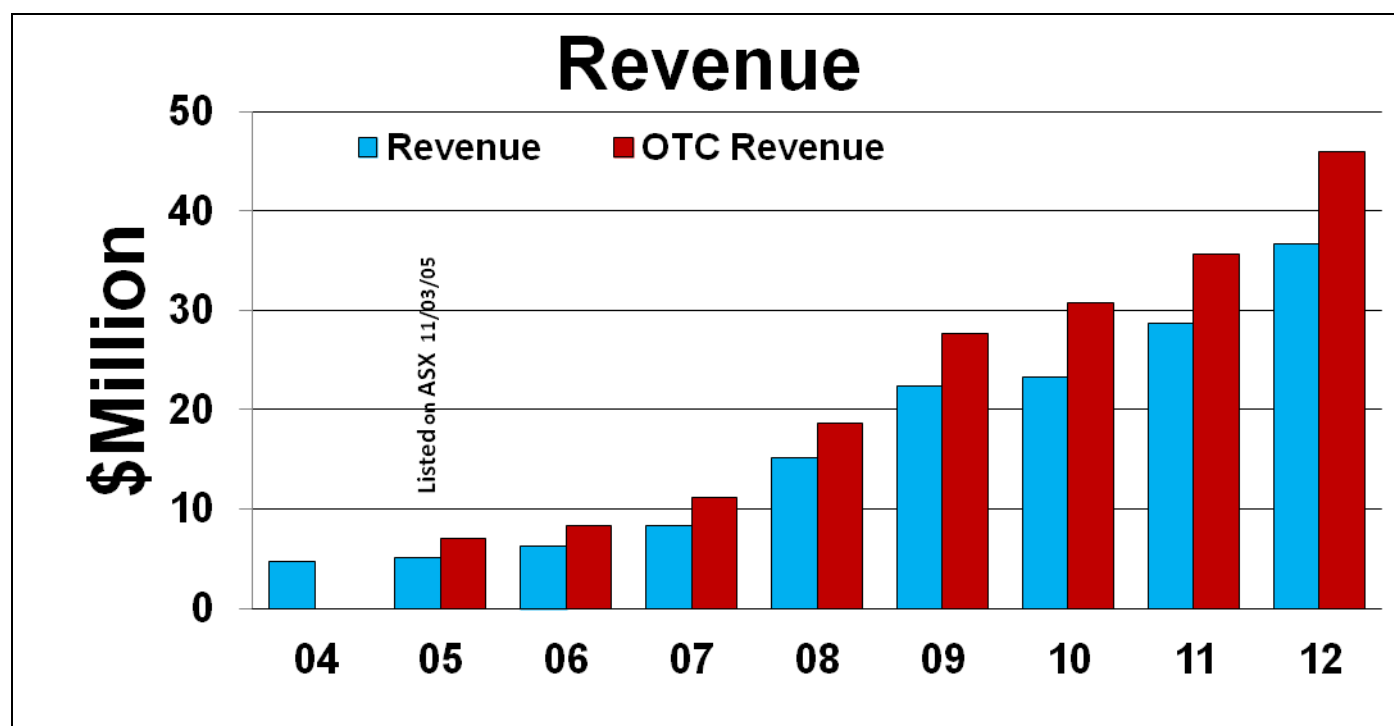
During the year we continued to invest in our business, looking for ways in which we could further standardise our systems and procedures. We also continued our work on attracting and recruiting key talent and on developing our people. I am very pleased with our results in those areas, which are flowing through to our financial results in a positive way.

We want our systems to be as robust as possible, we want the best people, and we want to help them perform to their best. As with our practices, which we design to accommodate extra capacity, we are designing our business to be as scalable as possible, so it is ready for growth as and when profitable growth is available.

We finished the 2012 year with a total of twenty four multi-dentist facilities. As always, we have a large number of potential acquisitions under consideration, and a large number of individual dentists we wish to welcome by recruitment to a 1300SMILES facility. Those processes typically take many months to complete, and our head office includes teams of professionals devoted solely to expansion by acquisition and recruitment.

## Revenue

We report these figures starting with the 2004 year, which was the year prior to the company initially listing on the Australian Stock Exchange in March 2005.



The "Revenue" figure in the chart above is that shown in our accounts in accordance with the relevant accounting standards. For management purposes we also keep track of our "over the counter" revenue, which is the total amounts dental patients actually pay for services rendered. We think this figure more accurately reflects the scale of our business, as it is not affected by any year-to-year changes in the mix of employed and self-employed dentists within 1300SMILES.



For the 2012 year, over-the-counter revenue grew by 28.7% to \$45.9m, in line with the 28.4% growth in our reported Revenue for accounting purposes. As I have noted before, the growth in over-the-counter revenue sometimes exceeds that of Revenue and sometimes lags behind, although in the 2012 year the year-on-year increases in the two figures are nearly the same. The variation between the two figures from year to year is neither positive nor negative and simply reflects the ongoing evolution of the business. As managers of the business we pay most attention to over-the-counter revenue.

## **Balance Sheet**

1300SMILES finished the year with no net debt and abundant cash reserves. The company does still have certain debt obligations as a result of minimum drawing requirements on existing credit lines. The company's cash balance, net of all debt obligations, was \$5.9 million at year end, and I thank our new institutional shareholders for their contribution to that balance.

In addition to its net cash balance, 1300SMILES has substantial borrowing facilities in place. The company consequently has resources sufficient to fund any conceivable acquisition or expansion it might undertake. I extend my thanks to our bankers, who have taken the time to understand our business well, along with all of our shareholders who have helped us build our solid capital base over the years.

I note that some may criticise the company's balance sheet as somewhat "lazy", suggesting that we are not using debt aggressively enough. I acknowledge that criticism and I note that the board of directors has no reluctance to use debt for productive purposes. At the same time, we take the view that our strong capital position has served us well and supported our growth through the past few turbulent years and we are happy to take our solid, real results ahead of any theoretically superior return which might have been delivered by more aggressive use of debt.

As I have noted before, other players in our industry have chosen to grow via the accumulation of high levels of debt, so the market will have a chance to decide which approach is best. I sleep well knowing that most of my family's income comes from a shareholding in 1300SMILES.

## **Liquidity and share market performance**

As always I must emphasise that the board and management of 1300SMILES Ltd occupy themselves entirely with the task of improving the underlying business. What the share market makes of our efforts is entirely and properly beyond our control.

