

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 2011
Previous Corresponding Reporting Period	30 June 2010

Results for Announcement to the Market

	\$'000	Percentage increase/ (decrease) over previous corresponding period
Revenue from ordinary activities	28,547	22.5%
Profit / (loss) from ordinary activities after tax attributable to members	5,144	18.9%
Net profit / (loss) for the period attributable to members	5,144	18.9%
Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	8.0 cents	100%
Interim Dividend	7.5 cents	100%
Record date for determining entitlements to the dividends (if any)	7 October 2011	
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	12 October 2011
Record date to determine entitlement to the dividend	7 October 2011
Amount per security	8.0 cents
Total dividend	\$1,704,568
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	23.6 cents	15.7 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	<input checked="" type="checkbox"/>	The accounts have been subject to review	<input type="checkbox"/>
The accounts are in the process of being audited or subject to review	<input type="checkbox"/>	The accounts have not yet been audited or reviewed	<input type="checkbox"/>

Financial Statements

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



By Order of the Board
William Bass
Company Secretary
15 August 2011

1300 **S**₇ **M**₆ **I**₄ **L**₅ **E**₃ **S**₇
DENTISTS

ANNUAL REPORT

For the year ended 30 June 2011

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DIRECTORS

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

COMPANY SECRETARY

William Bass

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 Facsimile: +61 7 4772 5635

Corporate

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 Level 16 Waterfront Place
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SHARE REGISTER

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 Telephone: +61 8 9315 2333
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AUDITOR

BDO Audit (QLD) 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

AUSTRALIAN BUSINESS NUMBER

ABN 91 094 508 166



LETTER FROM THE MANAGING DIRECTOR

Dear Shareholder,

It is my privilege to present to you the seventh Annual Report of 1300SMILES Ltd. As I write this letter I am struck by how similar it will be to my letters from several previous years. I believe that this is a good thing. This consistency is a theme to which I will return several times.

In the full year ended 30 June 2011 our company delivered record results in Revenue, Net Profit After Tax, Earnings Per Share, and Dividends Per Share. That exact statement has been true for every one of the last four years.

Within those results a few figures really stand out. Since the 2007 year our Earnings Per Share have grown from 9.0c to 24.2c, delivering compound annual growth of more than 25%. Fully franked Dividends Per Share have increased over the same period from 6.8c to 15.5c, for compound annual growth of more than 22%.

Long term shareholders are well aware that my main financial reward for running this company comes from the dividends I receive from my shareholding, which greatly outweigh my pay and benefits. As a shareholder I take comfort from these results. Our growing revenue gives us greater stability, which I believe is as important to most shareholders as it is to me personally. This continuing growth has enabled us to consistently increase the dividend, albeit at a somewhat slower pace. In my view the dividend has become increasingly secure with each passing year while still delivering excellent growth in your dividend income.

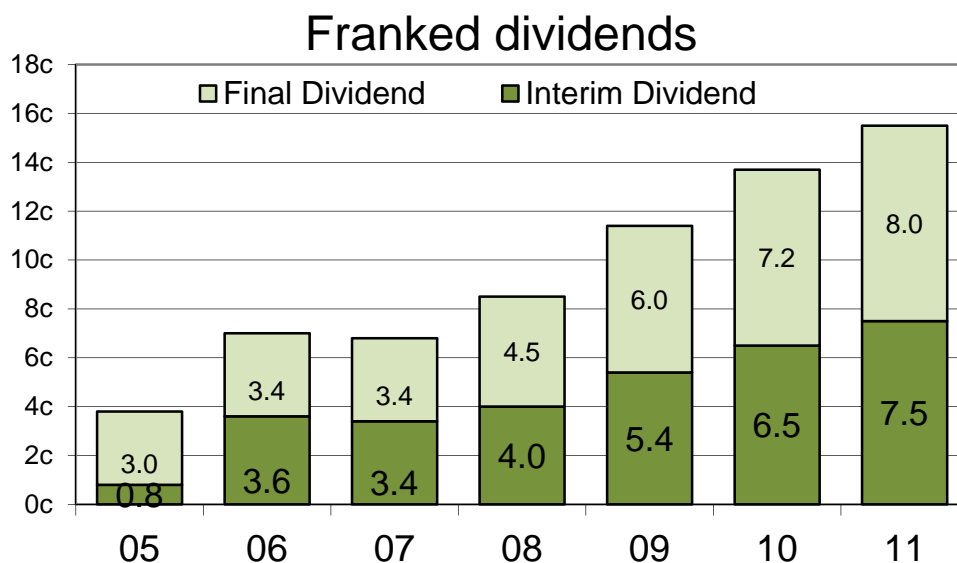
Financial Results for the year ended 30 June 2011

Compared to those of the previous year, the key results for the year to 30 June 2011 were as follows

- NPAT up 18.9% to \$5.1 million
- NPBT up 15.4% to \$7.1 million
- EBITDA up 20.8% to \$8.9 million
- Earnings per share up 15.0% to 24.2c per share
- Full year franked dividend up 13.1% to 15.5c per share
- Retained Profits up 32.6% to \$8.2 million

Dividends

As long term shareholders have heard me say many times before, our dividends reflect our core commitment to shareholders. I remind shareholders that all dividends paid are 100% franked. This year we have reached a dividend milestone, as the grossed-up value of all dividends paid since listing has reached a total of over 95c per share. That easily exceeds our 80c issue price back in 2005 and means that subscribers to our initial offering have now received more than their entire initial investment back in the form of dividends and franking credits.





Agency Risk

In my capacity as a private investor, I also own shares in companies other than 1300SMILES. In managing my own portfolio I am increasingly bedevilled by "agency risk," which is the risk that managers of a listed company might operate that company more for their own benefit than for that of shareholders. This risk is greatest where senior managers have more interest in maintaining their salary and benefits packages than they do in increasing Earnings Per Share and enhancing the long-term value of the company's shares. All too often I see companies with otherwise attractive businesses whose managers are paid too much, or where managers have share option packages which far outweigh their personal investment commitments to their companies. Maybe I'm just growing more cynical, but it seems to be getting harder to find companies in which such agency risk is not a major concern.

I trust you'll forgive this minor digression. I can assure shareholders that we work very hard to ensure that agency risk does not affect your investment in 1300SMILES.

(In past years shareholders have never been shy about telling me about other well-behaved companies. If you know of other good listed companies which have agency risk under control I would be pleased to hear about them.)

Earnings Per Share & Dilution

A discussion of agency risk goes hand-in-hand with a discussion of Earnings Per Share (EPS). Enhancing and protecting EPS is our top financial priority. This depends on growing our total Net Profit After Tax, but it also depends on keeping the total number of shares on issue under control. We issue new shares only with great care, and only where we are sure that any expansion of our capital base will in fact deliver benefits on a per-share basis to all shareholders.

