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 2017
Previous Corresponding Reporting Period	30 June 2016

Results for Announcement to the Market

		$'000	Percentage increase/ (decrease) over previous corresponding period
Revenue from ordinary activities		36,020	(0.2)%
Profit / (loss) from ordinary activities after tax attributable to members		7,270	(2.3)%
Net profit / (loss) for the period attributable to members		**7,270**	**(2.3)%**
Dividends (distributions)	Amount per security		Franked amount per security
Final Dividend	11.75 cents		100%
Interim Dividend	11.25 cents		100%
Record date for determining entitlements to the dividends (if any)			21 September 2017
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	29 September 2017
Record date to determine entitlement to the dividend	21 September 2017
Amount per security	11.75 cents
Total dividend	$2,782,210
Amount per security of foreign sourced dividend or distribution	Nil
Details of any dividend reinvestment plans in operation	N/A
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/A

NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	43.7 cents	51.4 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	√	The accounts have been subject to review	
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	

Financial Statements

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

By Order of the Board
Gina Bozinovski
Company Secretary
28 August 2017

ANNUAL REPORT

For the year ended 30 June 2017

Contents

Letter from the Managing Director
30 June 2017

Dear Shareholders,

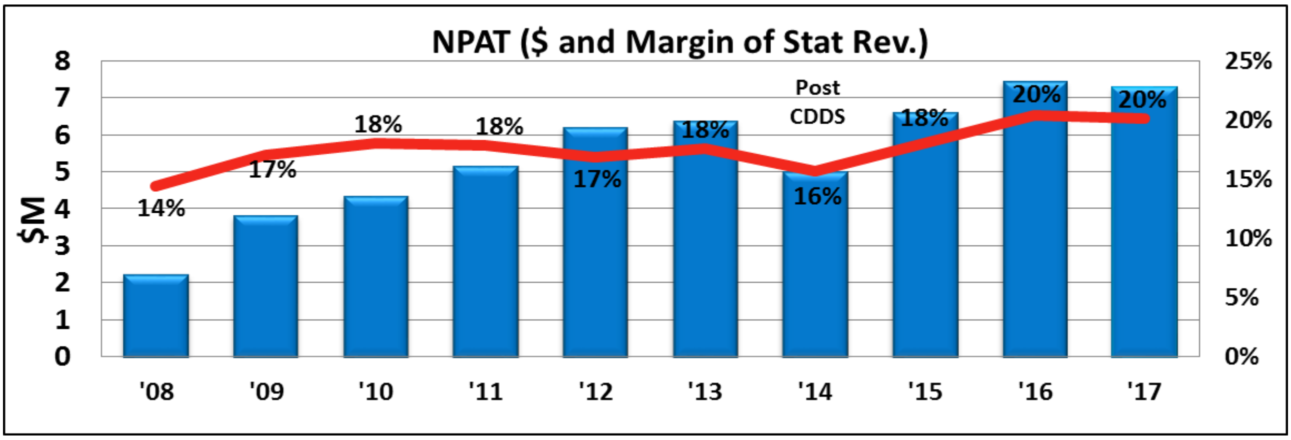
I am pleased to present our accounts for the full year to 30 June 2017.

Let me be the first to comment that some of the numbers here look pretty ordinary. In this letter I will explain the combination of industry conditions and company decisions which have delivered this year's results.

I believe the choices we have made over the past several years have served the interests of shareholders well. Those choices have delivered a consistently stronger core business, one which has proved its stability through a period of radical change across our entire industry. Those choices have contributed to the 2017 year's flat results, but they have done so for the right reasons.

Financial results for the year ended 30 June 2017

- Revenue (Over-the-Counter) down 0.8% to $51 million
- NPAT down 2.3% to $7.3 million
- EBITDA down 3.5% to $12.5 million
- Bank debt unchanged at $0
- Earnings per share down 2.3% to 30.7c
- Dividends per share up 2.2% to 23.0c



Industry transformation in progress

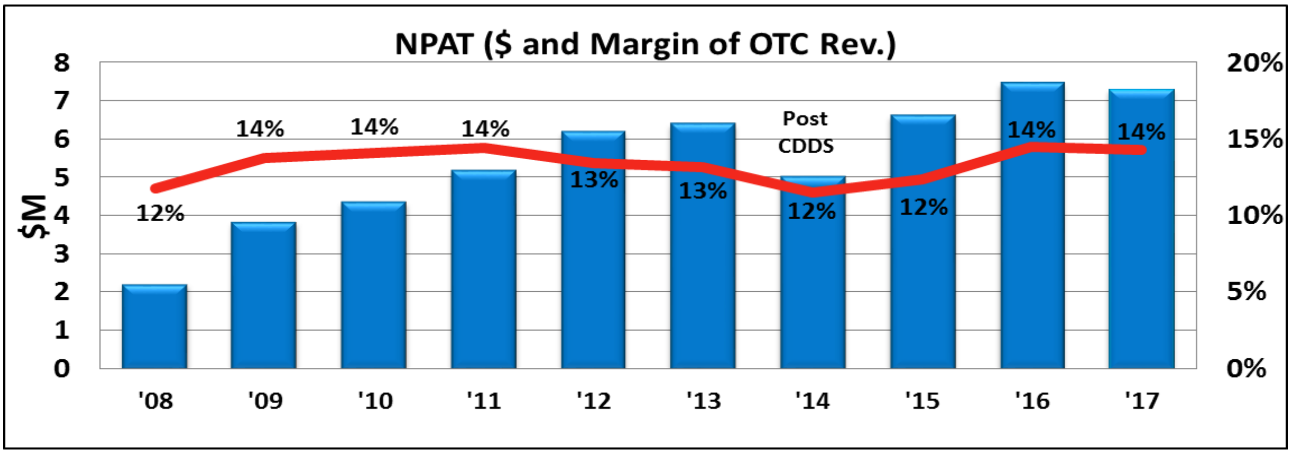
The entire dental industry is undergoing fundamental change which has been under way for more than ten years and may take another ten years to reach some new equilibrium.

Back when 1300SMILES first listed on the ASX in 2005, dentistry in Australia was still overwhelmingly a cottage industry, dominated by sole practitioners and two-dentist partnerships. Our company, having assembled a collection of seven multi-dentist practices by 2005, was a pioneer demonstrating that professionally managed dentistry could deliver better results for dentists, for patients, and for the owners of larger dentistry groups.

Soon enough other groups sought to imitate parts of our model. A number of such operators began buying dental practices with seemingly little care for how they would actually manage and operate such aggregations of businesses. A cynic would suggest that many of these operators sought to gather up a number of practices and then sell them off through a stock exchange listing. To us, it felt like these players were copying the look of the 1300SMILES model while ignoring the real business disciplines we had developed.

The Global Financial Crisis in 2008 put an end to any hope of selling hastily-gathered collections of dental practices to gullible investors. The GFC had little effect on 1300SMILES (see revenue chart below) because we continued to deliver services through our financially conservative business structure. Our business looked a little boring prior to the GFC; with hindsight we are grateful for the GFC as a severe test of the resilience of our business approach.

Post-GFC the dentistry market included a number of players who appeared to operate under financial structures which simply made it impossible for them to evolve into stable, profitable businesses. Some of these have been acquired or merged with others; some struggle on. Of those businesses whose accounts are available to the public, I have seen none which have quality businesses comparable to ours when measured by profit margin, return on equity, or dividends to shareholders.



In the years since the GFC and its aftermath, we have seen many dental operators fall into the clutches of various private health insurance companies. Some dentists jumped at the chance to become "preferred providers" to various insurance companies. Many of these have seen their margins squeezed as the insurance companies increasingly dictate the prices they can charge and restrict their clinical autonomy. Many have been astonished to find out that the same companies for which they are preferred providers have opened their own dental clinics nearby and actively steer patients to those clinics.

Is anyone surprised to find that the private health insurers entered the dental market for any purpose other than extracting more of the profit? I'm not, and I have been telling people so for many years.

Some of the larger aggregations of dental practices have also been caught in this trap. Some have sought to preserve their businesses by entering into comprehensive deals with private health insurers. Such deals bring the operators business for a while, but many have gone on to find out that these same private insurers are happy to compete with dentists for patients, and that they have many tools with which to steer patients toward company-owned practices.

This effort by private health insurers to control the allocation of patients to dentists continues. Our company has done well to stand somewhat aside, allowing individual dentists within 1300SMILES to make their own decisions about whether and to what degree they work with private health insurers. I have no doubt whatever that our dentists have benefited greatly from the knowledge and experience we bring in this area.

As always, we have focused on managing our company in the way you would if you owned 100% of the company. If you were the sole owner, I believe you would manage your company for long term stability and earnings growth. If the steps which deliver that strength and stability occasionally deliver a year of slow growth, that's OK. This is the approach we have always taken in managing 1300SMILES, and shareholders can be assured that we will continue to manage our company in this way.

Acquisitions and expansion

As I have reported on many occasions, our company scours the market constantly for suitable acquisition and expansion targets. We require all possible acquisitions to meet strict standards, and we demand that all acquisitions make an immediate contribution to our revenue and profit.