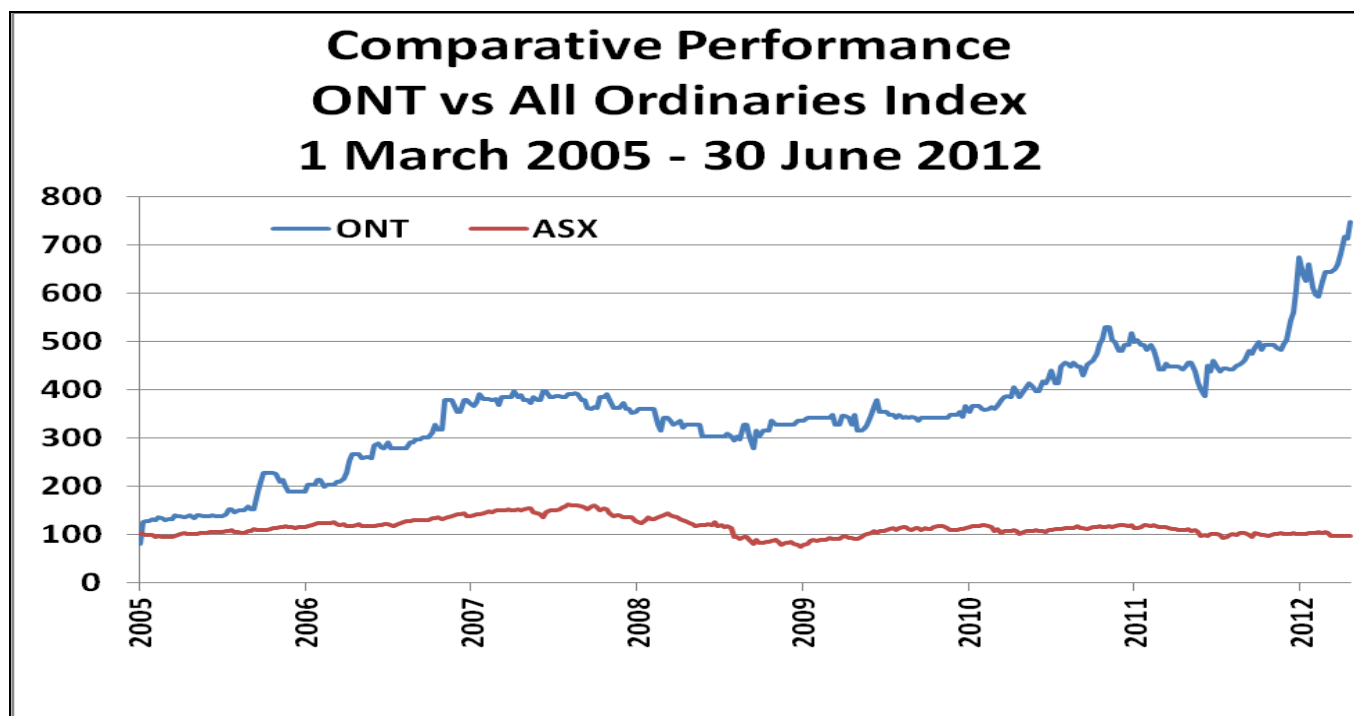
Over the years the company has occasionally been criticised for the relative lack of liquidity in the company's shares. To this we have always responded that there is good illiquidity and bad illiquidity: if you want to sell a lot of shares and there are no buyers, that's bad illiquidity. I don't believe that shareholders in 1300SMILES have ever faced that problem.

If, on the other hand, someone wants to acquire lots of shares in the company but cannot find enough for sale, I would argue that this is a case of good illiquidity, because such a situation can only work to the benefit of existing shareholders. Your board's responsibility has always been to look after the interests of current shareholders, not those of would-be buyers.

But against all that I agree that a certain level of liquidity is a positive thing. The issue of shares early in the 2012 financial year seems to have been the catalyst for a new era of greatly increased on-market liquidity. I notice that in recent months the company's shares have traded on almost every trading day, and the volume of shares traded has increased to a level at which larger investors can procure parcels of shares large enough to suit their portfolios. This increases the number of potential buyers for shares in 1300SMILES Ltd, which we regard as generally positive for all shareholders.

Shareholders may have noticed an increase in the price of our shares over the course of the year. You might recall that the share price moved ahead by a moderate 14% over the course of the 2011 financial year. In contrast, over the 2012 year the share price moved ahead by 67%, from \$3.59 to \$5.99.





In the chart above, both the 1300SMILES share price and the All Ordinaries are initially set equal to 100.

While no one can fully explain the movement of share prices, I believe that the issue of shares early in the year and the increased liquidity it accommodated was partly responsible for the increase in the share price over the year. On that basis, although the issue of shares during the year did restrict growth in Earnings Per Share somewhat, I trust that shareholders will be happy with their overall return for the year.

### Outlook

As in all previous years I must tell you that it is our policy not to forecast future results. That said, I note that we finished the 2012 financial year with a larger business than ever before, abundant opportunities to grow that business further, adequate capital for all anticipated purposes, and fierce determination to deliver continuing growth.

### Giving something back

In July 2012 I travelled to Papua New Guinea for my third spell as a volunteer dentist aboard the Medical Ship operated by Youth With A Mission. Based in Townsville and drawing on resources and volunteers from all over Australia, the Medical Ship travels to remote parts of PNG and elsewhere in the Pacific to deliver medical care of all kinds in places where there is essentially no medical infrastructure.

The experience is always exhausting and exhilarating. The dental team--all volunteers--puts in extraordinary hours, treating hundreds of patients per week. Medical and dental problems we can easily fix can be disabling or even fatal for people in remote areas; the work carried out by the YWAM volunteers is intense and concentrated, delivering more real benefit per hour than any other operation I know. On a personal level, I encourage all 1300SMILES dentists and staff to consider volunteering with YWAM for a week or two. On a corporate level, 1300SMILES Ltd is proud to be associated with YWAM and the Medical Ship and we do everything we can to accommodate our staff and dentists who wish to volunteer.

I would encourage you to visit the Medical Ship website at [www.ywamships.org.au](http://www.ywamships.org.au).



### **Thank you**

I thank all of our shareholders for your continued support.

I particularly thank our hard-working dentists and staff for their professional and caring services to our patients, and I thank our many patients for their business and for entrusting us with their care.

Yours faithfully,

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

Dr Daryl Holmes  
Managing Director



## **ABOUT 1300SMILES LIMITED**

### **OVERVIEW OF THE COMPANY'S BUSINESS**

1300SMILES Ltd owns and operates full-service dental facilities at twenty-four sites, mainly in the ten major population centres in Queensland. 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](mailto:md@1300SMILES.com.au).

Qualified dentists who wish to know more about joining one of our established facilities are also encouraged to contact Dr. Holmes directly, email [dentalcareers@1300smiles.com.au](mailto:dentalcareers@1300smiles.com.au) or visit our website [www.dentalcareersaustralia.com.au](http://www.dentalcareersaustralia.com.au).



The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of 1300SMILES Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2012.

## **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 consolidated entity was to provide dental and management services in Australia.

## **Dividends**

Dividends paid during the financial year were as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for the year ended 30 June 2011 of 8.0 cents (2011: 7.2 cents) per ordinary share paid on 12 October 2011 fully franked based on a tax rate of 30%	1,705	1,529
Interim dividend for the half year ended 31 December 2011 of 8.6 cents (2011: 7.5 cents) per ordinary share paid on 12 April 2012 fully franked based on a tax rate of 30%	2,011	1,602
	<u>3,716</u>	<u>3,131</u>

Since the end of the financial year, the Directors declared, for the year ended 30 June 2012, a final fully franked ordinary share dividend of 9.2 cents (\$2,178,411) which is payable on 10 October 2012.