During the 2011 year, our company issued a total of 187,942 new shares. I am confident that every one of these shares was issued for the best of reasons, which fall into two categories. The first category is that of bonus shares issued for out-performance. When we acquire established dental practices we pay mainly cash. In some cases we make an agreement with the vendor dentists that we will issue to them some shares in the company if and only if the acquired practices exceed our specified profit expectations over some years after the acquisition. In these cases I am confident that the extra profit delivered has produced extra value for every shareholder which easily outweighs the small dilutive effect of issuing the extra shares.

The second category is that of shares acquired by senior management. I say "acquired" because that is exactly what they do. I believe it is essential for the health of our company that senior managers have a stake in the company, and we encourage our managers to buy shares. In some cases we need to make new shares available for this purpose, but be assured that we're not giving these shares away. Our managers buy shares at the market price at the time, reflecting their faith in the company going forward and their commitment to it. This leads to minor dilution, but the overall effect is that of strengthening our company.

Because of the slightly larger number of shares on issue, Earnings Per Share increased by just 15.0% while Net Profit After Tax increased by a greater 18.9%. At the end of the year there were no share options on issue.

Growth and Expansion

During the year we spent \$3.4 million on capital works, plant and equipment, and leasehold improvements. These expenditures generally lead directly to increased revenue and profit, as they enable us to accommodate additional dentists and hygienists.

In September 2010 we opened our second major facility in Bundaberg, supplementing our existing facility there which was operating at close to 100% capacity. Bundaberg has easily absorbed the extra services available and the new facility has delivered excellent results throughout its first year of operation.

In October 2010 we acquired an established practice in Bray Park (suburban Brisbane). This facility has met all of our expectations and it has certainly made a contribution to company profit in its first year.

In July 2011 we commenced the fitout of an entirely new, state-of-the-art, and greatly enlarged facility within the busy Carindale Shopping Centre. Our existing operation at Carindale has remained open and busy throughout the construction of the new facility. When the new site opens in late August or early September 2011 it will have more than double the capacity of the old facility.

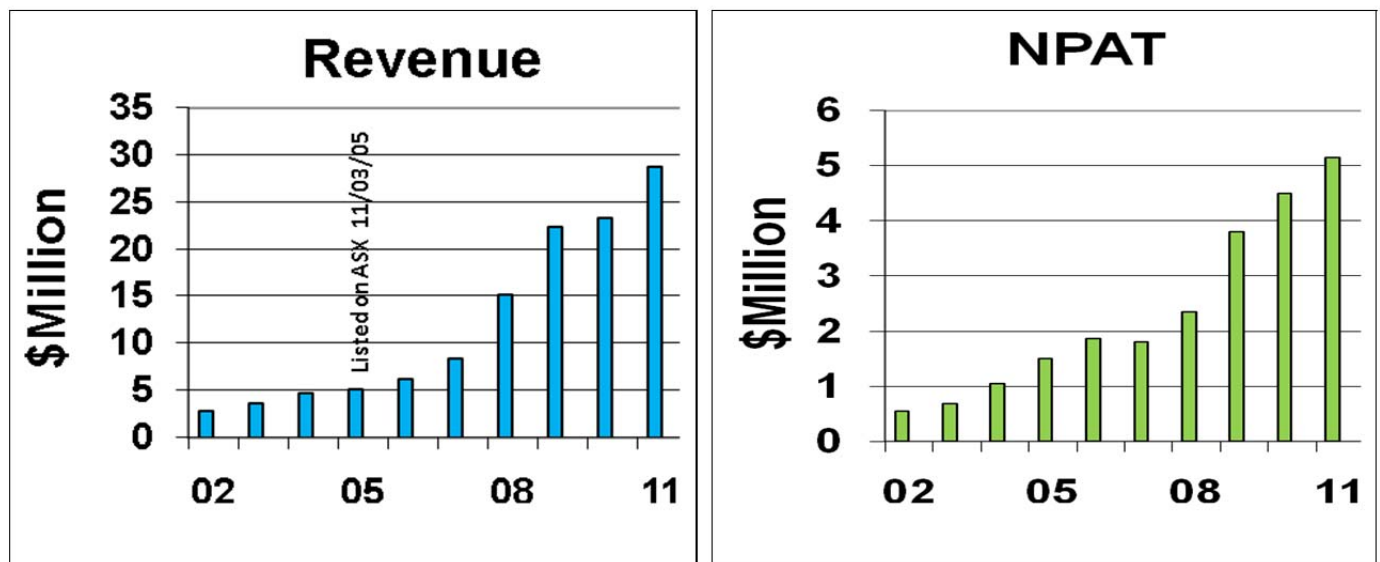
Back in our original Townsville market we expect to open a further facility in a substantial new medical development within Stockland's "North Shore" development in the third quarter of this financial year.

As always, we design all new facilities with in-built extra capacity. We once again expect much of our growth to come from in-filling this capacity with additional dentists. We also seek suitable practice acquisitions in all markets in Australia but we are careful to acquire practices only on terms which deliver positive increments to Earnings Per Share. We make every effort to secure profitable growth but we do not pursue growth for its own sake and we do not overpay for existing practices.

That said, we do seek to ensure that vendor dentists whose practices go on to deliver significant profits for 1300SMILES are generously compensated.

Revenue and Net Profit After Tax (NPAT)

We are in the habit of reporting Revenue and NPAT figures starting in 2002, which was three years before the company was listed on the Australian Stock Exchange. We do so because 2002 was the year in which the company settled on its present form, although it was not listed on the Australian Stock Exchange until 2005.



Our "Revenue" as shown in the accounts is a bit different from our "over the counter" revenue, which we regard as a more practical measure of the total business. Over the counter revenue grew to more than \$35 million in the 2011 year. This figure reflects what dental patients actually paid for the services delivered in our centres and serves as a meaningful measure of the scale of our business. Revenue for accounting purposes is affected by the mix of self-employed dentists using our facilities and dentists actually employed by the company. This mix changes from year to year to accommodate the needs and preferences of individual dentists.

In last year's annual report I noted that our over the counter growth at 11.2% was both a bit higher and more reflective of the real growth in our business than our Revenue in that year. This year I make a comparable observation, but in the opposite direction. While our Revenue grew by 22.5%, our over the counter revenue grew by a more moderate 16.1%. As with the 2010 year, I believe the growth in over the counter revenue in 2011 most accurately reflects the growth of our business.

The fact that the growth in our over the counter revenue differs from that of Revenue, in different directions from year to year, is no cause for concern. Over the last six years, I note that over the counter revenue growth has been greater than the increase in Revenue in three years, lower in two years, and exactly the same in one. This simply reflects the always-changing mix of dentists in our system.