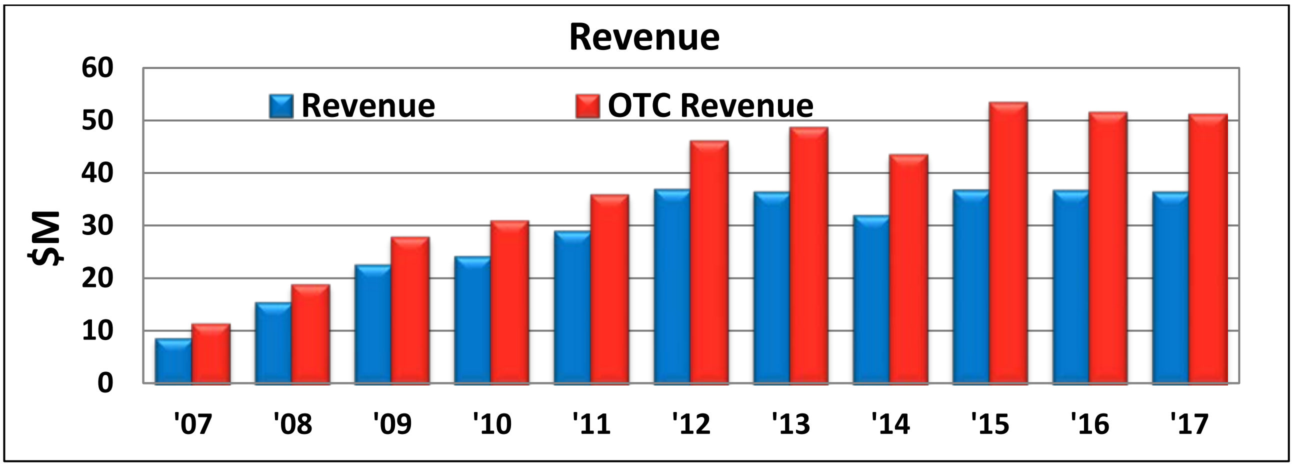
In some periods there are few suitable acquisitions available, and in those circumstances we make no apology for keeping our cash in the bank. Across the 2015 and 2016 years we made only one significant acquisition.

In the 2017 year, however, we completed five solid acquisitions. The two largest of these were completed right at the end of the year, and the others were included in our accounts at various stages during the year. Overall, the 2017 acquisitions had little effect on the 2017 accounts, but all of these will be included in our results for the 2018 year.

Our strict and conservative approach to acquisitions in 2015 and 2016 may well have contributed to our flat results in the 2017 year. I believe that shareholders are best served by insisting on top-quality acquisitions only, those which will make lasting and growing contributions to our results. I appreciate the patience shown by our shareholders in these circumstances.

Revenue history

Our Statutory Revenue and our Over-the-Counter Revenue for the last ten years have progressed as shown in this chart:



Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)													
	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17
OTC Revenue ($m)	7.0	8.3	11.2	18.6	27.6	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0
Less amount retained by self-employed Dentists ($m)	1.6	2.1	2.8	3.4	5.3	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8
Statutory Revenue ($m)	5.4	6.2	8.4	15.2	22.4	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2

"Revenue" in the chart above is the Revenue we report in our statutory accounts. "Over-the-Counter (OTC) Revenue" is a measure which captures the full value paid by patients for all services rendered. OTC Revenue gives a clearer indication of the scale of our business. The difference is that "Revenue" excludes the portion of patient fess retained by self-employed dentists.

Industry cycle & revenue

Along with the entire dental industry, we have seen slow growth for the past two years. There have been some specific factors affecting our company, most significantly the slowdown in the mining industry and the effect that had on a number of our regional operations. There are indications, however, that the cycle is turning.

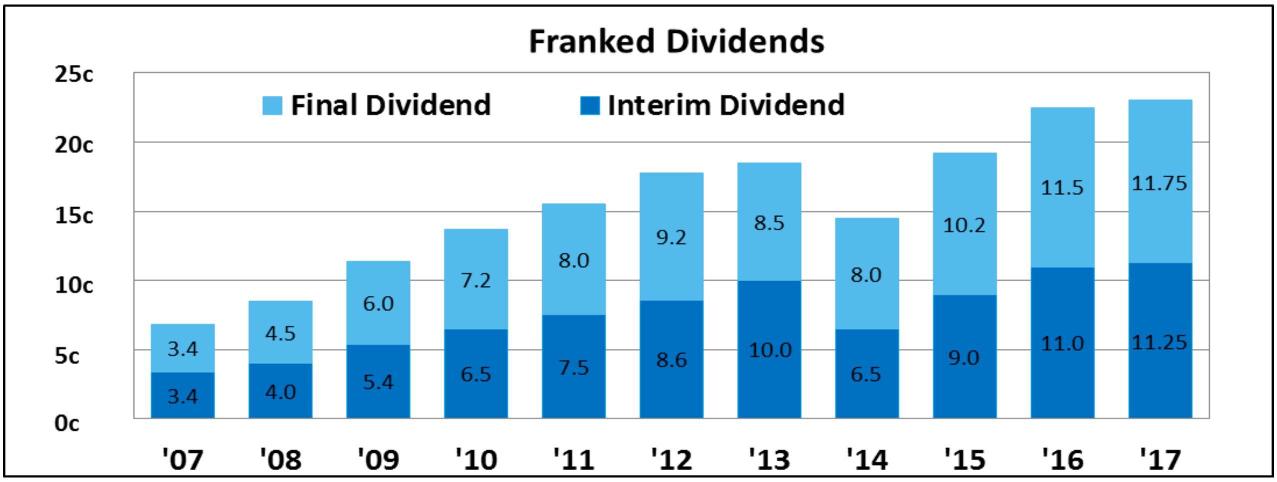
For a variety of reasons, the first half of each financial year has always delivered greater revenue than the second half. In the 2017 financial year, this pattern was reversed, with the second half delivering significantly higher revenues and profit than the first half, suggesting that we've seen the worst of the downturn.

This trend has continued in the early part of the 2018 financial year, with revenue in the first two months well ahead of that recorded in the same period last year.

Dividend

Long term shareholders know that I am always happy to tell the full story of how our company is going. I believe this sort of communication is important, and shareholders often tell me that they agree.

But there's another kind of communication with shareholders: the dividend. The full year dividend for the 2017 year has increased by only a small amount, to a fully-franked 23c for the full year. To my mind, this speaks volumes.



The board has approved this increase on the basis that all of the following are true:

- the quality of our business, as measured by our margins and many other factors, continues to improve
- we have a significant cash reserve and no debt
- we have established access to the capital needed for any acquisition we would conceivably choose to pursue, both through existing lines of credit and access to the equity markets
- our management team is tested and solid, the best we've ever had
- this increase keeps our dividend within the intended payout ratio range and does not constrain our ability to pay increasing dividends in the future

Dividend policy in a changing market

We see a lot of discussion in the financial press about dividend imputation and whether or not it still plays a positive role in the Australian economy. The chief criticism is that the banks, mining companies, and major industrial companies have paid out too much in dividends over the past decades, constraining their ability to use their profit to ensure future growth.

Shareholders in many major companies have come to place dividend income above all else. Arguably, across Australian industry, too much capital has been paid out in dividends, at the expense of growth, innovation, and resilience of many of our major companies. Right now the market is watching the grocery sector, for example, where big dividend payers Woolworths and Coles (owned by Wesfarmers) will be going head to head with Amazon, a company which has never paid a divided.

We have considered with some care whether this issue has any bearing on 1300SMILES and our dividend policy. I wish to assure investors that we propose no change to our dividend policy. Our policy has been and will remain as follows: our dividends are meant to enable all shareholders to participate in the experience of owning our business. Our company makes profit, pays tax, and pays a significant portion of after-tax earnings as dividends.

We maintain this policy because, unlike many companies in the news, we do not face any significant capital constraint on our business. The cost of establishing and acquiring new dental facilities is low relative to the revenue a well-located and properly managed dental facility can generate. We have maintained a significant cash reserve and no debt for several years, years through which we have paid steadily increasing dividends.

Should we identify an acquisition requiring more money than we hold in cash, we have existing bank facilities in place. We are comfortable to use debt to finance profitable acquisitions and we have done so in the past. We remain focused on keeping the number of issued shares under control, as keeping the number of issued shares small makes it easier to increase Earnings Per Share and Dividends Per Share.

As I have reminded shareholders many times, my reward for acting as managing director comes overwhelmingly from dividends on the shares I have held since long before our company was listed on the ASX.

Thank you

Once again I express my heartfelt thanks to our dentists, clinical staff, and management staff for all of their hard work throughout the year. I also thank our many patients throughout Australia--I never forget that you pay for everything we do.

Finally, I thank our shareholders for your continuing support.

Daryl Holmes (OBE)
Managing Director

ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

1300SMILES Ltd owns and operates full-service dental facilities at its sites in New South Wales, South Australia, and 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 encouraged to contact Dr Holmes directly or email dentalcareers@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.

Your directors present their report on the consolidated entity consisting of 1300SMILES Limited and the entities it controlled at the end of, or during, the year ended 30 June 2017. Throughout the report, the consolidated entity is referred to as the group.