## **Review of operations**

The profit for the consolidated entity after providing for income tax amounted to \$6,175,000 (30 June 2011: \$5,144,000).

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**

During the financial year 2012, on 2 September 2011, the Company issued a total of 2,371,284 new shares to a number of institutional investors. This private placement has increased the number of shares on issue to 23,678,384.

## **Matters subsequent to the end of the financial year**

A fully franked final dividend of 9.2 cents per share has been declared and is payable on 10 October 2012.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

### **Likely developments and expected results of operations**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

### **Environmental regulation**

The consolidated entity 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 has been a Director and chairman of the Mater Health Services North Qld Ltd since 2000. 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).

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

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

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

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

#### *Other current Directorships:*

Mater Health Services North QLD Ltd (unlisted).

#### *Former Directorships(in the last 3 years):*

Hermit Bus Park Service Pty Ltd (unlisted).

#### *Special responsibilities:*

Member of Remuneration and Nomination Committee and Audit 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 25 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 10 years.

*Other current Directorships:*

Cowboys Leagues Club Ltd (unlisted).

*Former Directorships(in the last 3 years):*

None.

*Special responsibilities:*

Member of Remuneration and Nomination Committee and Audit 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, FTIA, FInstIB, 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 Taxation Institute of Australia.

*Other current Directorships:*

China Magnesium Corporation Limited

*Former Directorships (in the last 3 years):*

None

*Special responsibilities:*

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

*Interests in shares:*

16,200 ordinary shares on 1300SMILES Limited

*Interests in options:*

None

**Meetings of Directors**

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

	Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Robert Jones	12	12	1	1	2	2
Daryl Holmes	12	12	1	1	2	2
William Bass	12	12	1	1	2	2

**Remuneration report (audited)**

The remuneration report, which has been audited, outlines the Director and executive remuneration arrangements for the consolidated entity 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 consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and 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 consolidated entity 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.

#### *Consolidated entity 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 consolidated entity) of 1300SMILES Limited are set out in the following table.

The key management personnel of the consolidated entity 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**

Name	Short-term benefits		Post-employment benefits	Share based payments	Total
	Salary and fees	Net DSA income	Super-annuation	Equity settled shares	
	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>					
Robert Jones					
2012	27,523	-	2,477	-	30,000
2011	27,523	-	2,477	-	30,000
William Bass*					
2012	57,523	-	2,477	-	60,000
2011	77,523	-	2,477	-	80,000
<i>Executive Directors:</i>					
Daryl Holmes**					
2012	70,112	49,549	20,020	-	139,681
2011	69,908	50,210	20,020	-	140,138
<i>Other Key Management Personnel:</i>					
Debra Burden***					
2012	76,656	-	5,729	-	82,385
2011	107,445	-	9,670	88,000	205,115
Eric van Niekerk					
2012	77,884	-	7,010	-	84,894
Total					
2012	309,698	49,549	37,713	-	396,960
2011	282,399	50,210	34,644	88,000	455,253

\* Includes Company secretarial services.

\*\* Includes a net dental service income received from Dental Service Agreement (DSA).

\*\*\* During 2011 Mrs Burden was allotted 100,000 ordinary shares under a share loan agreement at \$2.70 per share with a fair value at the date of issue of \$3.58. The difference in the share values was expensed as an employee benefit.

**(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 \$88,592 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 \$147,150 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 \$117,115 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 2012.

Details of shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2011 are set out below:

Name	Date	No of shares	Issue price	\$
Mrs Debra Burden*	1 October 2010	100,000	\$2.70	270,000

\* During 2011 Mrs Burden was allotted 100,000 ordinary shares at \$2.70 per share with a fair value at the date of issue of \$3.58. The difference in the share values was expensed as an employee benefit. The issue of those was not related to a performance condition.

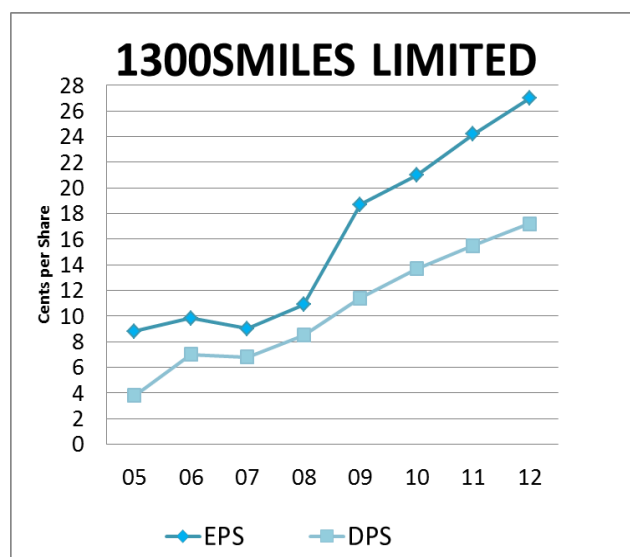
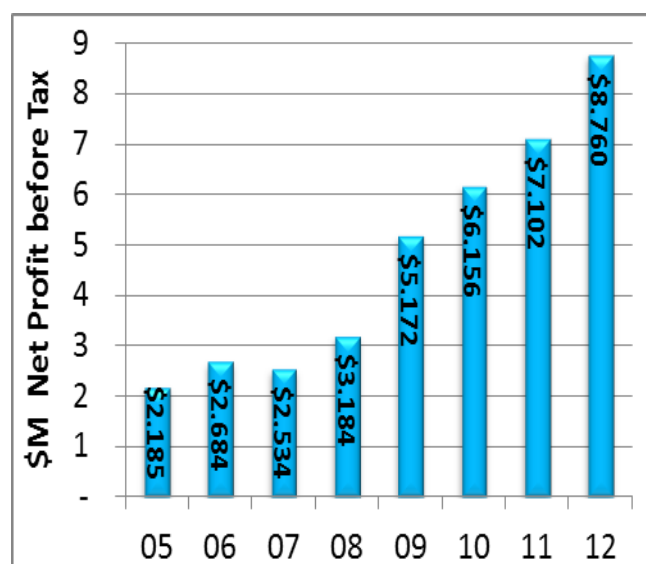
*Options*

There were no options issued to Directors and other key management personnel as part of compensation that were outstanding as at 30 June 2012.

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 2012.

**(e) Additional information**

The performance of the consolidated entity and the comparison of net profit before tax (NPBT), earnings per share (EPS) and dividends paid per share (DPS) for the last 8 years is illustrated in the graphs below.



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

***This concludes the remuneration report, which has been audited.***



### **Shares under option**

There were no options outstanding as at 30 June 2012.

### **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 2012.

### **Indemnity and insurance of officers**

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

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.