Balance Sheet

Because the 2011 year has been profitable and cash flow positive in every period--as have many preceding years--we once again finished the year with a very low level of borrowing. At year-end we had core borrowings of \$7.5m, offset by a cash balance of \$4.7m. These figures are very similar to those of the 2010 year. While our net indebtedness is about the same--and it was already low--our business at the end of 2011 was significantly larger than at the end of 2010. I believe that our balance sheet is conservative by any standard.

Outlook

We aim to continue the work which has delivered good results over our first six years as a listed company. We have greatly refined and improved our methods and our procedures, but our basic business remains the same. Our future growth will derive from:

- 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.

We seek to build the largest business we can while ensuring that every bit of growth delivers an incremental increase to both NPAT and earnings per share.

Competition

We remain the only dental services provider listed on the Australian Stock Exchange. Of the other significant companies which operate in our industry, one is controlled by a New Zealand listed company with operations in a number of industries. Control of another competitor has recently been acquired by an Indian private equity firm. The intention of this latter firm, as stated publicly, is to incorporate the controlled Australian dental operation into an entity to be listed on the Singapore stock exchange. Lately we notice that the rate at which this company acquires practices has diminished considerably, and we look ahead with interest to see what further changes this may bring to the competitive landscape.

Regardless of what comes next, we are quite comfortable with our view that certain competitors have paid far too much for practices acquired over the past few years. One company in particular bought a large number of high-turnover practices on five year contracts almost four years ago, and we are tempted to speculate that negotiations over the renewal of these contracts will be torrid. Once again I am pleased to note that dentists in the 1300SMILES system are engaged within the framework of a proven and sustainable business model, not on this basis.

The now-diminishing presence of such free-spending buyers in the market has certainly helped us sharpen our skills at building our company dentist by dentist, rather than relying entirely on acquisitions. I believe this has left us with a rather more robust business than those of some of our competitors. As I mentioned last year, I feel far more comfortable with my money in 1300SMILES, and I hope you do too.

As always, we do not forecast profits going forward. As in every one of the six years prior to the 2011 year, we start the new year with a bigger base business than ever before, and I assure you that we will do everything we can to continue our long history of profit growth.

Market Presence

1300SMILES Ltd has twenty-one full service multi-dentist facilities located in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, Caloundra, Brisbane (several different sites), Tweed Heads, and Toowoomba. We remain keen to expand throughout Australia and will pursue this objective while taking steps which protect and enhance our profitability along the way.

Investment Performance

Long standing shareholders have heard me declare on many occasions that there are aspects of our business which are simply old-fashioned. We operate numerous dental centres as best we can; we seek to control costs while delivering the best possible service. We have a simple capital structure and absolutely nothing fancy about our financing. We make money, pay the tax due, and pass franked dividends on to our shareholders.

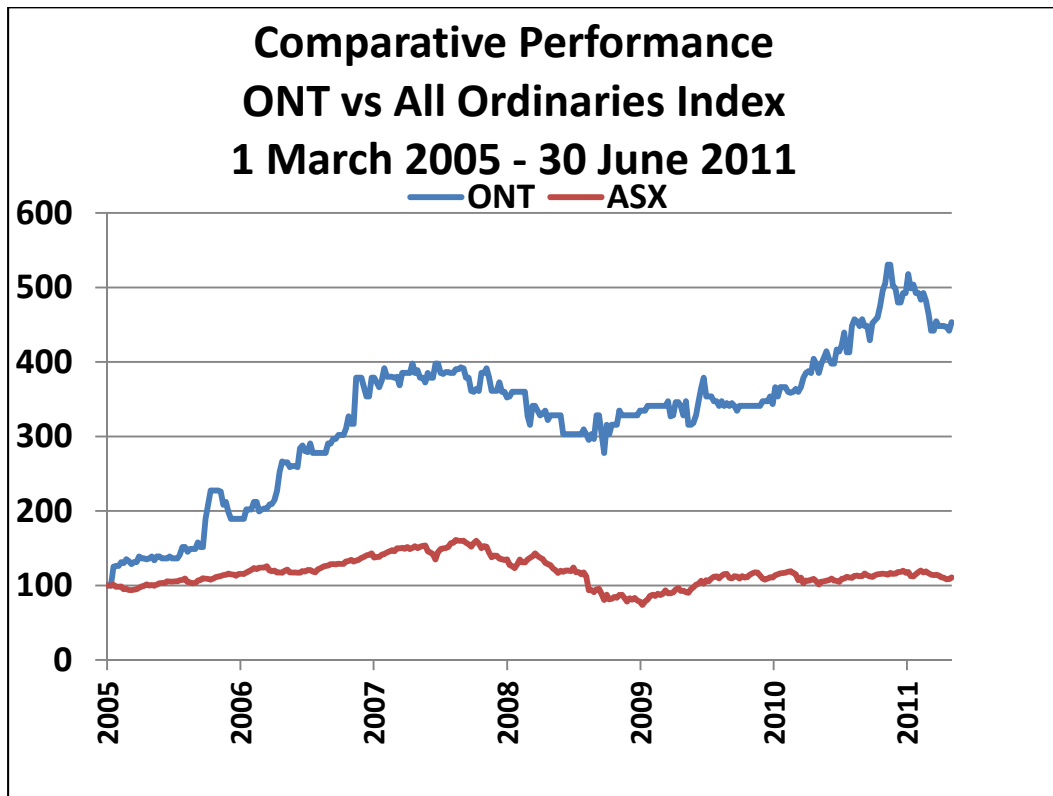
This approach has served our shareholders well in good economic times and bad, as well as through bull markets and bear markets.

You can be sure that we strive at all times to stay at the cutting edge in service quality, dental techniques and products, and communications with our patients. None of this interferes with our ability to run a simple and transparent business of the sort our long term shareholders have come to know well.

Over the time our company has been listed on the Australian Stock Exchange, we've seen the share market in many different moods. I take comfort from the fact that our shares have turned in an agreeable performance over this entire period.

Since listing in 2005 at 80c, 1300SMILES has out-performed the broader share market by a considerable margin. At the close of the 2011 financial year, our share price was \$3.59. That was up only slightly from the price at the end of the 2010 year, but I'm entirely comfortable with our long term performance against the All Ordinaries Index and against every other sensible benchmark.

From listing to 30 June 2011, ONT's share price increased by 348% while the All Ordinaries Index gained less than 14% over the same period.



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



As always, I note that there's nothing we can do to control the share price directly. We can and do promise that we will continue to operate our business in accordance with the same principles which have delivered our success over the past several years.

Thank you

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

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

Yours faithfully,

A handwritten signature in black ink, appearing to be 'D. Holmes', with a long horizontal flourish 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-one 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.

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 or visit our website www.dentalcareersaustralia.com.au.

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the '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 2011.