Directors and company secretary

The following persons were directors of 1300SMILES Limited during the whole of the financial year and up to the date of this report:

Robert Jones (Non-Executive Chairman)
Dr Daryl Holmes (Managing Director)
Dr Glen Richards (Non-Executive Director)

Bryan Dulhunty (Company Secretary; to 31 January 2017)
Gina Bozinosvki (Company Secretary; from 31 January 2017)

Principal activities

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

Dividends – 1300SMILES Limited

Dividends paid to members during the financial year were as follows:

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 11.5 cents (2015: 10.2 cents) per ordinary share paid on 29 September 2016 fully franked based on a tax rate of 30%	2,723	2,415
Interim dividend for the half year ended 31 December 2016 of 11.25 cents (2015: 11.0 cents) per ordinary share paid on 29 March 2017 fully franked based on a tax rate of 30%	2,664	2,605
	5,387	5,020

Since the end of the financial year, the directors have recommended the payment of a final ordinary dividend of 11.75 cents ($2,782,210) to be paid on 29 September 2017 out of retained earnings at 30 June 2017.

Review of operations

The profit for the group after providing for income tax amounted to $7,270,000 (30 June 2016: $7,441,000).

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

Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:
The group acquired two dental practices in Stanmore and Waterloo, Sydney on 26 October 2016, acquired a dental practice in Townsville, Queensland on 9 March 2017, and acquired two orthodontic practices in Chatswood and Bathurst, New South Wales on 30 June 2017.

Events since the end of financial year

A fully franked final dividend of 11.75 cents per share has been declared and is payable on 29 September 2017.

Apart from the matter mentioned above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Information on directors

Robert Jones
Non-Executive Chairman
MAICD

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

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

Other current Directorships:	Hermit Bus Park Service Pty Ltd (unlisted)
Former Directorships (in the last 3 years):	Mater Health Services North QLD Ltd (unlisted)
Special responsibilities:	Nil
Interests in shares:	35,021 ordinary shares in 1300SMILES Limited
Interests in options:	None

Information on directors (continued)

Dr Daryl Holmes
Managing Director
BDSc (Hons) MAICD

Experience and expertise:
Dr Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (BDSc (Hons)) at Queensland University in 1987. During the last two years of his five year degree he accepted a scholarship from the Royal Australian Air Force (RAAF). Upon completion of his degree he practised dentistry as a RAAF Dental Officer (1988-91). Thereafter, in 1991, he began private dental practice in Ayr and Home Hill, North Queensland.

For the next 12 years he pioneered and perfected a range of innovative management and marketing techniques for his dentistry business, in the process transforming a cottage industry into a polished and professional customer service experience, backed up by affordable high quality dental health care. 1300SMILES Limited successfully listed on the ASX in March 2005. It now operates practices in the ten major population centres in Queensland and more recently in New South Wales and South Australia. Dr Holmes has been a member of the Australian Dental Association (ADA) for 30 years.

Dr Holmes has been a Director of the Cowboys Leagues Club for the past 15 years, and in May 2014 he was elected Chairman.

Other current Directorships:	Cowboys Leagues Club Ltd (Public, unlisted) Dental Members Australia Pty Ltd (unlisted)
Former Directorships (in the last 3 years):	None
Special responsibilities:	Nil
Interests in shares:	14,711,729 ordinary shares in 1300SMILES Limited
Interests in options:	None

Dr Glen Richards
Non-Executive Director
B.V.Sc.(Hons), M.Sc., F.A.I.C.D.

Experience and expertise:
Dr Richards is a qualified veterinarian and founding Managing Director of Greencross Limited. Dr Richards practiced companion animal medicine and surgery in Brisbane, Townsville and London before commencing practice ownership and establishing Greencross Vets in Townsville in 1994. He was a cofounder and director of Mammoth Pet Holdings Pty Ltd (Petbarn and Animates) up until the time of merger. Dr Richards is a past director of Lyppard Australia, one of Australia's leading Veterinary wholesalers. He established China's first western veterinary practice (Shanghai PAW) in 2001. Dr Richards has been a Member of Australian Veterinary Association since 1988, with special interest groups in Small Animals and Practice Management.

Dr Richards is currently a non-executive director of Regeneus Ltd (ASX: RGS) an ASX listed clinical-stage regenerative medicine company, a non-executive director of Greencross Ltd (ASX: GXL) an operator of over 200 pet stores and over 130 high quality full-service veterinary facilities across Australia and a non-executive director of US based SmartVet Pty Ltd an animal health company that develops novel veterinary medicines, vaccines and delivery platforms to improve livestock productivity.

Information on directors (continued)

Other current Directorships:	Greencross Ltd (listed) Regeneus Ltd (listed) SmartVet Pty Ltd (unlisted)
Former Directorships (in the last 3 years):	None
Special responsibilities:	Nil
Interests in shares:	68,300 ordinary shares in 1300SMILES Limited
Interests in options:	None

Meetings of directors

The number of meetings of the company's board of directors and board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Attended	Held
Robert Jones	10	10
Dr Daryl Holmes	10	10
Dr Glen Richards	10	10

Remuneration report (audited)

The directors present the 1300SMILES Limited 2017 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

(a) Key management personnel (KMP) covered in this report
(b) Remuneration policy and link to performance
(c) Board performance evaluation
(d) Elements of remuneration
(e) Link between remuneration and performance
(f) Remuneration expenses for executive KMP
(g) Contractual arrangements for executive KMP
(h) Non-executive director arrangements
(i) Other statutory information
(j) Voluntary information: remuneration received

(a) Key management personnel covered in this report

Non-executive and executive directors (see pages 8 to 10 for details about each director)
Robert Jones
Dr Daryl Holmes
Dr Glen Richards

Other key management personnel

Name	**Position**
Jeremy Palmer	General Manager (to 16 June 2017)

(b) Remuneration policy and link to performance

The board as a whole directly undertakes the responsibilities normally referred to a Remuneration Committee. The board reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs, and meets our remuneration principles. In particular, the board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the company to attract and retain key talent
- aligned to the company's strategic and business objectives and the creation of shareholder value
- transparent and easily understood, and
- acceptable to shareholders.

This includes responsibility for determining and reviewing remuneration arrangements for its directors and executives. The performance of the group and company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The board is responsible for determining remuneration packages applicable to the executive director. The executive director determines the remuneration packages for the senior executives of the company in accordance with compensation guidelines set by the board.

Remuneration report (audited) (continued)

The board 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.

(c) Board performance evaluation
The performance of the Board is reviewed periodically. A Board evaluation process including an evaluation of individual non-executives was last undertaken during the 2016 financial year.

The 2016 review encompassed feedback on the Chair and individual non-executive Directors as well as consideration of Board succession planning, diversity and breadth and sufficiency of skills represented on the Board. At that time, the results confirmed that the Board continues to function in an appropriate manner. The Board also carries out informal performance monitoring sessions at each in-person meeting of the Board.

Board Skill Matrix
The Company has developed a skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership. The skills matrix helps to identify any gaps in the collective skills of the Board that can then be addressed through professional development initiatives for Directors and in Board succession planning.

- A review of Board skills and experience was undertaken during the 2017 financial year, and the collective skills and experience of the current Board and skills the Board is looking to achieve in its membership are in the areas of, but not limited to industry experience and the growth, acquisition and management of independent operating units.
- Industry experience: approved products – substantial experience in the global supply of approved products;
- Executive leadership experience in global communities – substantial experience in senior executive roles for businesses across multiple global locations;
- Strategy – substantial experience in the development and implementation of strategic plans to deliver investor returns over time;
- Capital management – substantial experience in capital management strategies, including partnerships and capital raisings;
- Financial and risk management – expertise and experience in financial accounting and reporting, internal controls and financial disclosure;
- Human resources – substantial experience in oversight of remuneration, incentives, equity programs, benefits and employment contracts; and
- Governance – substantial experience in public entity disclosure, management oversight and inquiry, listing rules and compliance.

Each of these skills is well represented on our Board.

Remuneration report (audited) (continued)

(d) Elements of remuneration

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 (h) 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 Board of Directors, based on individual and overall performance of the entity and comparable market remuneration.

(e) Link between remuneration and performance

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.

(f) Remuneration expenses for executive KMP

The following table shows details of the remuneration expense recognised for the group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

Remuneration report (audited) (continued)

Fixed remuneration	Short-term benefits Salary and fees $	Post-employment benefits $	Total $
Non-executive directors			
Robert Jones			
2017	27,523	2,615	30,138
2016	27,523	2,615	30,138
William Bass *			
2017	-	-	-
2016	14,381	654	15,035
Dr Glen Richards			
2017	30,000	-	30,000
2016	30,000	-	30,000
Executive directors			
Dr Daryl Holmes			
2017	82,557	7,843	90,400
2016	82,557	7,843	90,400
Other Key Management Personnel			
Jeremy Palmer **			
2017	167,043	15,178	182,221
2016	40,098	3,809	43,908
Total 2017	307,127	25,636	332,759
Total 2016	194,560	14,921	209,481

* William Bass finished on 30 September 2015.
** Jeremy Palmer commenced as General Manager on 29 March 2016 and finished on 16 June 2017.

(g) Contractual arrangements with executive KMPs

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

Remuneration report (audited) (continued)

Dr 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 $90,400 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. In addition, Dr Holmes is entitled to be reimbursed for reasonable expenses incurred by him in carrying out his obligations under the agreement. Dr Holmes also provides dental services pursuant to a Dental Service Agreement on normal commercial terms and conditions. The directors believe that the remuneration is appropriate for the duties allocated to Dr Holmes, the size of the company's business, the industry in which the company operates and that Dr Holmes also receives income from a Dental Service Agreement with the company. There are no pay-outs upon resignation or termination, outside of industrial regulations.