### **Indemnity and insurance of auditor**

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

During 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.

### **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**

There were no non-audit services provided during the financial year by the auditor.

### **Officers of the Company who are former audit partners of BDO Audit Pty Ltd**

There are no officers of the Company who are former audit partners of BDO Audit Pty Ltd.

### **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 set out on the following page.

### **Auditor**

BDO Audit Pty Ltd 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

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

Dr Daryl Holmes  
Director

9 August 2012  
Townsville

## DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF 1300SMILES LIMITED

As lead auditor of 1300 Smiles Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect 1300Smiles Limited and the entities it controlled during the period.

**A J Whyte**

Director



**BDO Audit Pty Ltd**

Brisbane: 9 August 2012

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

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](http://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 2012, 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:

<b>Name</b>	<b>Position</b>
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:

<b>Name</b>	<b>Term in office</b>
Robert Jones	4 years and 8 months
Daryl Holmes	11 years and 11 months
William Bass	5 years and 6 months



## Diversity

1300SMILES values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly we have developed a diversity policy, a copy of which can be found on the company 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	280	90	278	89
Number of women in senior executive positions	20	70	20	69
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 Committee

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

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

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

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

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



## **Performance**

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

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

## **Remuneration**

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

**1300SMILES Limited**  
**Statement of comprehensive income**  
**For the year ended 30 June 2012**



		<b>Consolidated</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	4	<b>36,661</b>	28,547
Other income	5	6	192
<b>Expenses</b>			
Consumables, lab fees and other supplies		(5,361)	(3,835)
Employee benefits expense		(16,055)	(12,476)
Depreciation and amortisation expense	6	(1,773)	(1,302)
Property expenses		(1,730)	(1,498)
Operating expenses		(2,109)	(1,577)
Corporate and administration expenses		(381)	(427)
Finance costs	6	(498)	(522)
<b>Profit before income tax expense</b>		<b>8,760</b>	7,102
Income tax expense	7	(2,585)	(1,958)
<b>Profit after income tax expense for the year attributable to the owners of 1300SMILES Limited</b>		<b>6,175</b>	5,144
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the owners of 1300SMILES Limited</b>		<b>6,175</b>	5,144
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	38	26.6	24.2
Diluted earnings per share	38	26.6	24.2

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

	Note	Consolidated 2012 \$'000	2011 \$'000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	13,471	4,663
Trade and other receivables	9	356	1,134
Other	10	382	307
Total current assets		14,209	6,104
<b>Non-current Assets</b>			
Receivables	11	1,702	1,644
Property, plant and equipment	13	9,899	8,510
Intangibles	14	12,042	10,670
Deferred tax	15	635	474
Other	16	32	32
Total non-current assets		24,310	21,330
<b>Total Assets</b>		<b>38,519</b>	<b>27,434</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	17	3,849	2,767
Borrowings	18	7,500	-
Income tax	19	519	418
Provision – employee benefits	20	356	186
Contingent settlement	21	25	631
Total current liabilities		12,249	4,002
<b>Non-current Liabilities</b>			
Borrowings	22	-	7,500
Provisions	23	257	242
Total non-current liabilities		257	7,742
<b>Total liabilities</b>		<b>12,506</b>	<b>11,744</b>
<b>Net Assets</b>		<b>26,013</b>	<b>15,690</b>
<b>Equity</b>			
Contributed equity	24	15,370	7,506
Retained profits		10,643	8,184
<b>Total Equity</b>		<b>26,013</b>	<b>15,690</b>

*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 2012**



	Contributed equity \$'000	Retained profits \$'000	Total equity \$'000
<b>Consolidated</b>			
<b>Balance at 1 July 2010</b>	6,842	6,171	13,013
Other comprehensive income for the year, net of tax	-	-	-
Profit after income tax expense for the year	-	5,144	5,144
Total comprehensive income for the year	-	5,144	5,144
<i>Transactions with owners in their capacity as owners:</i>			
Contributions of equity, net of transaction costs	666	-	666
Share buy-back	(2)	-	(2)
Dividends paid	-	(3,131)	(3,131)
<b>Balance at 30 June 2011</b>	7,506	8,184	15,690
<b>Balance at 1 July 2011</b>	7,506	8,184	15,690
Other comprehensive income for the year, net of tax	-	-	-
Profit after income tax expense for the year	-	6,175	6,175
Total comprehensive income for the year	-	6,175	6,175
<i>Transactions with owners in their capacity as owners:</i>			
Contributions of equity, net of transaction costs	7,864	-	7,864
Dividends paid	-	(3,716)	(3,716)
<b>Balance at 30 June 2012</b>	15,370	10,643	26,013

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

	Note	Consolidated	
		2012	2011
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		38,330	30,169
Payments to suppliers and employees (inclusive of GST)		(26,241)	(21,352)
		12,089	8,817
Insurance claims refunds and other income		6	192
Interest received		815	325
Interest and other finance costs paid		(498)	(522)
Income taxes paid		(2,645)	(2,545)
Net cash from operating activities	36	9,767	6,267
<b>Cash flows from investing activities</b>			
Payment for purchase of businesses, net of cash acquired	33	(1,540)	(1,151)
Payment for intellectual property		(945)	-
Payments for property, plant and equipment	13	(2,622)	(2,918)
Repayments of share loans		-	245
Net cash used in investing activities		(5,107)	(3,824)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	95
Payments for share buy-backs		-	(2)
Share issue transaction costs		(435)	(3)
Proceeds from share issue		8,299	358
Dividends paid	25	(3,716)	(3,131)
Repayment of borrowings		-	(52)
Net cash from/(used in) financing activities		4,148	(2,735)
Net increase/(decrease) in cash and cash equivalents		8,808	(292)
Cash and cash equivalents at the beginning of the financial year		4,663	4,955
Cash and cash equivalents at the end of the financial year	8	13,471	4,663

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



## Note 1. 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.

### New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The following Accounting Standard is the most relevant to the consolidated entity:

- AASB 1054 *Australian Additional Disclosures*

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity.

### Basis of preparation

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

1300SMILES Limited is a for-profit entity for the purpose of preparing the financial statements. 1300SMILES Limited is a public company incorporated and domiciled in Australia.

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

### Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

### 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 consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.



## **Note 1. Significant accounting policies (continued)**

### **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 2012 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 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

### **Operating segments**

Operating segments are 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 consolidated entity 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*

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.



## **Note 1. Significant accounting policies (continued)**

### **Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate 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.

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

Deferred tax assets and liabilities are 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 entity's which intend to settle simultaneously.

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

### **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 and other 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 consolidated entity 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.

Other receivables are recognised at amortised cost, less any provision for impairment.

## **Note 1. Significant accounting policies (continued)**

### **Investments and other financial assets**

Investments and other 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. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity 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.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets, principally equity securities that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised in other comprehensive income and accumulated in the available-for-sale reserve in equity. Cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss when the asset is derecognised or impaired.