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:

	2011 \$'000	2010 \$'000
Final dividend for the year ended 30 June 2010 of 7.2 cents (2009: 6.0 cents) per ordinary share paid on 19 August 2010 fully franked based on a tax rate of 30%	1,529	1,220
Interim dividend for the half year ended 31 December 2010 of 7.5 cents (2010: 6.5 cents) per ordinary share paid on 24 March 2011 fully franked based on a tax rate of 30%	1,602	1,374
	<u>3,131</u>	<u>2,594</u>

Since the end of the financial year, the Directors declared, for the year ended 30 June 2011, a final fully franked ordinary share dividend of 8 cents (\$1,704,568) which is payable on 12 October 2011.

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$5,144,000 (30 June 2010: \$4,327,000).

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

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

A fully franked final dividend of 8 cents per share has been declared and is payable on 12 October 2011.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2011 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. The Company owns and operates two fully accredited private hospitals in Townsville, the Mater Hospital (Pimlico) and the recently acquired Mater Hospital (Hyde Park).

The 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 Company's 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. The Company also has extensive coach charter operations. Mr Jones has been a member of numerous state government transport advisory committees.

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

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:

27,606 ordinary shares in 1300SMILES Limited.

Interests in options:

None.

Dr. Daryl Holmes
Managing Director
BDS_c (Hons) MAICD

Experience and expertise:

Dr. Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (BDS_c (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 24 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 9 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):

Business Advisory Network Limited (unlisted)

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

In accordance with best practice corporate governance, the structure of non-executive 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, 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) and relevant consolidated entity and Company executives 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 executive:

- Debra Burden - General Manager (appointed 18 January 2010)

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					
2011	27,523	-	2,477	-	30,000
2010	28,762	-	2,589	-	31,351
William Bass*					
2011	77,523	-	2,477	-	80,000
2010	53,455	-	2,589	-	56,044
<i>Executive Directors:</i>					
Daryl Holmes**					
2011	69,908	50,210	20,020	-	140,138
2010	44,767	48,498	18,548	-	111,813
<i>Other Key Management Personnel:</i>					
Debra Burden***					
2011	107,445	-	9,670	88,000	205,115
2010	42,695	-	3,843	-	46,538
Debra Bowling****					
2010	44,471	-	4,002	-	48,473
Total					
2011	282,399	50,210	34,644	88,000	455,253
2010	214,150	48,498	31,571	-	294,219

* Includes Company secretarial and accounting services.

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

*** During the year 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 has been expensed as an employee benefit. Mrs Burden was appointed on 18 January 2010.

**** Ms Bowling resigned as Financial Controller on 2 January 2010.

The Company has a small management team and as such there are less than 5 company executives.

(c) Service agreements

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

Daryl Holmes (Managing Director)

Agreement commenced:

8 March 2005

Term of agreement:

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

Details:

Dr Holmes' remuneration comprises a salary of \$89,928 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.

Debra Burden (General Manager)

Agreement commenced:

18 January 2010

Term of agreement:

The agreement may be terminated by either the Company or Mrs Burden by giving not less than six weeks notice or by the Company in the event of material breach of misconduct by Mrs Burden.

Details:

Mrs Burden's remuneration comprises a salary of \$117,115 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. Performance based salary increases or bonuses are at the Board's discretion. There are no pay-outs upon resignation or termination, 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

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 the year 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. The issue of these was not related to a performance condition.

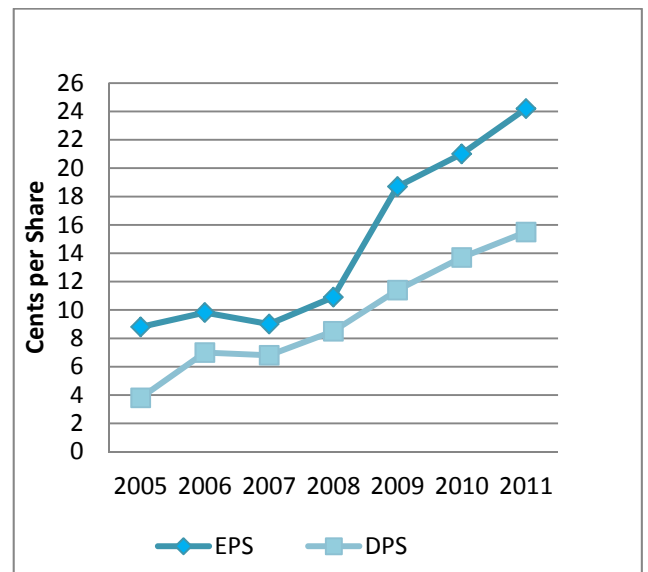
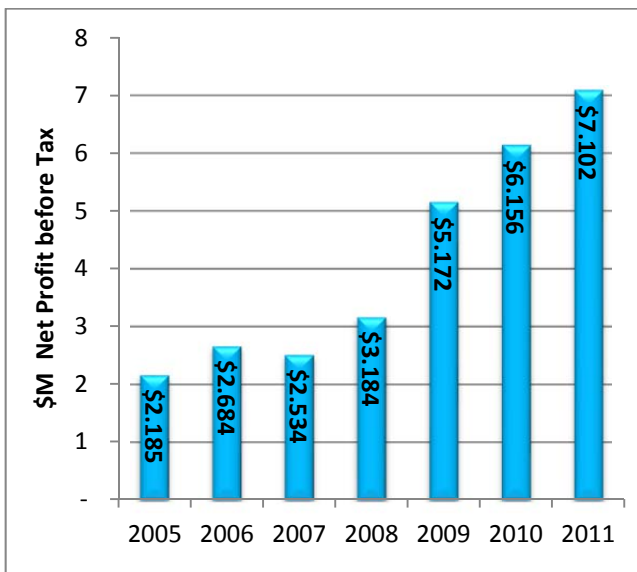
Options

There were no options issued to Directors and other key management personnel as part of compensation that were outstanding as at 30 June 2011.

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 2011.

(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 5 years is illustrated in the graphs below.



	2007	2008	2009	2010	2011
Share price at financial year end (\$A)	3.08	2.60	2.60	3.15	3.59

This concludes the remuneration report, which has been audited.

Shares under option

There were no options outstanding as at 30 June 2011.

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 2011.

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 (QLD) Pty Ltd

There are no officers of the Company who are former audit partners of BDO Audit (QLD) 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 (QLD) 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



Dr Daryl Holmes
Director

15 August 2011
Townsville

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

As lead auditor of 1300Smiles Limited for the year ended 30 June 2011, 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 of 1300Smiles Limited and the entities it controlled during the period.



A J Whyte
Director

BDO Audit (QLD) Pty Ltd

Brisbane
Dated: 15 August 2011

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

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

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

Principle 1: Lay solid foundations for management and oversight;

Principle 2: Structure the Board to add value;

Principle 3: Promote ethical and responsible decision making;

Principle 4: Safeguard integrity in financial reporting;

Principle 5: Make timely and balanced disclosure;

Principle 6: Respect the rights of shareholders;

Principle 7: Recognise and manage risk; and

Principle 8: Remunerate fairly and responsibly.