Jeremy Palmer (General Manager)
Agreement commenced: 29 March 2016
Agreement terminated: 16 June 2017

Term of agreement:
The agreement may be terminated by either the company or Mr Palmer giving not less than 4 weeks' notice or by the company in the event of material breach of misconduct by Mr Palmer.

Details:
Mr Palmer's remuneration comprises a salary of $180,000 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. In addition, Mr Palmer is entitled to be reimbursed for reasonable expenses incurred by him in carrying out his obligations under the agreement. 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.

(h) Non-executive director arrangements
Non-executive directors receive a board fee and fees for chairing or participating on board committees (see table below). They do not receive performance based pay or retirement allowances. The fees are inclusive of superannuation. The chairman does not receive additional fees for participating in or chairing other committees.

Fees are reviewed annually by the board taking into account comparable roles and market data.

Base fees	30 June 2017
Chair	$30,000
Other non-executive directors	$30,000

Remuneration report (audited) (continued)

(i) Additional statutory information

Relative proportions of fixed vs variable remuneration expense

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the table on page 14.

		Fixed remuneration 2017	Fixed remuneration 2016
Executive Directors	Daryl Holmes	100%	100%
Other key management personnel of the group	Jeremy Palmer	100%	100%

Share-based compensation

Issue of shares

No shares were issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017 (2016: nil).

Options

There were no options issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2017 (2016: nil).

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 2017 (2016: nil).

Shareholdings

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

2017 Ordinary shares	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Robert Jones	34,606	-	3,330	2,915	35,021
Dr Daryl Holmes	14,711,729	-	-	-	14,711,729
Dr Glen Richards	68,300	-	-	-	68,300
Jeremy Palmer *	21,459	-	-	-	21,459
	14,836,094	-	3,330	2,915	14,836,509

* Shareholding at date of resignation on 16 June 2017.

2016 Ordinary shares	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Robert Jones	32,606	-	2,000	-	34,606
Dr Daryl Holmes	14,711,729	-	-	-	14,711,729
William Bass *	16,200	-	-	-	16,200
Dr Glen Richards	57,500	-	10,800	-	68,300
Jeremy Palmer **	-	-	21,459	-	21,459
	14,818,035	-	34,259	-	14,852,294

* Shareholding at date of resignation on 30 September 2015.
** Commenced 29 March 2016.

Remuneration report (audited) (continued)

Loans given to key management personnel
As at 30 June 2017, there are no loans made to directors of 1300SMILES Limited and other key management personnel of the group, including their close family members and entities related to them.

Other transactions with key management personnel
The group is party to 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;
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental premises;
- Three Island Pty Ltd provides rental premises; and
- Dental Members Australia Pty Ltd whereby the group refers new members to the dental plan, in return for commission.

The company received revenue for dental management services from Golden Arch (Qld) Pty Ltd for services provided under a Dental Service Agreement.

Included in operating lease commitments is $69,151 committed to Ashbourne Park Pty Ltd over a period of 1 years, $2,020,981 committed to Golden Arch Pty Ltd over a period of 5 years, and $692,443 committed to Three Island Pty Ltd over a period of 9 years.

There were nil (2016:$482,000) trade receivables and $9,000 (2016:$182,000) payables from related parties at the reporting date.

There were no loans to or from related parties at the reporting date.

During the year, the group made payments of $455,463 (2016: $286,337) to Dentist Members Australia Pty Ltd for dental plans.

Aggregate amounts of each of the above types of other transactions with key management personnel of 1300SMILES Limited:

	2017 $	2016 $
Received for goods and services:		
Dental management services	55,827	60,445
Payment for other expenses:		
Rental expense paid to related parties	674,958	651,374

Voting of shareholders at last year's annual general meeting
1300SMILES Limited received more than 95.4% of "yes" votes on its remuneration report for the 2016 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

(j) Voluntary information: remuneration received
The amounts disclosed in the table on page 15 as executive and KMP remuneration for the 2017 financial year reflect the actual benefits received by each KMP during the reporting period. The remuneration values disclosed have been determined as follows:

Remuneration report (audited) (continued)

Fixed remuneration
Fixed remuneration includes base salaries received, payments made to superannuation funds, the taxable value of non-monetary benefits received and any once-off payments such as sign on bonuses or termination benefits, see page 14 for details. Fixed remuneration excludes any accruals of annual or long-service leave.

End of remuneration report

Shares under option

There were no options outstanding as at 30 June 2017 (2016: nil).

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 2017 (2016: nil).

Diversity

The Company values diversity and recognizes the benefits it can bring to the organization's ability to achieve its goals. Diversity can lead to a competitive advantage through broadening the talent pool for recruitment of high quality employees, by encouraging innovation and improving a corporation's image and reputation. Accordingly, the Group is committed to promoting diversity within the organisation and has adopted a formal policy outlining the Group's diversity objectives. It includes requirements for the Board to establish measurable objectives for achieving diversity and for the Board to annually assess the objectives, and the Group's progress in achieving these objectives.

A copy of the diversity policy is available at www.1300smiles.com.au
With respect to gender diversity, the Group has set the following objectives:

1. aim to increase the number of women on the Board of Directors as vacancies arise and circumstances permit;
2. aim to increase number of women who hold senior executive positions as vacancies arise and circumstances permit; and
3. ensure the opportunity exists for equal gender participation in all levels of professional development programs.

The following table reports the Group's progress towards achieving its gender diversity objectives for points one and two above. In regards to point three, the Group did ensure that an equal opportunity existed for gender participation in all levels of professional development programs during the year. For completeness, as at 30 June 2017 the Company had 292 employees, of which 267 (91%) were female.

	Number of women As at 30 June 2017	Number of women As at 30 June 2016	Increase / (decrease)
Board of Directors	-	-	-
Senior Executive	4	5	(1)

The Board has delegated the responsibility for reviewing and reporting on diversity, specifically gender diversity, to the Human Resources Manager.

Environmental regulation

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

Indemnification of officers and auditors

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

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

Proceedings on behalf of the Company

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

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of the amounts paid or payable to the auditor (PKF Hacketts) for non-audit services provided during the year are set out below.

The board of directors has considered the position and are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the board of directors to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants.*

Non-audit services (continued)

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2017 $	2016 $
PKF Hacketts		
Tax compliance and consulting services	**20,845**	13,500

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 page 21.

Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the ‘rounding off’ of amounts in the directors’ report. Amounts in the directors’ report have been rounded off in accordance with the Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Dr Daryl Holmes
Managing Director

Townsville
28 August 2017

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF
1300SMILES LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF Hacketts

PKF HACKETTS AUDIT

Shaun Lindemann
Partner

Brisbane, 28 August 2017

PKF Hacketts Audit
ABN 33 873 151 348

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Corporate governance statement
For the year ended 30 June 2017

1300SMILES Limited and the board are committed to achieving and demonstrating the highest standards of corporate governance. 1300SMILES Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The current corporate governance statement was adopted by the Board effective 1 July 2016. A description of the group's current corporate governance practices is set out in the group's corporate governance statement which can be viewed at https://1300smiles.com.au/corp-governance/

Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Revenue			
Services	5	**36,020**	36,109
Other	6	**137**	365
Expenses			
Consumables, lab fees and other supplies		**(3,763)**	(3,577)
Employee benefits expense		**(13,516)**	(13,402)
Depreciation and amortisation expense	7	**(2,113)**	(2,189)
Property expenses		**(2,486)**	(2,468)
Operating expenses		**(3,409)**	(3,616)
Corporate and administrative expenses		**(508)**	(489)
Finance costs	7	**(128)**	(98)
		(25,923)	(25,839)
Share of net profit / (loss) of associates	16	**88**	42
Profit before income tax expense		**10,322**	10,677
Income tax expense	8	**(3,052)**	(3,236)
Profit for the year		**7,270**	7,441
Other comprehensive income		**-**	-
Total comprehensive income for the year		**7,270**	7,441

	Note	Cents	Cents
Earnings per share			
Basic earnings per share	9	**30.7**	31.4
Diluted earnings per share	9	**30.7**	31.4

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

Consolidated balance sheet
As at 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	**5,733**	7,538
Trade receivables	12	**2,012**	2,107
Current tax asset		**18**	764
Inventories	13	**19**	23
Other	14	**502**	193
Loans receivable	15	**500**	-
Total current assets		**8,784**	10,625
Non-current Assets			
Loans receivable	15	**1,963**	808
Investments accounted for using the equity method	16	**400**	312
Property, plant and equipment	17	**8,714**	8,349
Intangible assets	18	**25,768**	22,040
Total non-current assets		**36,845**	31,509
Total Assets		**45,629**	42,134
LIABILITIES			
Current Liabilities			
Trade and other payables	20	**6,961**	5,895
Provisions	21	**482**	490
Other liabilities	22	**100**	137
Total current liabilities		**7,543**	6,522
Non-current Liabilities			
Trade and other payables	20	**776**	1,047
Deferred tax liabilities	19	**277**	39
Provisions	21	**368**	305
Other liabilities	22	**560**	-
Total non-current liabilities		**1,981**	1,391
Total Liabilities		**9,524**	7,913
Net Assets		**36,105**	34,221
EQUITY			
Contributed equity	23	**15,501**	15,501
Retained profits		**20,604**	18,720
Total Equity		**36,105**	**34,221**