#### *Impairment of financial assets*

The consolidated entity 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.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost. Subsequent increments in value are recognised directly in other comprehensive income.

### **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.

Depreciation is calculated on a diminishing value basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

- |                          |            |
|--------------------------|------------|
| • Plant and equipment    | 7.5% - 50% |
| • Leasehold improvements | 15%        |
| • Leased assets          | 15%        |

## Note 1. Significant accounting policies (continued)

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

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

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

### 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.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

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.

## Note 1. Significant accounting policies (continued)

### 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.

### Trade and other payables

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

#### *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating sick leave is expensed to profit or loss when incurred.

#### *Long service leave*

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### Make good provision

A provision for make good obligations is recognised when the consolidated entity 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.



## Note 1. Significant accounting policies (continued)

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

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

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of 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.

### 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.



## Note 1. Significant accounting policies (continued)

### *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.

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2012. The consolidated entity has assessed that the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are not expected to be material.

## Note 2. Critical accounting judgements, estimates and assumptions

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

### *Estimation of useful lives of assets*

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



## Note 2. Critical accounting judgements, estimates and assumptions

### *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 the intangible assets are identifiable in the acquisition of dental practices. Management have determined that no intangible assets are identifiable, and in particular, there are no such assets that are separable from the business

Management estimates the fair value of the tangible assets acquired. This estimate takes into account market values. Independent valuations are obtained when required.

### *Goodwill*

The consolidated entity 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 1. 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 14 for further information.

### *Income tax*

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

### *Share loan*

Judgement has been applied in determining the share loan is not an insubstance option. In applying this judgement management have taken into account the following:

- In certain circumstances the loan is full recourse and these circumstances are expected to prevail.
- It is the Company's intent to take appropriate action as when required to fully recover the loan.

## Note 3. Operating segments

### *Identification of reportable operating segments*

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.

Each reporting segment derives revenue from dental and management services within a particular geographic area. Each operating segment is aggregated into the one reportable segment as the long term financial performance and economic characteristics of each operating segment are similar.

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

	Consolidated	
	2012	2011
	\$'000	\$'000

#### Note 4. Revenue

<i>Sales revenue</i>		
Service fees	35,688	27,379
<i>Other revenue</i>		
Consulting fees	-	389
Interest	815	409
Licence fees	83	311
Other revenue	75	59
	973	1,168
Revenue	36,661	28,547

#### Note 5. Other income

Insurance claim refunds	6	192
Other income	6	192

#### Note 6. Expenses

Profit before income tax includes the following specific expenses:

<i>Depreciation</i>		
Leasehold improvements	458	356
Plant and equipment	1,291	918
Plant and equipment under lease	-	28
Total depreciation	1,749	1,302
Amortisation – intellectual property	24	-
<i>Impairment of assets</i>		
Impairment of available-for-sale-financial asset	-	10
<i>Finance costs</i>		
Interest and finance charges paid/payable	498	522
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	1,661	1,301
<i>Defined contribution superannuation expense</i>	1,058	815



	Consolidated	
	2012	2011
	\$'000	\$'000

#### Note 7. Income tax expense

##### *Income tax expense*

Current tax	2,782	2,350
Deferred tax	(161)	(228)
Under/(over) provision in prior years	(36)	(164)

Aggregate income tax expense	2,585	1,958
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Deferred tax included in income tax expense comprises:

Increase in deferred tax assets	(158)	(228)
Under/(over) provision in prior years	(3)	-

Increase in deferred tax assets (note 15)	(161)	(228)
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##### *Numerical reconciliation of income tax expense to prima facie tax payable*

Profit before income tax expense	8,760	7,102
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Tax at the Australian tax rate of 30% (2011 30%)	2,628	2,131
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Tax effect of amounts which are not deductible (taxable) in calculating taxable income:

Deductible capitalised business acquisition costs	(4)	(9)
Under/(over) provision in prior years	(39)	(164)

Income tax expense	2,585	1,958
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#### Note 8. Current assets - cash and cash equivalents

Cash on hand	8	7
Cash at bank	13,463	4,656

	13,471	4,663
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#### Note 9. Current assets - trade and other receivables

Trade receivables	356	1,134
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##### *Impairment of receivables*

The consolidated entity 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 \$217,000 as at 30 June 2012 (\$291,000 as at 30 June 2011). These past due debtors were all 1 to 3 months overdue. The consolidated entity did not consider a credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

	Consolidated	
	2012	2011
	\$'000	\$'000

**Note 10. Current assets - other**

Prepayments	178	213
Other current assets	204	94
	<u>382</u>	<u>307</u>

**Note 11. Non-current assets - receivables**

Share loan principal	1,500	1,500
Share loan interest	202	144
	<u>1,702</u>	<u>1,644</u>

Ordinary share loans were made pursuant to a Company loan funded program to incentivise senior management and consultants. The Company did not allocate any ordinary shares in 2012 (2011: 10,000 at \$3.23). Shares are held in voluntary escrow with approximately even release from escrow until 2015.

The loans are unsecured. Should the shareholder sell any shares a proportionate percentage of the outstanding loan is required to be repaid. Interest on loans is charged on the basis of BBSW plus a commercial margin. (Refer to note 26 for further information on the share loan.)

**Note 12. Non-current assets - available-for-sale financial assets**

	Consolidated	
	2012	2011
	\$'000	\$'000

Available-for-sale financial asset	-	-
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*Reconciliation*

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening fair value	-	10
Impairment of assets	-	(10)
Closing fair value	<u>-</u>	<u>-</u>

Refer to note 26 for detailed information on financial instruments.

	Consolidated	
	2012	2011
	\$'000	\$'000
<b>Note 13. Non-current assets - property, plant and equipment</b>		
Leasehold improvements - at cost	4,947	3,582
Less: Accumulated depreciation	(1,562)	(1,106)
	<b>3,385</b>	<b>2,476</b>
Plant and equipment - at cost	10,785	9,014
Less: Accumulated depreciation	(4,385)	(3,096)
	<b>6,398</b>	<b>5,918</b>
Plant and equipment under lease	-	-
Less: Accumulated depreciation	-	-
	<b>-</b>	<b>-</b>
Capital works - at cost	116	116
	<b>116</b>	<b>116</b>
	<b>9,899</b>	<b>8,510</b>

*Reconciliations*

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

	Leased plant & equipment \$'000	Capital works \$'000	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
<b>Consolidated</b>					
Balance at 1 July 2010	28	610	4,056	1,507	6,201
Additions	-	-	1,975	1,128	3,103
Additions through business combinations (note 33)	-	-	311	-	311
Make good provision	-	-	-	197	197
Transfers in/(out)	-	(494)	494	-	-
Depreciation expense	(28)	-	(918)	(356)	(1,302)
Balance at 30 June 2011	-	116	5,918	2,476	8,510
Additions	-	-	1,592	1,030	2,622
Additions through business combinations (note 33)	-	-	179	304	483
Make good provision	-	-	-	33	33
Depreciation expense	-	-	(1,291)	(458)	(1,749)
Balance at 30 June 2012	-	116	6,398	3,385	9,899

*Assets pledged as security*

All assets of the consolidated entity are pledged as security against facilities disclosed in note 18.