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

Any departures to the Council's best practice recommendations as at the date of this report, or throughout the year ended 30 June 2011, are set out below.

Structure of the Board

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

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

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

Name	Position
Robert Jones	Chairman
William Bass	Non-Executive Director

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

Name	Position
Dr. Daryl Holmes	Managing Director

Dr. Holmes is a substantial shareholder and employed by the Company in an executive capacity.

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

Name	Term in office
Robert Jones	3 years and 8 months
Daryl Holmes	10 years and 11 months
William Bass	4 years and 6 months

Remuneration and Nomination Committee

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

The Committee comprises the entire Board.

Audit Committee

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

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

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

Corporate Governance Council Recommendation 4.3 requires composition of 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.

CORPORATE GOVERNANCE STATEMENT (continued)

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 2011



	Note	Consolidated	
		2011 \$'000	2010 \$'000
Revenue	4	28,547	23,311
Other income	5	192	629
Expenses			
Consumables, lab fees and other supplies		(3,835)	(3,395)
Employee benefits expense		(12,476)	(9,684)
Depreciation and amortisation expense	6	(1,302)	(1,015)
Property expenses		(1,498)	(1,405)
Operating expenses		(1,577)	(1,656)
Corporate and administration expenses		(427)	(295)
Finance costs	6	(522)	(334)
Profit before income tax expense		7,102	6,156
Income tax expense	7	(1,958)	(1,829)
Profit after income tax expense for the year attributable to the owners of 1300SMILES Limited		5,144	4,327
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of 1300SMILES Limited		5,144	4,327

		Cents	Cents
Basic earnings per share	38	24.2	21.0
Diluted earnings per share	38	24.2	21.0

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

	Note	Consolidated	
		2011	2010
		\$'000	\$'000
Assets			
Current Assets			
Cash and cash equivalents	8	4,663	4,955
Trade and other receivables	9	1,134	1,610
Other	10	307	268
Total current assets		<u>6,104</u>	<u>6,833</u>
Non-current Assets			
Receivables	11	1,644	1,861
Available-for-sale financial assets	12	-	10
Property, plant and equipment	13	8,510	6,201
Intangibles	14	10,670	9,708
Deferred tax	15	474	246
Other	16	32	32
Total non-current assets		<u>21,330</u>	<u>18,058</u>
Total Assets		<u>27,434</u>	<u>24,891</u>
Liabilities			
Current Liabilities			
Trade and other payables	17	2,767	2,649
Borrowings	18	-	55
Income tax	19	418	777
Provision – employee benefits	20	186	159
Deferred settlement	21	631	788
Total current liabilities		<u>4,002</u>	<u>4,428</u>
Non-current Liabilities			
Borrowings	22	7,500	7,402
Provisions	23	242	48
Total non-current liabilities		<u>7,742</u>	<u>7,450</u>
Total liabilities		<u>11,744</u>	<u>11,878</u>
Net Assets		15,690	13,013
Equity			
Contributed equity	25	7,506	6,842
Retained profits		<u>8,184</u>	<u>6,171</u>
Total Equity		15,690	13,013

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

1300SMILES Limited
Statement of changes in equity
For the year ended 30 June 2011



	Contributed equity \$'000	Retained profits \$'000	Total equity \$'000
Consolidated			
Balance at 1 July 2009	4,770	4,438	9,208
Other comprehensive income for the year, net of tax	-	-	-
Profit after income tax expense for the year	-	4,327	4,327
Total comprehensive income for the year	-	4,327	4,327
<i>Transactions with owners in their capacity as owners:</i>			
Contributions of equity, net of transaction costs	2,072	-	2,072
Dividends paid	-	(2,594)	(2,594)
Balance at 30 June 2010	6,842	6,171	13,013
Balance at 1 July 2010	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)
Balance at 30 June 2011	7,506	8,184	15,690

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

	Note	Consolidated	
		2011	2010
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		30,169	24,080
Payments to suppliers and employees (inclusive of GST)		(21,352)	(17,791)
		8,817	6,289
Insurance claims refunds and other income		192	21
Interest received		325	94
Interest and other finance costs paid		(522)	(334)
Income taxes paid		(2,545)	(1,422)
Net cash from operating activities	36	6,267	4,648
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	33	(1,151)	(734)
Payments for property, plant and equipment	13	(2,918)	(2,317)
Proceeds from the disposal of property, plant and equipment		-	782
Repayments of share loans		245	-
Net cash used in investing activities		(3,824)	(2,269)
Cash flows from financing activities			
Proceeds from borrowings		95	7,239
Payments for share buy-backs		(2)	-
Share issue transaction costs		(3)	(7)
Proceeds from share issue		358	-
Dividends paid	25	(3,131)	(2,594)
Repayment of borrowings		(52)	(3,869)
Net cash from/(used in) financing activities		(2,735)	769
Net increase/(decrease) in cash and cash equivalents		(292)	3,148
Cash and cash equivalents at the beginning of the financial year		4,955	1,807
Cash and cash equivalents at the end of the financial year	8	4,663	4,955

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 adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

The consolidated entity has applied Interpretation 19 from 1 July 2010. The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualifies as consideration paid. The equity instruments issued are measured at fair value, or if not reliably measured, at the fair value of the liability extinguished, with any gain or loss recognised in profit or loss.

AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result, where applicable, in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 101 'Presentation of Financial Statements' - classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty;

AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as a cash flow from investing activities;

AASB 117 'Leases' - removal of specific guidance on classifying land as an operating lease;

AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and

AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues[AASB 132]

The consolidated entity has applied AASB 2009-10 from 1 July 2010. The amendments clarified that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendment therefore provides relief to entities that issue rights in a currency other than their functional currency from treating the rights as derivatives with fair value changes recorded in profit or loss.

Note 1. Significant accounting policies (continued)

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result, where applicable, in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:

AASB 3 Business Combinations - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

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').

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.

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 2011 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 acquired is recognised directly in equity attributable to the parent.

Note 1. Significant accounting policies (continued)

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 for customers.

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.

Income tax

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

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

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

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

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

Note 1. Significant accounting policies (continued)

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.

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.

Note 1. Significant accounting policies (continued)

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%

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.

Note 1. Significant accounting policies (continued)

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.

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.

Note 1. Significant accounting policies (continued)

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.

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.

Note 1. Significant accounting policies (continued)

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.

Diluted earnings per share

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

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

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

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

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

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

Rounding of amounts

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

Note 1. Significant accounting policies (continued)

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 2011. 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.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

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.