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

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Note	Contributed equity $'000	Retained profits $'000	Total equity $'000
Consolidated Balance at 30 June 2015		15,501	16,299	31,800
Total comprehensive income for the year		-	7,441	7,441
Transactions with owners in their capacity as owners:				
Dividends paid	10	-	(5,020)	(5,020)
Consolidated Balance at 30 June 2016		15,501	18,720	34,221
Total comprehensive income for the year		**-**	**7,270**	**7,270**
Transactions with owners in their capacity as owners:				
Dividends paid	10	**-**	**(5,387)**	**(5,387)**
Consolidated Balance at 30 June 2017		**15,501**	**20,604**	**36,105**

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

Consolidated statement of cash flows
For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**39,232**	38,970
Payments to suppliers and employees (inclusive of GST)		**(28,524)**	(27,357)
		10,708	11,614
Interest received		**251**	229
Interest and other finance costs paid		**(128)**	(98)
Income taxes paid		**(2,066)**	(4,176)
Net cash inflow from operating activities	34	**8,765**	7,569
Cash flows from investing activities			
Investments in share loans and other loans		**(2,090)**	(468)
Repayment of share loans and other loans		**21**	804
Proceeds from sale of assets		**-**	525
Payments for property, plant and equipment	17	**(1,005)**	(593)
Payments for intangible assets	18	**(586)**	(401)
Payment of deferred and contingent consideration		**-**	(161)
Payments for purchase of businesses, net of cash acquired	31	**(1,525)**	(1,000)
Net cash outflow from investing activities		**(5,184)**	(1,294)
Cash flows from financing activities			
Dividends paid		**(5,387)**	(5,020)
Net cash outflow from financing activities		**(5,387)**	(5,020)
Net (decrease)/increase in cash and cash equivalents		**(1,806)**	1,255
Cash and cash equivalents at the beginning of the financial year		**7,539**	6,284
Cash and cash equivalents at the end of the financial year	11	**5,733**	7,539

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

Note 1. Corporate information

The financial report of 1300SMILES Limited and its wholly owned subsidiary (together, the group) was authorised for issue in accordance with a resolution of directors on 24 August 2017. The directors have the power to amend and reissue the financial report. 1300SMILES Limited is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the group are described in the Directors' Report. The financial report is presented in Australian dollars.

Note 2. Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of 1300SMILES Limited and its subsidiaries.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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 and the *Corporations Act 2001*. 1300SMILES Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS
The consolidated financial statements of the 1300SMILES Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the group
The group has made no adoptions of standards or amendments for the first time for their annual reporting period commencing 1 July 2016.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

Note 2. Summary of significant accounting policies (continued)

AASB 9 *Financial Instruments*

Nature of Change	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.
Impact	The group no longer expects any impact from the new classification, measurement and derecognition rules on the group's financial assets and financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The group has not yet assessed how its own impairment provisions would be affected by the new rules, and it has not yet decided whether it should adopt AASB 9 before its mandatory date.
Mandatory application date / Date of adoption by group	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety.

AASB 15 *Revenue from Contracts with Customers*

Nature of Change	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer; so the notion of control replaces the existing notion of risks and rewards.
Impact	At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2017), i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.
Mandatory application date / Date of adoption by group	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the group: 1 July 2018.

Note 2. Summary of significant accounting policies (continued)

AASB 16 *Leases*

Nature of Change	The AASB has issued a new standard for the recognition of leases. This will replace AASB 117: *Leases*. The new standard introduces a single lessee accounting model that no longer requires leases to be classified as operating or financing. Other major changes include, the recognition of a right-to-use asset and liability, depreciation of right-to-use assets in line with AASB 116: *Property Plant and Equipment*, variable lease payments that depend on an index or rate are included in the initial measurement of lease liability, option for lessee to not separate non-lease components and account for all components as a lease, and additional disclosure requirements.
Impact	At this stage, the group is not able to estimate the impact of the new rules on the group's financial statements. The group will make more detailed assessments of the impact over the next twelve months. The transitional provisions of the standard allow a lessee to either retrospectively apply the standard to comparatives or recognize the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.
Mandatory application date / Date of adoption by group	Must be applied for financial years commencing on or after 1 January 2019. Expected date of adoption by the group: 1 July 2019.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Critical accounting estimates

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

Note 2. Summary of significant accounting policies (continued)

Principles of consolidation

Subsidiaries

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

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 31).

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Joint arrangements

Joint venture entities

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

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

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

Note 2. Summary of significant accounting policies (continued)

Changes in ownership interests

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of 1300SMILES Limited.

When the group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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 measured at the fair value of the consideration received or receivable. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised on the following basis:

Rendering of services

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

Interest revenue

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

Note 2. Summary of significant accounting policies (continued)

Revenue recognition

Membership and treatment plans
Membership and treatment plan revenue is recognised on an accrual basis, whereby revenue is recognised when the service is rendered. In the circumstance whereby at the end of month 6 of the 12 month membership period, no service has been rendered, revenue will start to be recognised.

Other membership and treatment plans
Membership and treatment plan revenue is recognised on an accrual basis, whereby revenue is recognised when the service is rendered.

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 revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1300SMILES Limited and its wholly-owned Australian controlled entity have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Note 2. Summary of significant accounting policies (continued)

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a dental practice comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

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

Note 2. Summary of significant accounting policies (continued)

Impairment of assets

Goodwill and 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 assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Trade receivables

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

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

Inventories

Inventories are measured at the lower of cost and net realisable value.

Financial assets

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

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

Note 2. Summary of significant accounting policies (continued)

Loans and receivables

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

Impairment of financial assets

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

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

Plant and equipment	3 to 15 years
Leasehold improvements	3 to 15 years

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

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

Leases

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

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

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

Note 2. Summary of significant accounting policies (continued)

Intangible assets

Goodwill
Goodwill on acquisitions of dental practices is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

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

Future maintainable revenue stream
Future maintainable revenue stream is the capitalization of patient acquisition costs and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate cost of the future maintainable revenue stream over the estimated useful life, which is 5 to 10 years.

Software
Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- The expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Note 2. Summary of significant accounting policies (continued)

Provisions

Provisions for legal claims and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Other long-term employee benefit obligations
The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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

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

Note 2. Summary of significant accounting policies (continued)

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

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.

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)

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.

Note 2. Summary of significant accounting policies (continued)

Rounding of amounts

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Parent entity financial information

The financial information for the parent entity, 1300SMILES Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investment in subsidiaries, associates and joint venture entities
Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of 1300SMILES Limited. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

Tax consolidation legislation
1300SMILES Limited and its wholly-owned subsidiary decided to implement the tax consolidated legislation in the year ended 30 June 2014 effective from 20 May 2014. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head company within the tax-consolidated group is 1300SMILES Limited.

Comparative Amendments

Some account classifications have changed in the current year and in order to improve the accuracy of presentation, comparative figures have also been reclassified for consistency.

There was a restatement of comparatives relating to operations expense and other payables by the amount of $182,000 for the year ended 30 June 2016. This restatement was due to a prior period miscalculation. The amount of the adjustment has been deemed to be insignificant in nature and amount. Basic and diluted earnings per share for the prior year have also been restated, the amount of the correction for both basic and diluted earnings per share is a decrease of 0.77c per share. The adjustment has also resulted in a restatement at opening retained earnings as at 1 July 2015 to $18,720,000 (previously stated: $18,902,000) and sundry payables and accruals to $2,821,000 (previously stated: $2,639,000).

Note 3. Critical accounting judgements, estimates and assumptions

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

Business combinations

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

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

Goodwill

The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital, and growth rates of the estimated future cash flows. Refer to note 18 for further information.

Note 4. 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 services of $12,273,000 (2016: $11,502,000) and dental management services of $23,218,000 (2016: $24,220,000) within a particular geographic area. The operating segments are aggregated into the one reportable segment as the long term financial performance and economic characteristics of the operating segments are similar.

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

Note 5. Revenue

	Consolidated	
	2017	2016
	$'000	$'000
Sales revenue		
Service fees	**35,491**	35,722
Other revenue		
Interest	**251**	229
Other revenue	**278**	158
	529	387
Revenue	**36,020**	36,109

Note 6. Other income

Other income	**137**	365

Note 7. Expenses

	Consolidated	
	2017	2016
	$'000	$'000
Profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Leasehold improvements	**300**	289
Plant and equipment	**1,296**	1,739
Total depreciation	**1,596**	1,728
Amortisation		
Software	**127**	120
Intellectual property	**60**	46
Future maintainable revenue stream	**330**	295
	517	461
Finance costs		
Facility fees	**128**	98
Rental expense relating to operating leases		
Minimum lease payments	**2,170**	2,190
Defined contribution superannuation expense	**1,013**	996

Note 8. Income tax expense

	Consolidated	
	2017	2016
	$'000	$'000
Income tax expense		
Current tax	**2,867**	3,133
Deferred tax	**239**	109
Under/(over) provision in prior years	**(54)**	(6)
Aggregate income tax expense	**3,052**	3,236
Deferred tax included in income tax expense comprises:		
Increase in deferred tax liabilities (note 19)	**239**	109
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**10,322**	10,859
Tax at the Australian tax rate of 30% (2016: 30%)	**3,097**	3,258
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**5**	11
De-recognition of contingent consideration	**(41)**	-
Other	**45**	(27)
	3,106	3,242
Adjustments for current tax of prior periods	**(54)**	(6)
Income tax expense	**3,052**	3,236

Note 9. Earnings per share

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

	2017	2016
	$'000	$'000
Net profit attributable to ordinary equity holders	**7,270**	7,441
	Shares	Shares
Weighted number of ordinary shares for basic earnings per share		
Number of shares	**23,678,384**	23,678,384
	Cents	Cents
Earnings per share	**30.7**	31.4
Diluted earnings per share	**30.7**	31.4

Note 10. Dividends

	Consolidated 2017 $'000	Consolidated 2016 $'000
Final dividend for the year ended 30 June 2016 of 11.5 cents (2015: 10.2 cents) per ordinary share paid on 26 September 2016 fully franked based on a tax rate of 30%	**2,723**	2,415
Interim dividend for the half year ended 31 December 2016 of 11.25 cents (2015: 11.0 cents) per ordinary share paid on 24 March 2017 fully franked based on a tax rate of 30%	**2,664**	2,605
	5,387	5,020

Since the end of the financial year, the Directors declared, for the year ended 30 June 2017, a final fully franked ordinary share dividend of 11.75 cents ($2,782,210) which is payable on 29 September 2017.