	Goodwill \$'000	Intellectual property \$'000	Total \$'000
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**Note 14. Non-current assets - intangibles**

*Consolidated*

**At 1 July 2010**

Cost	9,708	-	9,708
Additions through business combinations (note 33)	962	-	962
<b>At 30 June 2011 – cost and net book amount</b>	<b>10,670</b>	<b>-</b>	<b>10,670</b>

**At 1 July 2011**

Cost and net book amount	10,670	-	10,670
Additions through business combinations (note 33)	451	-	451
Acquisition of intellectual property	-	945	945
Amortisation charge	-	(24)	(24)
	<b>11,121</b>	<b>921</b>	<b>12,042</b>

**At 30 June 2012**

Cost	11,121	945	12,066
Accumulated amortisation	-	(24)	(24)
	<b>11,121</b>	<b>921</b>	<b>12,042</b>

*Impairment tests for goodwill*

The total amount of goodwill has been allocated to identified cash generating units being geographical regions.

	Consolidated	
	2012 \$'000	2011 \$'000
North Queensland	502	472
Central Queensland	5,148	5,148
South East Queensland	3,323	2,902
Toowoomba	2,148	2,148
	<b>11,121</b>	<b>10,670</b>

The recoverable amount of goodwill is based on value-in-use calculations. Value-in-use has been determined by reference to the expected future performance of the consolidated entity's CGUs. Future cash flows are projected over a 5 year period and are discounted using the consolidated entity's weighted average cost of capital of 12% (2011: 12%). Future cash flows are based on historical results extrapolated using historical growth rates of 3% (2011: 3%).

	Consolidated	
	2012	2011
	\$'000	\$'000

**Note 15. Non-current assets - deferred tax**

*The balance comprises temporary differences attributable to:*

Amounts recognised in profit or loss:

Property, plant and equipment	153	145
Intellectual property	7	-
Employee benefits	115	69
Accrued expenses	360	260

Deferred tax asset	635	474
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*Movements:*

Opening balance	474	246
Credited to profit or loss (note 7)	161	228

Closing balance	635	474
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**Note 16. Non-current assets – other**

Other non-current assets	32	32
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**Note 17. Current liabilities - trade and other payables**

Trade payables	1,672	1,556
Sundry payables and accruals	2,177	1,211
	3,849	2,767

Refer to note 26 for detailed information on financial instruments.

**Note 18. Current liabilities - borrowings**

Term loan	7,500	-
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Refer to note 26 for detailed information on financial instruments.

The term loan is an interest only term loan expiring in January 2013.

*Assets pledged as security*

The term loan is secured by a charge over all assets of the consolidated entity.

	Consolidated	
	2012	2011
	\$'000	\$'000

**Note 19. Current liabilities - income tax**

Provision for income tax	519	418
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**Note 20. Current liabilities – provisions**

Annual leave	317	186
Long service leave	39	-
	356	186

**Note 21. Current liabilities - contingent settlement**

Contingent settlement payable	25	631
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During 2012 reporting period a contingent earn-out payment of \$25,000 was provided for pursuant to the Caloundra acquisition (Refer to note 33 Business combinations).

During the current reporting period a cash earn-out payment of \$175,000 was made pursuant to the Bray Park acquisition and \$456,000 was made pursuant to the Bundaberg acquisition. The settlement amounts were payable on the practices achieving certain revenue and profit benchmarks.

At 30 June 2011 the contingent settlement payable related to the acquisition of the Bray Park dental practice in 2011 and the Bundaberg dental practice in 2008. The settlement amounts were payable on the practices achieving certain revenue and profit benchmarks.

	Consolidated	
	2012	2011
	\$'000	\$'000

**Note 22. Non-current liabilities - borrowings**

Term loan	-	7,500
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Refer to note 26 for detailed information on financial instruments.

The term loan is an interest only term loan expiring in January 2013.

*Assets pledged as security*

The term loan is secured by a charge over all assets of the consolidated entity.

	Consolidated	
	2012	2011
	\$'000	\$'000

**Note 23. Non-current liabilities - provisions**

Employee benefits - long service leave	27	45
Make good provision	230	197
	<u>257</u>	<u>242</u>

**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.

During 2012 the make good provision increased by \$33,000.

During 2011 there were no movements in the make good provision other than the recognition of the provision.

	Consolidated		Consolidated	
	2012	2011	2012	2011
	Shares	Shares	\$'000	\$'000

**Note 24. Equity - contributed**

Ordinary shares - fully paid	<u>23,678,384</u>	<u>21,307,100</u>	<u>15,370</u>	<u>7,506</u>
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As at 30 June 2012 368,557 (2011: 850,273) shares were held under escrow. Expiry dates range between financial years ending 2013 and 2015.

*Movements in ordinary share capital*

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2010	21,119,611		6,842
Shares issued for earn-out consideration*	1 October 2010	77,942	\$3.58	279
Shares issued under share loans**	1 October 2010	110,000	\$3.55	390
Share issue costs		-		(3)
Share buy-back		(453)	\$3.49	(2)
Balance	30 June 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	<u>23,678,384</u>		<u>15,370</u>

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value. The Company does not have a limited amount of authorised capital.

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 24. Equity – contributed (continued)

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

\*Shares issued in the financial year ended 30 June 2011 related to acquisitions completed during 30 June 2008.

\*\*Refer to note 11.

### Share buy-back

There were no share buy backs during the 2012 financial year. During the 2011 financial year 453 shares were bought back at \$3.49 each.

### 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 is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

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

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

During 2012, the consolidated entity's strategy, which was unchanged from 2011, was to maintain a gearing ratio within its current banking facility loan covenant. The gearing ratios at 30 June 2012 and 30 June 2011 were as follows:

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Total borrowings	7,500	7,500
Less: cash and cash equivalents	(13,471)	(4,663)
Net (cash)/debt	(5,971)	2,837
Total equity	26,013	15,690
Total capital	26,013	18,527
Gearing ratio	(23%)	15%

The significant change in the gearing ratio is attributable to the increase in ordinary shares during the year and the increase in retained earnings which have significantly increased cash and cash equivalents.

## Note 25. Equity - dividends

<b>Dividends</b>	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Final dividend for the year ended 30 June 2011 of 8 cents (2011: 7.2 cents) per ordinary share paid on 12 October 2011 fully franked based on a tax rate of 30%	<b>1,705</b>	1,529
Interim dividend for the half year ended 31 December 2011 of 8.6 cents (2011: 7.5 cents) per ordinary share paid on 12 April 2012 fully franked based on a tax rate of 30%	<b>2,011</b>	1,602
	<b>3,716</b>	3,131

Since the end of the financial year, the Directors declared, for the year ended 30 June 2012, a final fully franked ordinary share dividend of 9.2 cents (\$2,178,411) which is payable on 10 October 2012.