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.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

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	
	2011	2010
	\$'000	\$'000
Note 4. Revenue		
<i>Sales revenue</i>		
Dental fees	15,217	11,833
Service fees: contract dentists	12,162	11,305
	27,379	23,138
<i>Other revenue</i>		
Consulting fees	389	-
Interest	409	172
Licence fees	311	-
Other revenue	59	1
	1,168	173
Revenue	28,547	23,311
Note 5. Other income		
Net gain on disposal of property, plant and equipment	-	73
Insurance claim refunds	192	21
Bargain gain on acquisition of business	-	535
Other income	192	629
Note 6. Expenses		
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	356	243
Plant and equipment	918	721
Plant and equipment under lease	28	51
Total depreciation	1,302	1,015
<i>Impairment of assets</i>		
Impairment of available-for-sale-financial asset	10	-
<i>Finance costs</i>		
Interest and finance charges paid/payable	522	334
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	1,301	1,273
<i>Defined contribution superannuation expense</i>	815	655

	Consolidated	
	2011	2010
	\$'000	\$'000

Note 7. Income tax expense

Income tax expense

Current tax	2,350	1,934
Deferred tax	(228)	(135)
Under/(over) provision in prior years	(164)	30

Aggregate income tax expense	<u>1,958</u>	<u>1,829</u>
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Deferred tax included in income tax expense comprises:

Increase in deferred tax assets (note 15)	<u>(228)</u>	<u>(135)</u>
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Numerical reconciliation of income tax expense to prima facie tax payable

Profit before income tax expense	<u>7,102</u>	<u>6,156</u>
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Tax at the Australian tax rate of 30% (2010 30%)	2,131	1,847
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Tax effect of amounts which are not deductible (taxable) in calculating taxable income:

Deductible capitalised business acquisition costs	(9)	(9)
Other	-	(39)
Under/(over) provision in prior years	(164)	30

Income tax expense	<u>1,958</u>	<u>1,829</u>
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Note 8. Current assets - cash and cash equivalents

Cash on hand	7	6
Cash at bank	<u>4,656</u>	<u>4,949</u>

	<u>4,663</u>	<u>4,955</u>
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Note 9. Current assets - trade and other receivables

Trade receivables	<u>1,134</u>	<u>1,610</u>
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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 \$291,000 as at 30 June 2011 (\$497,000 as at 30 June 2010). 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	
	2011	2010
	\$'000	\$'000

Note 10. Current assets - other

Prepayments	213	141
Other current assets	94	127
	<u>307</u>	<u>268</u>

Note 11. Non-current assets - receivables

Share loan principal	1,557	1,824
Share loan interest	87	37
	<u>1,644</u>	<u>1,861</u>

Ordinary share loans were made pursuant to a Company loan funded program to incentivise senior management and consultants. The Company allotted 10,000 ordinary shares at \$3.23 with a total value of \$32,000 (2010: 566,000 at \$2.65 and 120,000 at \$2.70 with a total value of \$1,824,000). 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	
	2011	2010
	\$'000	\$'000

Available-for-sale financial asset	<u>10</u>	<u>10</u>
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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	10
Impairment of assets	<u>(10)</u>	<u>-</u>
Closing fair value	<u>-</u>	<u>10</u>

Refer to note 26 for detailed information on financial instruments.

	Consolidated	
	2011	2010
	\$'000	\$'000
Note 13. Non-current assets - property, plant and equipment		
Leasehold improvements - at cost	3,582	2,257
Less: Accumulated depreciation	<u>(1,106)</u>	<u>(750)</u>
	<u>2,476</u>	<u>1,507</u>
Plant and equipment - at cost	8,271	5,951
Less: Accumulated depreciation	<u>(2,353)</u>	<u>(1,895)</u>
	<u>5,918</u>	<u>4,056</u>
Plant and equipment under lease	743	743
Less: Accumulated depreciation	<u>(743)</u>	<u>(715)</u>
	<u>-</u>	<u>28</u>
Capital works - at cost	116	610
	<u>116</u>	<u>610</u>
	<u>8,510</u>	<u>6,201</u>

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
Consolidated					
Balance at 1 July 2009	79	119	3,929	1,542	5,669
Additions	-	817	510	208	2,317
Disposals	-	-	(770)	-	(770)
Transfers in/(out)	-	(326)	326	-	-
Depreciation expense	<u>(51)</u>	<u>-</u>	<u>(721)</u>	<u>(243)</u>	<u>(1,015)</u>
Balance at 30 June 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	<u>(28)</u>	<u>-</u>	<u>(918)</u>	<u>(356)</u>	<u>(1,302)</u>
Balance at 30 June 2011	<u>197</u>	<u>116</u>	<u>5,918</u>	<u>2,279</u>	<u>8,510</u>

Assets pledged as security

All assets of the consolidated entity are pledged as security against facilities disclosed in note 22.

	Consolidated	
	2011	2010
	\$'000	\$'000

Note 14. Non-current assets - intangibles

Goodwill - at cost	10,670	9,708
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Reconciliations

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

	2011	2010
	\$'000	\$'000
Consolidated		
Balance at 1 July	9,708	7,986
Additions through business combinations (note 33)	962	1,722
Balance at 30 June 2011	10,670	9,708

Impairment tests for goodwill

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Cairns	67	67
Townsville	384	384
Mackay	21	21
Central Queensland	5,148	5,060
Toowoomba	2,148	2,148
South East Queensland	2,902	2,028
	10,670	9,708

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% (2010: 12%). Future cash flows are based on historical results extrapolated using historical growth rates of 3% (2010: 3%).

	Consolidated	
	2011	2010
	\$'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	145	(3)
Employee benefits	69	62
Accrued expenses	260	187

Deferred tax asset	474	246
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Movements:

Opening balance	246	111
Credited to profit or loss (note 7)	228	135

Closing balance	474	246
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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	1,556	1,164
Sundry payables and accruals	1,211	1,485
	2,767	2,649

Refer to note 26 for detailed information on financial instruments.

Note 18. Current liabilities - borrowings

Lease liability	-	55
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Assets pledged as security

The lease liability was effectively secured as the rights to the leased assets recognised in the statement of financial position reverted to the lessor in the event of default.

	Consolidated	
	2011	2010
	\$'000	\$'000

Note 19. Current liabilities - income tax

Provision for income tax	418	777
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Note 20. Current liabilities – provisions - employee benefits

Annual leave	186	159
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Note 21. Current liabilities - deferred settlement

Deferred settlement payable	631	788
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The deferred settlement payable relates to the acquisition of the Bray Park dental practice in the current year and the Bundaberg dental practice in 2008. The settlement amounts are payable on the practices achieving certain revenue and profit benchmarks.

	Consolidated	
	2011	2010
	\$'000	\$'000

Note 22. Non-current liabilities - borrowings

Term loan	7,500	7,402
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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	
	2011	2010
	\$'000	\$'000

Note 23. Non-current liabilities - provisions

Employee benefits - long service leave	45	48
Make good provision	197	-
	<u>242</u>	<u>48</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.