	Consolidated 2017 $'000	Consolidated 2016 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**8,739**	8,982

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 $1,192,000 (2016 – $1,167,000).

Note 11. Cash and cash equivalents

	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash on hand	**6**	6
Cash at bank	**5,727**	7,532
	5,733	7,538

Classification as cash equivalents

Term deposits are presented as cash equivalents if they have maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest. See note 2 for the group's other accounting policies on cash and cash equivalents.

Note 12. Trade Receivables

	Consolidated	
	2017	2016
	$'000	$'000
Trade receivables	**1,192**	1,311
Membership and treatment plan receivables *	**835**	811
Provision for doubtful debts	**(15)**	(15)
	2,012	2,107

*Membership and treatment plan receivables are recognised in the accounting period in which the dental services are provided. The instalments receivable under these plans are allocated over pre-specified time periods usually twelve months. Treatment plan receivables balance is exclusive of all payments received but not yet applied to outstanding invoices.

Past due receivables

Customers with balances past due but not impaired amount to $114,000 as at 30 June 2017 ($142,000 as at 30 June 2016). These past due debtors were all 1 to 3 months overdue.

Note 13. Inventories

	Consolidated	
	2017	2016
	$'000	$'000
Current assets		
Stock on hand	**19**	22

Note 14. Other assets

	Consolidated	
	2017	2016
	$'000	$'000
Current assets		
Prepayments	**476**	171
Other current assets	**2**	2
Interest receivable	**24**	20
	502	193

Note 15. Loans receivable

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Current		
Loans receivable (b)	**500**	-
Non-current		
Share loan principal (a)	**442**	344
Share loan interest	**21**	25
Other loans receivable	**-**	439
Loans receivable (b)	**1,500**	-
	1,963	808

a) Ordinary share loans were made pursuant to a company loan funded program to incentivise consultants, contractors and executive management. Shares are held in voluntary escrow. The voluntary escrow is progressively released over a six year period. The loans are full recourse and repayable 13 months after the company makes a call on the borrowers. The loans are secured by lien over the shares acquired from proceeds of the share loan. In the event the borrowers sell any shares, a proportionate percentage of the outstanding loan is required to be repaid. Interest on loans is charged on a commercial basis, varying from 5% to 5.5%.

b) Redeemable preferences shares were acquired during the period in an unlisted public company. Terms of fixed interest repayments range from 12 months to 3 years, with rates of return varying from 8% to 14%. No voting rights are attached to the shares held. Management intend to hold the investments for cash flow purposes and not share trading purposes.

Note 16. Joint arrangements

Dental Members Australia Pty Ltd ('DMA') has share capital consisting solely of ordinary shares which are held directly by the group. The proportion of ownership interest is the same as the proportion of voting rights held. The key decisions of the governing body of DMA require unanimous consent from all shareholders and accordingly the investment is classified as a joint venture. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not the group's share of those amounts. They have been amended to reflect adjustments made by the group when using the equity method, including modifications for differences in accounting policy and fair value adjustments.

Note 16. Joint arrangements (continued)

The group's share of profit from its equity accounted investment for the year was $88,000 (2016: $42,000). The group did not receive any dividends from its equity accounted investment during the year.

	Consolidated	
	2017	2016
	$'000	$'000
Shares in Dental Members Australia Pty Ltd *(*ownership interest 33%)	**400**	312
Share of associate's assets and liabilities		
Current assets		
Cash and cash equivalents	**553**	365
Receivables	**180**	559
Total current assets	**733**	924
Non-current assets	**901**	580
Total assets	**1,634**	1,504
Current liabilities		
Trade and other payables	**368**	570
Total liabilities	**368**	570
Net assets	**1,266**	933
Reconciliation to carrying amounts		
Opening net assets 1 July	**312**	270
Profit/(loss) for the period	**88**	42
Closing net assets	**400**	312
Group's share in %	**33%**	33%
Group's share in $	**400**	312
Carrying amount	**400**	312
Revenue	**1,229**	941
Interest income	**3**	3
Other income	**74**	-
Profit/(loss) from continuing operations	**264**	127
Profit/(loss) for the period	**264**	127
Other comprehensive income	**-**	-
Total comprehensive income	**264**	127
Dividends received from joint ventures	**-**	-

Note 17. Property, plant and equipment

	Consolidated 2017 $'000	Consolidated 2016 $'000
Leasehold improvements - at cost	**5,254**	4,615
Less: Accumulated depreciation	**(3,281)**	(2,981)
	1,973	1,634
Plant and equipment - at cost	**15,992**	15,343
Less: Accumulated depreciation	**(9,251)**	(8,628)
	6,741	6,715
	8,714	8,349

Reconciliations

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

Consolidated	Capital works $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Balance at 1 July 2015	10	7,731	1,980	9,721
Additions	126	402	65	593
Addition from business combinations	-	100	-	100
Transfers	(10)	10	-	-
Disposals	-	(215)	(122)	(474)
Depreciation expense	-	(1,439)	(289)	(1,728)
Balance at 30 June 2016	126	6,589	1,634	8,349
Balance at 1 July 2016	**126**	**6,589**	**1,634**	**8,349**
Additions	**-**	**540**	**464**	**1,005**
Addition from business combinations #	**-**	**781**	**175**	**956**
Transfers	**(34)**	**34**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**
Depreciation expense	**-**	**(1,296)**	**(300)**	**(1,596)**
Balance at 30 June 2017	**92**	**6,648**	**1,973**	**8,714**

Refer to note 31

Note 18. Intangible assets

	Consolidated 2017 $'000	Consolidated 2016 $'000
Intangible Assets - at cost	**27,803**	23,558
Less: Accumulated amortisation	**(2,035)**	(1,518)
	25,768	22,040

Reconciliations

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

Consolidated	Software* $'000	Goodwill $'000	Intellectual property* $'000	Future maintainable revenue stream* $'000	Total $'000
Balance at 1 July 2015	327	19,080	780	1,040	21,227
Additions	112	-	3	286	401
Addition from business combinations	-	900	-	-	900
Disposals	(1)	-	-	(26)	(27)
Amortisation expense	(120)	-	(46)	(295)	(461)
Balance at 30 June 2016	318	19,980	737	1,005	22,040
Balance at 1 July 2016	**318**	**19,980**	**737**	**1,005**	**22,040**
Additions	**132**	**-**	**440**	**455**	**1,026**
Addition from business combinations #	**-**	**3,218**	**-**	**-**	**3,218**
Disposals	**-**	**-**	**-**	**-**	**-**
Amortisation expense	**(127)**	**-**	**(60)**	**(330)**	**(517)**
Balance at 30 June 2017	**323**	**23,198**	**1,117**	**1,130**	**25,768**

*Software, intellectual property and future maintainable revenue stream are separately acquired
Refer to note 31

Note 18. Intangible assets (continued)

Impairment tests for goodwill

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
North Queensland	**647**	478
Central Queensland	**5,173**	5,173
South East Queensland **	**12,926**	12,926
Other *	**2,203**	1,403
	20,949	19,980

* Multiple units without significant goodwill
** At 30 April 2017 annual impairment testing was conducted, which excluded $2,249,000 goodwill acquired from business combination at 30 June 2017 (refer to note 31).

The recoverable amount of goodwill is based on value-in-use calculations which use cash flow projections based on financial budgets approved by management covering a five year period. Future cash flows are projected over a five year period and use an implied annual growth rate of 10% (2016: 10%) and are discounted using the group's weighted average cost of capital of 11.7% (2016: 11.7%). Cash flows beyond the five year period are extrapolated using an estimated growth rate of 2% (2016: 2%) which does not exceed the long-term average growth rate for the industry in which each CGU operates. Impairment testing was conducted as at 30 April 2017. Addition to goodwill of $2,249,000 was due to a business combination (refer to note 31), which occurred on 30 June 2017. No impairment losses were recorded in the current year.