<b>Franking credits</b>	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>

Franking credits available for subsequent financial years based on a tax rate of 30%	<b>4,054</b>	3,347
--	--------------	-------

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 \$934,000 (2011 – \$731,000).

## Note 26. Financial instruments

### **Financial risk management objectives**

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity'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 consolidated entity. The consolidated entity does not use derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. The consolidated entity 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 entity, to set limits and controls, and to monitor risks and adherence to limits. Risk management policy and systems are reviewed regularly to reflect changes in market conditions and consolidated entity activities. The consolidated entity aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## Note 26. Financial instruments (continued)

### Market risk

#### Foreign currency risk

The consolidated entity 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 consolidated entity is not exposed to any significant price risk.

#### Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings and cash and cash equivalents. Borrowings issued at variable rates expose the consolidated entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

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

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

	2012		2011	
	Weighted Average interest rate %	Balance \$'000	Weighted Average Interest rate %	Balance \$'000
<b>Consolidated</b>				
Term loan	6.72	(7,500)	7.03	(7,500)
Cash and cash equivalents	6.10	13,471	6.25	4,663
Share loans	6.72	1,702	7.03	1,644
Net exposure to cash flow interest rate risk		<u>7,673</u>		<u>(1,193)</u>

The term loan is an interest only loan. Monthly cash outlays of approximately \$29,000 (2011: \$31,000) per month are required to service the interest payments. The principal of \$7,500,000 (2011: \$7,500,000) is repayable on 4 January 2013.

A movement in interest rates of 1% (2011: 1%) would have an adverse/favourable effect on profit before tax of \$25,000 (2011: \$48,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The entity's exposure to risk is minimised due to the majority of clients paying for their services up front. The Company monitors and follows-up its accounts receivable to ensure collections are being made promptly in accordance with contractual terms and conditions and actively pursues amounts past due. Where applicable, an allowance for impairment is made, that represents the estimate of incurred losses in respect to trade and other receivables.



## Note 26. Financial instruments (continued)

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 consolidated entity 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 consolidated entity may at any time, by written notice, call on the borrower to repay all or part of the outstanding amount. A holding lock will remain effective after escrow has been removed on the proportionate percentage of the total shares subject to the loan outstanding. \$1,702,000 (2011: \$1,612,000) of the share loans is receivable from one party that is a consultant to the consolidated entity.

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

### ***Financing arrangements***

The consolidated entity maintains the following lines of credit:

- \$7.5 million (2011: \$7.5 million) interest only term loan expiring in January 2013. \$7.5 million (2011: \$7.5 million) has been used at balance date.

**Note 26. Financial instruments (continued)**

*Remaining contractual maturities*

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

	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	Remaining Contractual maturities \$'000
<b>Consolidated - 2012</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	1,672	-	-	-	1,672
Other payables	-	2,177	-	-	-	2,177
Deferred settlement payable	-	25	-	-	-	25
<i>Interest-bearing - variable rate</i>						
Term loan	6.72	7,712	-	-	-	7,712
Total non-derivatives		11,586	-	-	-	11,586
<b>Consolidated - 2011</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	1,556	-	-	-	1,556
Other payables	-	1,211	-	-	-	1,211
Deferred settlement payable	-	631	-	-	-	631
<i>Interest-bearing - variable rate</i>						
Term loan	7.03	333	8,210	-	-	8,543
Total non-derivatives		3,731	8,210	-	-	11,941

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 27. Key management personnel disclosures

### Compensation

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

	Consolidated	
	2012	2011
	\$	\$
Short-term employee benefits	359,247	332,609
Post-employment benefits	37,713	34,644
Share-based payments	-	88,000
	<b>396,960</b>	<b>455,253</b>

### 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 consolidated entity, including their personally related parties, is set out below:

2012	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
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)	-
	<b>14,975,535</b>	<b>-</b>	<b>5,000</b>	<b>(220,000)</b>	<b>14,760,535</b>

2011	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Robert Jones	27,606	-	-	-	27,606
Daryl Holmes	14,711,729	-	-	-	14,711,729
William Bass	16,200	-	-	-	16,200
Debra Burden*	120,000	100,000	-	-	220,000
	<b>14,875,535</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>14,975,535</b>

\* During 2011 Mrs Burden was allotted 100,000 ordinary shares at \$2.70 per share with a fair value at the date of issue of \$3.58. The difference in the share values has been expensed as an employee benefit. Mrs Burden resigned on 28 February 2012.

### Related party transactions

Transactions with related entities of the key management personnel are set out in note 31.

## Note 28. Remuneration of auditors

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

	Consolidated	
	2012	2011
	\$	\$
<i>Audit services - BDO Audit Pty Ltd</i>		
Audit or review of the financial reports	71,300	65,000
<i>Audit services – Ernst &amp; Young</i>		
Audit or review of the financial reports	-	20,000

## Note 29. Contingent liabilities

There are no contingent liabilities.

## Note 30. Commitments for expenditure

	Consolidated	
	2012	2011
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	2,221	1,591
One to five years	4,223	2,994
More than five years	525	751
	6,969	5,336

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

### *Lease commitments – finance*

As at 30 June 2012 and 30 June 2011 there were no commitments in relation to finance leases payable.



## **Note 31. Related party transactions**

### *Parent entity*

1300SMILES Limited is the parent entity.

The ultimate controlling entity is Dr Daryl Holmes who has a 62% interest in 1300SMILES Limited.

### *Subsidiaries*

Interests in subsidiaries are set out in note 34.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 27 and the remuneration report in the Directors' report.

### *Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Payment for goods and services:		
Payment for other expenses:		
Rental expense paid to related parties*	<b>338,171</b>	<b>307,671</b>

\*The consolidated entity 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 \$266,500 (2011: \$236,000).
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage premises to an amount of \$71,671 (2011: \$71,671).

Included in operating lease commitments in note 30 is \$613,000 committed to Ashbourne Park Pty Ltd over a period of 7 years and \$2,011,000 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.

### *Terms and conditions*

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

## **Note 32. Parent entity information**

At 30 June 2012 and 2011 parent disclosures are not presented as these are not materially different to the consolidated accounts.

### **Note 33. Business combinations**

#### **(a) Summary of acquisition**

On 16 January 2012 the Caloundra and Warana dental practices located on the Sunshine Coast north of Brisbane were acquired. In the prior year on 8 October 2010 the Bray Park dental practice, which is situated in the southern suburbs of Brisbane, was acquired.