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

Note 24. Equity - contributed

	Consolidated		Consolidated	
	2011	2010	2011	2010
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>21,307,100</u>	21,119,611	<u>7,506</u>	6,842

As at 30 June 2011 850,273 (2010: 847,473) shares were held under escrow. Expiry dates range between financial years ended 2012 and 2015.

Movements in ordinary share capital

Details	Date	No of shares	Issue price	\$'000
Balance	1 July 2009	20,340,508		4,770
Shares issued for earn-out consideration*	2 September 2009	93,103	\$2.69	250
Shares issued under share loans**	8 March 2010	<u>686,000</u>	\$2.66	<u>1,822</u>
Balance	30 June 2010	21,119,611		6,842
Shares issued for earn-out consideration*	1 October 2010	77,942	\$3.58	279
Shares issued under management incentive	1 October 2010	110,000	\$3.55	390
Share issue costs		-		(3)
Share buy-back		<u>(453)</u>	\$3.49	<u>(2)</u>
Balance	30 June 2011	<u>21,307,100</u>		<u>7,506</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.

*Shares issued in the financial years ended 30 June 2011 and 30 June 2010 relate to acquisitions completed during 30 June 2008.

**Refer to note 11.

Share buy-back

The Company renewed a share buy-back plan during the previous financial year. No shares were bought back under this plan in the prior year. During the current year 453 shares have been bought back at \$3.49 each.

Note 24. Equity - contributed (continued)

Capital risk management

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

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

The Company would look to raise capital when an opportunity to invest in a business or Company was seen as value adding relative to the current parent entity's share price at the time of the investment. The Company 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 2011, the consolidated entity's strategy, which was unchanged from 2010, was to maintain a gearing ratio within its current banking facility loan covenant. The gearing ratios at 30 June 2011 and 30 June 2010 were as follows:

	Consolidated	
	2011	2010
	\$'000	\$'000
Total borrowings	7,500	7,402
Less: cash and cash equivalents	(4,663)	(4,955)
Net debt	2,837	2,447
Total equity	15,690	13,013
Total capital	18,527	15,460
Gearing ratio	15%	16%

The slight decrease in the gearing ratio is attributable to the increase in ordinary shares during the year and the increase in retained earnings.

Note 25. Equity - dividends

<i>Dividends</i>	Consolidated	
	2011 \$'000	2010 \$'000
Final dividend for the year ended 30 June 2010 of 7.2 cents (2009: 6.0 cents) per ordinary share paid on 19 August 2010 fully franked based on a tax rate of 30%	1,529	1,220
Interim dividend for the half year ended 31 December 2010 of 7.5 cents (2010: 6.5 cents) per ordinary share paid on 24 March 2011 fully franked based on a tax rate of 30%	<u>1,602</u>	<u>1,374</u>
	<u>3,131</u>	<u>2,594</u>

Since the end of the financial year, the Directors declared, for the year ended 30 June 2011, a final fully franked ordinary share dividend of 8 cents (\$1,704,000) which is payable on 12 October 2011.

<i>Franking credits</i>	Consolidated	
	2011 \$'000	2010 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>3,346,524</u>	<u>2,049,460</u>

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 \$731,000 (2010 – \$652,000).

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:

	2011		2010	
	Weighted Average interest rate %	Balance \$'000	Weighted Average interest rate %	Balance \$'000
Consolidated				
Term loan	7.03	(7,500)	6.50	(7,402)
Cash and cash equivalents	6.25	4,663	6.20	4,955
Share loans	7.03	1,644	6.50	1,861
Net exposure to cash flow interest rate risk		<u>(1,193)</u>		<u>(586)</u>

The term loan is an interest only loan. Monthly cash outlays of approximately \$27,000 (2010: \$27,000) per month are required to service the interest payments. The principal of \$7,500,000 (2010: \$7,500,000) is repayable on 4 January 2013.

An increase/decrease in interest rates of 1% (2010: 1%) would have an adverse/favourable effect on profit before tax of \$48,000 (2010: \$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. \$1,612,000 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 such that the balance deposited with any single institution does not exceed two million dollars.

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 (2010: \$7.5 million) interest only term loan expiring in January 2013. \$7.5 million (2010: \$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
Consolidated - 2011						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,556	-	-	-	1,556
Other payables	-	1,397	-	-	-	1,397
Deferred settlement payable	-	631	-	-	-	631
<i>Interest-bearing - variable rate</i>						
Term loan	7.03	333	8,210	-	-	8,543
Total non-derivatives		3,917	8,210	-	-	12,127
Consolidated - 2010						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	1,164	-	-	-	1,164
Other payables	-	1,385	100	-	-	1,485
Deferred settlement payable	-	375	-	413	-	788
<i>Interest-bearing - variable rate</i>						
Lease liability	-	57	-	-	-	57
Term loan	6.50	362	362	7,681	-	8,405
Total non-derivatives		3,343	462	8,094	-	11,899

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	
	2011	2010
	\$	\$
Short-term employee benefits	332,609	262,648
Post-employment benefits	34,644	31,571
Share-based payments	88,000	-
	<u>455,253</u>	<u>294,219</u>

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:

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
	<u>14,875,535</u>	<u>100,000</u>	-	-	<u>14,975,535</u>

* During the year 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.

2010	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	15,199,22	-	-	(487,495)	14,711,729
William Bass	16,200	-	-	-	16,200
Debra Burden*	-	-	120,000	-	120,000
	<u>15,243,030</u>	-	<u>120,000</u>	<u>(487,495)</u>	<u>14,875,535</u>

* The Company provided to Mrs Burden a \$324,000 share loan (on commercial terms) during the year ended 30 June 2010. Mrs Burden settled this loan during the year ended 30 June 2011.

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 (QLD) Pty Ltd, the auditors of the Company, and their related practices:

	Consolidated	
	2011	2010
	\$	\$
<i>Audit services - BDO Audit (QLD) Pty Ltd</i>		
Audit or review of the financial reports	65,000	-
<i>Audit services – Ernst & Young</i>		
Audit or review of the financial reports	20,000	55,500
<i>Other services – Ernst & Young</i>		
Tax compliance	-	5,000
	20,000	60,500

Note 29. Contingent liabilities

The consolidated entity is subject to bank guarantees totalling \$250,651 (2010: \$200,000).

Note 30. Commitments for expenditure

	Consolidated	
	2011	2010
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	1,591	1,374
One to five years	2,994	2,362
More than five years	751	53
	5,336	3,789

	Consolidated	
	2011	2010
	\$'000	\$'000

Note 30. Commitments for expenditure (continued)

Lease commitments – finance

Commitments in relation to finance leases are payable as follows:

Within one year	-	57
Total commitment	-	57
Less: Future finance charges	-	(2)
Net commitment recognised as a liability	-	55
Representing:		
Lease liability - current (note 18)	-	55

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

Note 31. Related party transactions

Parent entity

1300SMILES Limited is the parent entity.