Note 19. Deferred tax

	Consolidated	
	2017	**2016**
	$'000	**$'000**
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	**-**	188
Employee benefits	**211**	208
Accrued expenses	**86**	95
Total deferred tax assets	**298**	491
Deferred tax liabilities		
Intellectual property	**(228)**	(220)
Other intangible assets	**(347)**	(310)
Total deferred tax liabilities	**(575)**	(530)
Net deferred tax assets/(liabilities)	**(277)**	(39)
Deferred tax assets expected to be recovered within 12 months	**298**	303
Deferred tax assets expected to be recovered after more than 12 months	**-**	188
Deferred tax liabilities expected to be recovered after more than 12 months	**(575)**	(529)
	(277)	(39)
Movements		
Opening Balance	**(39)**	70
(Debited)/Credited to profit or loss (note 8)	**(239)**	(109)
Closing balance	**(277)**	(39)

Note 20. Trade and other payables

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Current		
Trade payables	**1,971**	2,082
Sundry payables and accruals	**4,128**	2,821
Unearned revenue	**862**	992
	6,961	5,895
Non-current		
Other payables	**776**	1,047

Refer to note 24 for detailed information on financial risk management.

Note 21. Provisions

	Consolidated	
	2017	2016
	$'000	$'000
Current		
Provision for employee benefits	**482**	490
Non-current		
Make good provision	**260**	210
Provision for employee benefits	**108**	95
	368	305
Make good provision		
Balance at 1 July 2016	**210**	220
Charged/ (credited) to income statement	**50**	(10)
Balance at 30 June 2017	**260**	210

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.

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $482,000 (2016: $490,000) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated	
	2017	2016
	$'000	$'000
Current leave obligations expected to be settled after 12 months	**108**	95

Note 22. Other liabilities

	Consolidated 2017 $'000	Consolidated 2016 $'000
Current		
Contingent settlement payable	**100**	137
Non-current		
Contingent settlement payable	**560**	-
Contingent settlement payable		
Balance at 1 July 2016	**137**	298
Additions through business combinations	**660**	-
Settled / (written back) during the year	**(137)**	(161)
Balance at 30 June 2017	**660**	137

Note 23. Contributed equity

	Consolidated			
	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares - fully paid	**23,678,384**	23,678,384	**15,501**	15,501

At 30 June 2017 50,849 (2016: 50,000) shares were held under escrow.

Details	Date	No of shares	Issue Price	$'000
Balance	30 June 2016	23,678,384		15,501
Balance	30 June 2017	23,678,384		15,501

Ordinary shares

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Capital risk management

The group'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 group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Note 23. Contributed equity (continued)

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

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

The cash to equity ratios at 30 June 2017 and 30 June 2016 were as follows:

	Consolidated	
	2017	**2016**
	$'000	**$'000**
Cash and cash equivalents		
Net cash	**5,733**	7,538
Total equity		
Total capital	**36,156**	34,221
Cash to equity ratio	**16%**	22%

Note 24. Financial risk management

Financial risk management objectives

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

The board of directors have overall responsibility for the establishment and oversight of the risk management framework. The managing director is responsible for developing and monitoring risk management policy, and reports regularly to the board of directors on issues and compliance. Risk management policy is to identify and analyse the risks faced by the group, to set limits and controls, and to monitor risks and adherence to limits. Risk management policy and systems are reviewed regularly to reflect changes in market conditions and group activities. The group aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Market risk

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

Note 24. Financial risk management (continued)

Price risk

The group is not exposed to any significant price risk.

Interest rate risk

The group's main interest rate risk arises from cash and cash equivalents. The group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and investing options and the mix of fixed and variable interest rates. The group is only exposed to interest rate risk on cash and cash equivalents at 30 June 2017.

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

Consolidated	Weighted Average interest rate %	2017 $'000	Weighted average interest rate %	2016 $'000
Variable interest				
Cash and cash equivalents	1.84%	**5,733**	2.74%	7,538
Fixed interest				
Share loans	5.40%	**463**	6.70%	369
Other loans receivable	-	**-**	7.00%	438
Loans receivable	12.50%	**2,000**	-	-
Net exposure to cash flow interest rate risk		**8,196**		8,345

A movement in interest rates of 1% (2016: 1%) would have an adverse/favourable effect on profit before tax of $81,960 (2016: $83,470) 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 group. The entity's exposure to risk is minimised due to the majority of clients paying for their services up front. The group monitors and follows-up its accounts receivable to ensure collections are being made promptly in accordance with contractual terms and conditions and actively pursues amounts past due. Where applicable, an allowance for impairment is made, that represents the estimate of incurred losses in respect to trade and other receivables.

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

Credit risk is continually reviewed and managed to reduce the incidence of material losses being incurred by the non-receipt of monies due. Management considers the credit and default risks attached to the share loans and loans receivable to be minimal.

Note 24. Financial risk management (continued)

With respect to share loans the group may at any time, by written notice, call on the borrower to repay all or part of the outstanding amount within 13 months after the company makes a call. Where applicable, if an employee ceases to be employed by the company, the money owing will become payable on the date which is three (3) months after the date on which the employment ceases, if the employment ceases after the probationary period. A lien will remain effective after escrow has been removed on the proportionate percentage of the total shares subject to the loan outstanding. $372,000 (2016: $369,000) of the share loans are receivable from one party comprising an external consultant of the group.

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

Liquidity risk

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

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

Further analysis of the group's current cash to equity ratio is disclosed in note 23 of these accounts.

Remaining contractual maturities

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

Consolidated	Weighted Average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total $'000
Balance at 30 June 2016						
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	2,082	-	-	-	2,082
Sundry payables and accruals	-	2,821	239	764	-	3,825
Other liabilities	-	137	-	-	-	137
Total non-derivatives		5,040	239	764	-	6,044
Balance at 30 June 2017						
Non-derivatives						
Non-interest bearing						
Trade and other payables	**-**	**1,971**	**-**	**-**	**-**	**1,971**
Sundry payables and accruals	**-**	**4,128**	**764**	**-**	**-**	**4,892**
Other liabilities	**-**	**100**	**200**	**360**	**-**	**660**
Total non-derivatives		**6,199**	**964**	**360**	**-**	**7,523**

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

Note 24. Financial risk management (continued)

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 and contingent consideration approximates the carrying amount.

Note 25. Key management personnel disclosures

Compensation

	2017 $'000	2016 $'000
Short-term employee benefits	**307**	195
Post-employment benefits	**26**	15
	333	210

Detailed remuneration disclosures are provided in the remuneration report on pages 11 to 18.

Shareholdings

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

Related party transactions

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

Note 26. Remuneration of auditors

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

	Consolidated	
	2017 $'000	2016 $'000
(i) Audit and other assurance services		
Audit and review of financial statements	**77**	74
(ii) Taxation services		
Tax compliance services	**21**	14
Total remuneration	**98**	88

Note 27. Contingent liabilities

The group had $1,395,000 contingent liabilities as at reporting date (2016: $1,395,000), in respect of property guarantees.

Note 28. Leasing commitments

	Consolidated	
	2017	2016
	$'000	$'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	**2,098**	1,899
One to five years	**6,195**	3,835
More than five years	**1,363**	994
	9,655	6,728

Lease commitments – finance

As at 30 June 2017 and 30 June 2016 there were no commitments in relation to finance leases payable.

Note 29. Related party transactions

Parent entity

1300SMILES Limited is the parent entity.
The ultimate controlling entity is Dr Daryl Holmes who has a 62.13% (2016: 62.13%) interest in 1300SMILES Limited.

Entities subject to significant influence by the Group

For details of joint arrangements, refer to note 16.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Key management personnel

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

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2017	2016
	$'000	$'000
Received for goods and services:		
Dental management services*	**56**	60
Payment for other expenses:		
Rental expense paid to related parties**	**675**	651

*The company received revenue of $55,827 (2016: $60,445) for dental management services from Golden Arch (Qld) Pty Ltd for services provided under a Dental Service Agreement.

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

- Golden Arch Pty Limited ATF the Whistler Trust provides rental premises to an amount of $435,190 (2016: $435,190).
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage premises to an amount of $138,500 (2016: $139,572).
- Three Islands Pty Ltd provides rental premises to an amount of $101,268 (2016: $76,612).

Note 29. Related party transactions (continued)

Included in operating lease commitments in note 28 is $69,151 committed to Ashbourne Park Pty Ltd over a period of 1 years, $2,020,981 committed to Golden Arch Pty Ltd over a period of 5 years, and $692,443 committed to Three Island Pty Ltd over a period of 9 years.

Receivable from and payable to related parties

There were nil (2016: $482,000) trade receivables and $9,000 (2016: $182,000) payables from related parties at the reporting date.

Loans to/from related parties

There were no loans to or from related parties at the reporting date.

Other transactions

During the year, the group made payments of $455,463 (2016: $286,337) to Dentist Members Australia Pty Ltd, a joint arrangement, for dental plans.

Terms and conditions

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

Note 30. Parent entity information

Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Consolidated	
	2017 $'000	**2016 $'000**
Balance Sheet		
Current assets	**7,573**	9,404
Total assets	**45,661**	41,771
Current liabilities	**6,814**	5,752
Total liabilities	**8,929**	7,286
Shareholders equity		
Contributed equity	**15,501**	15,501
Retained earnings	**21,231**	18,984
	36,732	34,485
Profit or loss for the year (after tax)	**7,634**	7,728
Total comprehensive income	**7,634**	7,728

Guarantees entered into by the parent entity

The parent entity did not enter into guarantees in respect of bank loans or loans of subsidiaries as at 30 June 2017 and 30 June 2016.