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

	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Purchase consideration (refer to (b) below):		
Cash paid	<b>881</b>	1,010
Contingent consideration	<b>25</b>	175
Total purchase consideration	<b>906</b>	1,185
The assets and liabilities recognised as a result of the acquisition are as follows:		
	<b>Fair value</b>	<b>Fair value</b>
	<b>\$'000</b>	<b>\$'000</b>
Property, plant and equipment	<b>483</b>	311
Net identifiable assets acquired	<b>483</b>	311
Add: goodwill	<b>423</b>	874
Net assets acquired	<b>906</b>	1,185

In 2012 and 2011 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 certain acquired practices for the year ended 15 January 2013, additional consideration of up to \$25,000 may be payable in cash. This has been included in contingent settlement payable. (Refer to note 21.)

At the end of 2011 in the event that certain pre-determined sales and profit targets were achieved by certain acquired business, additional consideration of up to \$631,000 was payable in cash. This amount was included in contingent settlement payable. (Refer to note 21.) The pre-determined sales and profit targets were achieved and the contingent payments of \$631,000 were made during the current year.

#### *Revenue and profit contribution*

##### *2012 – acquisition of Caloundra and Warana practices*

The acquired businesses contributed revenues of \$609,000 and net profit before tax of \$49,000 to the group for the period from 16 January 2012 to 30 June 2012.

If the acquisition had occurred on 1 July 2011, consolidated revenue and profit before tax for the year ended 30 June 2012 would have been \$36,399,000 and \$8,819,000 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 2011, together with the consequential tax effects.

### Note 33. Business combinations (continued)

#### 2011 – acquisition of Bray Park practice

The acquired business contributed revenues of \$1,590,000 and net profit before tax of \$367,000 to the group for the period from 8 October 2010 to 30 June 2011.

If the acquisition had occurred on 1 July 2010, consolidated revenue and profit before tax for the year ended 30 June 2011 would have been \$27,889,000 and \$7,222,000 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 2010, together with the consequential tax effects.

#### (b) Purchase consideration – cash outflow

	Consolidated	
	2012	2011
	\$'000	\$'000
Cash used to acquire the Caloundra and Warana dental practices (2011: Bray Park), net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	906	1,185
Less: contingent consideration	(25)	(175)
Less: trade and other payables payments	-	-
Net cash used	881	1,010

#### Acquisition-related costs

During the current year acquisition-related costs of \$25,000 (2011: \$64,000) are included in operating expenses in profit or loss and in operating cash flows in the statement of cash flows.

	Consolidated	
	2012	2011
	\$'000	\$'000
Summary of cash payments :		
Cash paid for acquisition of practices	881	1,010
Contingent payment for Bundaberg practice previously acquired	456	141
Contingent payment for Bray Park practice previously acquired	175	-
Additional payment for Cairns practice previously acquired	28	-
Net cash used	1,540	1,151

During the current reporting period a cash earn-out payment of \$175,000 was made pursuant to the Bray Park acquisition and \$456,000 was made pursuant to the Bundaberg acquisition. These earn-out payments are recorded against the contingent settlement liability. An additional payment of \$28,000 was made pursuant to the Cairns practice acquisition and this payment was recorded against goodwill.

During 2011 an earn-out payment was made pursuant to the Bundaberg acquisition agreement comprising of 77,942 ordinary shares at \$3.58 per share. 50,000 of these shares are to be held in voluntary escrow over 3 years. This earn-out payment was recorded against the contingent settlement liability.

#### Note 34. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding	
		2012 %	2011 %
1300SMILES (WA) Pty Ltd	Australia	100	100

#### Note 35. Events occurring after the reporting date

A fully franked final dividend of 9.2 cents per share has been declared and is payable on 10 October 2012. (Refer note 25.)

Apart from the dividend declared, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

#### Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated 2012 \$'000	2011 \$'000
Profit after income tax expense for the year	6,175	5,144
Adjustments for:		
Depreciation and amortisation	1,773	1,302
Shares issued as management incentive	-	88
Impairment of available for sale financial assets	-	10
Change in operating assets and liabilities:		
Decrease in trade and other receivables	703	134
Increase in deferred tax assets	(161)	(228)
Decrease in other operating assets	-	33
Increase in trade and other payables	1,024	119
Increase/(decrease) in provision for income tax	101	(359)
Increase in employee benefits	152	24
Net cash from operating activities	9,767	6,267

	Consolidated	
	2012	2011
	\$'000	\$'000

**Note 37. Non-cash investing and financing activities**

Shares issued in relation to business combinations	-	279
Shares issued under share loans	-	32
	-	311

The shares issued in relation to business combinations relate to the Bundaberg practice acquired in 2008. (Refer to note 33.)

The shares issued under share loans relate to loans provided to employees and a consultant to acquire shares in 1300SMILES Limited. (Refer to note 11.)

**Note 38. Earnings per share**

Profit after income tax attributable to the owners of 1300SMILES Limited	6,175	5,144
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	23,224,860	21,244,753
Weighted average number of ordinary shares used in calculating diluted earnings per share	23,224,860	21,244,753
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	26.6	24.2
Diluted earnings per share	26.6	24.2

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 consolidated entity's financial position as at 30 June 2012 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

9 August 2012  
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, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, 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 about 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 company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of 1300Smiles Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## 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 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of 1300Smiles Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**

BDO



**A J Whyte**

Director

Brisbane: 9 August 2012

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**1300SMILES Limited**  
**Shareholder information**  
**30 June 2012**

The shareholder information set out below was applicable as at 31 July 2012.

**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	185
1,001 to 5,000	318
5,001 to 10,000	79
10,001 to 100,000	67
100,001 and over	15
	<hr/> 664 <hr/>
Holding less than a marketable parcel	<hr/> - <hr/>

**Equity security holders**

*Twenty largest quoted equity security holders*

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

	Ordinary shares	
	Number held	% of total shares issued
Dr Daryl Holmes	14,224,737	60.07
JP Morgan Nom Aust Ltd	1,528,704	6.46
National Nom Ltd	889,682	3.76
Evelin Inv PL	664,632	2.81
KreditHaus Pty Ltd	566,000	2.39
Ashbourne Park Pty Ltd	392,802	1.66
Upper Avalon Pty Ltd	392,145	1.66
RBC Dexia Investor Svcs A	370,024	1.56
Russell Kay Hancock	300,000	1.27
Equity Ttees Ltd	255,758	1.08
John Patrick Baynes	250,000	1.06
Bond Street Custs Ltd	153,491	0.65
Kevin John & JD Holmes	146,505	0.62
Landel Pty Ltd	100,580	0.42
Morris J & IM Marrinon	100,000	0.42
Golden Arch Qld Pty Ltd	94,190	0.40
Kent Gush	86,500	0.37
Gang - Gang PL	81,799	0.35
Ancam Pty Ltd	77,500	0.33
TI Cap Pty Ltd	72,000	0.30
	<hr/> 20,747,049 <hr/>	<hr/> 87.62 <hr/>

*There are no unquoted equity securities.*

### Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% 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	2012	2013	2014
January	-	-	56,600
February	-	-	-
March	-	16,667	16,667
April	-	-	-
June	-	113,200	-
September	16,667	33,333	16,666
October	93,757	-	-
November	5,000	-	-
Annual payment	115,424	163,200	89,933
Total payments			368,557