The ultimate controlling entity is Dr Daryl Holmes who has a 67% interest in 1300SMILES Limited.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Key management personnel

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

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2011	2010
	\$	\$

Payment for goods and services:		
Payment for other expenses:		
Rental expense paid to related parties*	289,971	284,621

*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 \$218,300 (2010: \$215,772).
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage premises to an amount of \$71,671 (2010: \$68,849).

Note 31. Related party transactions (continued)

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 2011 and 2010 parent disclosures are not presented as these are not materially different to the consolidated accounts.

Note 33. Business combinations

(a) Summary of acquisition

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:

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

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 Bray Park practice with the existing business of 1300SMILES Limited. None of the goodwill is expected to be deductible for tax purposes. At the end of the year there have been no adjustments to this balance of goodwill.

Contingent consideration

In the event that certain pre-determined sales and profit targets are achieved by the acquired business for the year ended 7 October 2011, additional consideration of up to \$175,000 may be payable in cash. This has been included in deferred settlement payable. (Refer to note 21.)

Note 33. Business combinations (continued)

Revenue and profit contribution

The acquired business contributed revenues of \$1,590,000 and net profit 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 for the year ended 30 June 2011 would have been \$2,100,000 and \$489,000 respectively. These amounts have 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.

During the prior year the Springwood and Tingalpa dental practices were acquired. A consideration of \$143,000 was paid for the Springwood practice which had a nil net fair value of assets acquired resulting in goodwill on acquisition of \$143,000. A consideration of \$250,000 was payable for the Tingalpa practice which had a \$785,000 net fair value of assets acquired resulting in gain on bargain purchase on acquisition of \$535,000.

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

	2010 \$'000
Purchase consideration (refer to (b) below):	
Cash paid or payable to vendor	193
Trade and other payables	200
Total purchase consideration	<u>393</u>
The assets and liabilities recognised as a result of the acquisition are as follows:	
	Fair value \$'000
Plant and equipment	<u>785</u>
Net identifiable assets acquired	785
Add: goodwill	<u>143</u>
Net assets acquired	928
Gain on bargain purchase	<u>(535)</u>
	<u><u>393</u></u>

Goodwill arose from customer relationships that did not meet the definition of an identifiable intangible asset at the date of acquisition and synergies that were expected to be achieved from integrating the back office processing of the acquired practice with the existing business of 1300SMILES Limited. None of the goodwill was expected to be deductible for tax purposes.

Gain on bargain purchase arose due to the strategic purchase of a distressed practice.

Revenue and profit contribution

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

Note 33. Business combinations (continued)

(b) Purchase consideration – cash outflow

	Consolidated	
	2011	2010
	\$'000	\$'000
Cash used to acquire Bray Park dental practice (2010: Springwood and Tingalpa), net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	1,185	393
Less: contingent consideration	(175)	-
Less: trade and other payables payments	-	(200)
Net cash used	<u>1,010</u>	<u>193</u>

Acquisition-related costs

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Summary of cash payments :		
Cash paid for acquisition of practices	1,010	193
Contingent payment for Bundaberg practice previously acquired	141	541
Net cash used	<u>1,151</u>	<u>734</u>

During 2011 an earn-out payment was made pursuant to the Bundaberg acquisition agreement comprising:

- 27,942 ordinary shares at \$2.90 per share;
- 50,000 ordinary shares at \$2.50 per share - to be held in voluntary escrow over 3 years.

This earn-out payment was recorded against the deferred 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	
		2011 %	2010 %
1300SMILES (WA) Pty Ltd	Australia	100	100

Note 35. Events occurring after the reporting date

A fully franked final dividend of 8 cents per share has been declared and is payable on 12 October 2011. (Refer note 25.)

Apart from the dividend declared, no other matter or circumstance has arisen since 30 June 2011 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	
	2011 \$'000	2010 \$'000
Profit after income tax expense for the year	5,144	4,327
Adjustments for:		
Depreciation and amortisation	1,302	1,015
Net gain on disposal of property, plant and equipment	-	(73)
Gain on bargain purchase	-	(535)
Shares issued as management incentive	88	-
Impairment of available for sale financial assets	10	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	134	(1,217)
Increase in deferred tax assets	(228)	(135)
(Increase)/decrease in other operating assets	33	(83)
Increase in trade and other payables	119	788
Increase/(decrease) in provision for income tax	(359)	543
Increase in employee benefits	24	18
Net cash from operating activities	6,267	4,648

	Consolidated	
	2011	2011
	\$'000	\$'000

Note 37. Non-cash investing and financing activities

Shares issued in relation to business combinations	279	250
Shares issued under share loans	32	1,822
	<u>311</u>	<u>2,072</u>

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	<u>5,144</u>	<u>4,327</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>21,244,753</u>	20,631,241
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>21,244,753</u>	<u>20,631,241</u>
	Cents	Cents
Basic earnings per share	24.2	21.0
Diluted earnings per share	24.2	21.0

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 2011 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

15 August 2011
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 2011, 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 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. 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 2011 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 2011. 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 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd

BDO



A J Whyte

Director

Brisbane: 15 August 2011

1300SMILES Limited
Shareholder information
30 June 2011

The shareholder information set out below was applicable as at .

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	110
1,001 to 5,000	339
5,001 to 10,000	79
10,001 to 100,000	66
100,001 and over	13
	607
Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
Dr Daryl Holmes	14,352,137	67.36
Upper Avalon Pty Ltd	652,202	3.06
Kredithaus Pty Ltd	566,000	2.66
National Nom Ltd	301,028	1.41
JP Morgan Nom Aust Ltd	266,246	1.25
Ashbourne Park Pty Ltd	265,402	1.25
Bond Street Custs Ltd	263,576	1.24
Russell Kay Hancock	253,453	1.19
John Patrick Baynes	250,000	1.17
Debra Joy Burden	220,000	1.03
Ingham Family Inv Pty Ltd	161,494	0.76
StockhamInv Pty Ltd	119,779	0.56
Landel Pty Ltd	100,580	0.47
Morris J & IM Marrinon	100,000	0.47
Golden Arch Qld Pty Ltd	94,190	0.44
Kent Gush	86,500	0.41
Ancam Pty Ltd	77,500	0.36
Kevin John & JD Holmes	75,829	0.36
Bradley John & S Holmes	74,432	0.35
TI Cap Pty Ltd	72,000	0.34
	18,352,348	86.14

Unquoted equity securities, 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	69.05

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	2011	2012	2013	2014	2015
January	-	-		56,600	-
February	-	-	-	-	-
March	-	44,000	60,667	60,667	44,000
April	-	93,758	-	-	-
June	-	113,200	113,200	-	-
September	-	16,667	33,333	16,666	-
October	93,758	93,757	-	-	-
November	5,000	5,000	-	-	-
Annual payment	98,758	366,382	207,200	133,933	44,000
Total payments					850,273