Note 30. Parent entity information (continued)

Contingent liabilities of the parent entity

The parent entity had $1,395,000 (2016: $1,395,000) contingent liabilities as at 30 June 2017 in respect of property guarantees.

Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any contractual commitments for the acquisition of property, plant or equipment as at 30 June 2017 and 30 June 2016.

Note 31. Business combinations

The group acquired two dental practices in Stanmore and Waterloo, Sydney on 26 October 2016, acquired a dental practice in Townsville, Queensland on 9 March 2017, and acquired two orthodontic practices in Chatswood and Bathurst, New South Wales on 30 June 2017.

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

	Stanmore & Waterloo $'000	Thuringowa $'000	Chatswood & Bathurst $'000	Total $'000
Purchase consideration:				
Cash paid	1,200	325	-	1,525
Cash payable	-	-	1,989	1,989
Contingent consideration	-	-	660	660
Total purchase consideration	1,200	325	2,649	4,174

Assets and liabilities recognised as a result of the acquisition are as follows:

	Stanmore & Waterloo Fair Value $'000	Thuringowa Fair Value $'000	Chatswood & Bathurst Fair Value $'000	Total Fair Value $'000
Property, plant and equipment	400	156	400	956
Goodwill	800	169	2,249	3,218
Net assets acquired	1,200	325	2,649	4,174

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

Acquisition-related costs

During the current year there are $13,385 (2016: $40,870) acquisition-related costs that are included in operating expenses in profit or loss and in operating cash flows in the statement of cash flows.

Note 32. Fair value measurement of financial instruments

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

AASB13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3: Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2017 and 30 June 2016 on a recurring basis.

		Consolidated	
		Level 3	Level 3
		2017	2016
	Note	$'000	$'000
Other liabilities			
Contingent consideration payable	22	**660**	137

There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

The group did not measure any financial assets or financial liabilities on a non-recurring basis as at 30 June 2017.

The contingent consideration liability is a level 3 financial instrument, which arose from the acquisition of the orthodontic dental practices in New South Wales. Expected cash flows are estimated on the terms of the sale contract (see note 31) and the Group's knowledge of the business and how the current economic environment is likely to impact it. The fair value of contingent consideration payable is analysed at the end of each reporting period.

Note 33. Subsidiaries

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

		Equity holding	
		2017	2016
Name of entity	Country of incorporation	%	%
1300SMILES (BOH Dental) Pty Ltd	Australia	**100**	100

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

	Consolidated	
	2017	2016
	$'000	$'000
Profit after income tax expense for the year	**7,270**	7,441
Adjustments for:		
Net loss on sale of non-current assets	**-**	(302)
Share of (profits)/losses of associates not received as dividends	**(88)**	(42)
Gain on derecognition of contingent consideration	**(138)**	-
Depreciation and amortisation	**2,113**	2,189
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	**69**	(233)
(Increase)/decrease in deferred tax assets	**-**	70
(Increase)/decrease in other assets	**(307)**	175
Increase/(decrease) in trade and other payables	**(1,141)**	(430)
Increase /(decrease) in deferred tax liabilities	**239**	(39)
Increase/(decrease) in current tax payable	**747**	(1,049)
Decrease in other provisions	**1**	(50)
Decrease in other liabilities	**-**	(161)
Net cash inflows from operating activities	**8,765**	7,569

Note 35. Subsequent events

A fully franked final dividend of 11.75 cents per share has been declared and is payable on 29 September 2017.

Apart from the matter mentioned above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Directors' declaration

30 June 2017

In the directors' opinion:

a) the financial statements and notes set out on pages 7 to 61 are in accordance with the *Corporations Act 2001*, including:
   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declaration by the managing director and finance team leader as required by section 295A of the *Corporations Act 2001*.

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

Dr Daryl Holmes
Managing Director

Townsville
28 August 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF 1300SMILES LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of 1300SMILES Limited (the company), which comprises the consolidated balance sheet as at 30 June 2017, 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 company and 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.

In our opinion, 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 2017 and of its performance for the year ended on that date; and

ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the consolidated entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. This matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

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1. Carrying amount of intangible assets - goodwill

Why significant

As at 30 June 2017 the carrying value of goodwill was $23,198,000 (2016: $19,980,000), as disclosed in Note 18.

The consolidated entities accounting policy in respect of goodwill is outlined in Note 2.

Goodwill is recognised on the acquisition of practises.

The carrying amount of intangible assets - goodwill is a key audit matter due to:

- the significance of the balance (being 51% of total assets); and
- the level of judgement applied in evaluating management's assessment of impairment.

As outlined in Notes 3 and 18, management assessed the carrying amount of goodwill through impairment testing utilising a value in use model in which significant judgements are applied in determining key assumptions. These assumptions include the assessment of future revenue growth expected to be achieved, as well as the weighted average cost of capital. The judgements made in determining the underlying assumptions in the model have a significant impact on the carrying amount of goodwill, and accordingly the amount of any impairment charge, or reversal of impairment, to be recorded in the current financial year.

How our audit addressed the key audit matter

In assessing this key audit matter, we involved senior audit team members who understand the dental services industry.

Our audit procedures included, amongst others:

- evaluating management's methodology for determining the carrying amount of intangible assets by comparing the value in use model with generally accepted valuation methodology and accounting standard requirements;
- sensitivity analysis on key assumptions such as weighted average cost of capital (WACC) and growth rates, within reasonable foreseeable ranges, in which we found that value in use remained in excess of the carrying value of net assets of each cash-generating unit ('CGU');
- challenging the key assumptions used in management's value in use model by:
  - assessing growth rates set by management in comparison to historical results
  - evaluating the WACC rate set by management in comparison to market and industry information available
- assessing the appropriateness of the related disclosures in Note 18.

Other Information

Other information is financial and non-financial information in the annual report of the consolidated entity which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

We have obtained all the other information prior to the date of this Auditor's Report, which includes the letter from the Managing Director, Directors' Report, Corporate Governance Statement and Shareholder Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

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 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of 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 conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

Opinion

In our opinion, the Remuneration Report of 1300SMILES Limited for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

PKF Hacketts

PKF HACKETTS AUDIT

SHAUN LINDEMANN
PARTNER

28 AUGUST 2017
BRISBANE, AUSTRALIA

Shareholder information

30 June 2017

The shareholder information set out below was applicable as at 30 June 2017.

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	1,381
1,001 to 5,000	643
5,001 to 10,000	82
10,001 to 50,000	63
50,001 to 100,000	11
100,001 and over	12
	2,192

Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
Dr Daryl Holmes	14,116,837	59.62%
JP Morgan Nominees Australia Ltd	1,399,130	5.91%
Evelin Investments Pty Ltd	980,000	4.14%
Citicorp Nominees Pty Ltd	742,548	3.14%
Ashbourne Park Pty Ltd	550,702	2.33%
Dr Russell Kay Hancock	340,000	1.44%
Upper Avalon Pty Ltd	329,145	1.39%
B P J Investments Pty Ltd	200,000	0.84%
BNP Paribas Noms Pty Ltd	189,693	0.80%
Mr Kevin John Holmes + Mrs Janita Dawn Holmes	144,752	0.61%
MMANDIM Pty Ltd	100,000	0.42%
Lonceta Pty Ltd	100,000	0.42%
National Nominees Ltd	92,984	0.39%
HSBC Custody Nominees	85,607	0.36%
Mr Kent Gush	80,00	0.34%
Gang-Gang Pty Ltd	78,875	0.33%
Mr Bradley John Holmes + Mrs Seiko Holmes	71,932	0.30%
Mr David Solomons	52,617	0.22%
ANCAM Pty Ltd	50,000	0.21%
GF & LH Richards Super Pty Ltd	50,000	0.21%
	19,754,822	83.43%

There are no unquoted equity securities.

Shareholder information
30 June 2017

Substantial holders

Substantial holders in the Company are set out below:

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

Voting rights

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

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

There are no other classes of equity securities.

Restricted securities

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

	2017	2018	2019	2020	2021	2022
January						
February						
March						
April						
May						
June		2,170	2,170	2,170	2,170	2,169
July						
August						
September	10,000	10,000	10,000	10,000		
October						
November						
December						
Annual total	10,000	12,170	12,170	12,170	2,170	2,169
Overall total						50,849

Corporate directory

Directors

Robert Jones, Chairman
Dr Daryl Holmes, Managing Director
Dr Glen Richards, Non-Executive Director

Company secretary

Gina Bozinovski

Registered office and principal business office

1300SMILES Limited
Ground Floor
105 Denham Street
Townsville QLD 4810
T: + 61 7 4720 1300
F: + 61 7 4771 5217
W: www.1300SMILES.com.au

Auditor

PKF Hacketts Audit
Level 6, 10 Eagle Street
GPO Box 1568
Brisbane QLD 4000

Country of incorporation

Australia

Stock exchange listing

Australian Securities Exchange Limited
ASX Code: ONT

Australian business number (ABN)

91 094 508 166

Share register

Computershare Limited
117 Victoria Street
West End QLD 4001
W: www.computershare.com/au

Legal advisers

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

Broadley Rees Hogan
24/111 Eagle Street
Brisbane QLD 4000

Wilson Ryan Grose Lawyers
51 Sturt Street
Townsville QLD 4810

1300 SMILES Dentists

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