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 2014
Previous Corresponding Reporting Period	30 June 2013

Results for Announcement to the Market

	$'000	**Percentage increase/ (decrease) over previous corresponding period**
Revenue from ordinary activities	31,591	(12.7%)
Profit / (loss) from ordinary activities after tax attributable to members	4,987	(21.7%)
Net profit / (loss) for the period attributable to members	**4,987**	**(21.7%)**

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	8.0 cents	100%
Interim Dividend	6.5 cents	100%
Record date for determining entitlements to the dividends (if any)	10 October 2014	

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	15 October 2014
Record date to determine entitlement to the dividend	10 October 2014
Amount per security	8.0 cents
Total dividend	$1,894,271
Amount per security of foreign sourced dividend or distribution	Nil
Details of any dividend reinvestment plans in operation	N/a
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/a

1300SMILES Limited
Shareholder information
30 June 2014

NTA Backing

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	34.8 cents	61.8 cents

Commentary on the Results for the Period

NTA Backing – the reduction of 27.0 cents per security is the result of the BOH acquisition which was purchased for cash and therefore resulted in a tangible asset (cash) being substituted for an intangible asset (goodwill).

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

Audit/Review Status

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

Financial Statements

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

By Order of the Board
William Bass
Company Secretary
29 August 2014

ANNUAL REPORT

For the year ended 30 June 2014

CONTENTS

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

COMPANY SECRETARY
William Bass

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

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

Operational
MacDonnells Law
Level 1
131 Denham Street
Townsville QLD 4810

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

AUDITOR
PricewaterhouseCoopers
51 Sturt Street
PO Box 1047
Townsville, QLD, 4810

COUNTRY OF INCORPORATION
Australia

STOCK EXCHANGE LISTING
Australian Securities Exchange Limited
ASX Code: ONT

INTERNET ADDRESS
www.1300SMILES.com.au

AUSTRALIAN BUSINESS NUMBER
ABN 91 094 508 166

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

The key to understanding the 2014 full year results lies in understanding the recent history of our company and the dental industry. The results are good and they reflect well on our many management initiatives. I ask for your patience, however, as I believe it is important to review the history of the past two years one last time before we turn to the 2014 results.

From the first era to the second era

In my last four letters to shareholders I have devoted considerable time to explaining how our business and indeed the entire dental industry have been transformed since the end of the 2012 year. This brief review marks the fact that 1300SMILES has now completed the transition from its first era as a listed company, through the turmoil of the 2013 year, to its second era.

The first era

The first era began in 1995, when we organised our first few practices into the private company which later became 1300SMILES. In March 2005, the company was listed on the ASX. From that time until the 2012 financial year, the company delivered growth in Revenue, Net Profit After Tax, and Dividends Per Share in every year but one. Over that period, Earnings Per Share grew from 9.8c per share in 2006, the company's first full year as a listed company, to 26.5c per share in 2012. The compound growth rate in EPS over the period was 18%. Over this era the company paid shareholders a total of 84.5c in fully franked dividends—a grossed up return of $1.21 on shares issued at 80c each in 2005.

During the first era the company saw alternating spells in which its growth came mainly from acquisitions in some years and mainly from organic growth in others. 1300SMILES has always restricted its acquisitions to those opportunities which offer an immediate and sustainable increment to Earnings Per Share. We have always been comfortable to forego acquisitions when the terms have been anything short of strongly favourable; we have never pursued growth in practice numbers for its own sake. I am proud to report that our organic growth has remained strong through all periods and continues to underpin the growth in our ongoing returns.

The transition - the 2013 year

The first era came to an end in August 2012, when the commonwealth government announced, without warning, the end of the Chronic Disease Dental Scheme (CDDS). The scheme would finish at the end of November 2012, which meant that dentists and patients scrambled furiously to get CDDS-funded dental care completed in those last three months.

This mad rush greatly inflated our Revenue in the first half to December 2013. Statutory revenue was about $21 million for the half, while Over the Counter (OTC) Revenue, which I have previously explained is a better measure of our total business activity, was just under $30 million. The half year set records on every front.

It was followed by a notably dull second half. Dentists took holidays after working exceptional hours during the first half. Many patients had had all of their CDDS work completed, while others stayed home, stunned and frightened about how they would pay for essential dental services. OTC revenue dropped from almost $30 million in the first half to under $20 million in the second half.

Don't think for a moment that we were sitting around wondering what to do during this period. We were busy laying the groundwork for future success. In particular, we introduced our $1 per day Dental Care Plan. By the end of the 2013 year, the Dental Care Plan was delivering ongoing membership fees at an annualised rate of $1.4 million, plus the extra income for services beyond those covered by the plan, but these effects just weren't in play for long enough to have much effect on the 2013 full year result.

Our 2013 OTC Revenue showed an increase of just 5.4% on the previous year. This was acceptable, under the circumstances, but a much smaller increase than those to which we had all grown accustomed. Considering the turmoil in our industry, however, I regard the fact that we delivered an increase in OTC at all as an extraordinary achievement and testament to the skill and tenacity of our managers, as well as the diligence of our dentists.
I regard the 2013 financial year as being the year of transition, not fully belonging to either the first or the second era.

The second era

The second era commenced with the first half to December 2013. Both Statutory and OTC Revenue in that first half were down sharply when compared to the greatly-inflated first half to December 2012, but this comparison offers no useful information.

The first half to December 2013 is important because it was the first reporting period of the second era, the baseline against which I urge shareholders to measure our progress. That first half reflected our operations in the new normal for the entire dental industry.

During this period we began to see significant numbers of patients who previously relied on CDDS benefits return to our surgeries, suddenly capable of funding their own dental care. This came as no surprise, because CDDS was not means-tested, so it paid for plenty of dental services for which patients could easily have paid themselves.

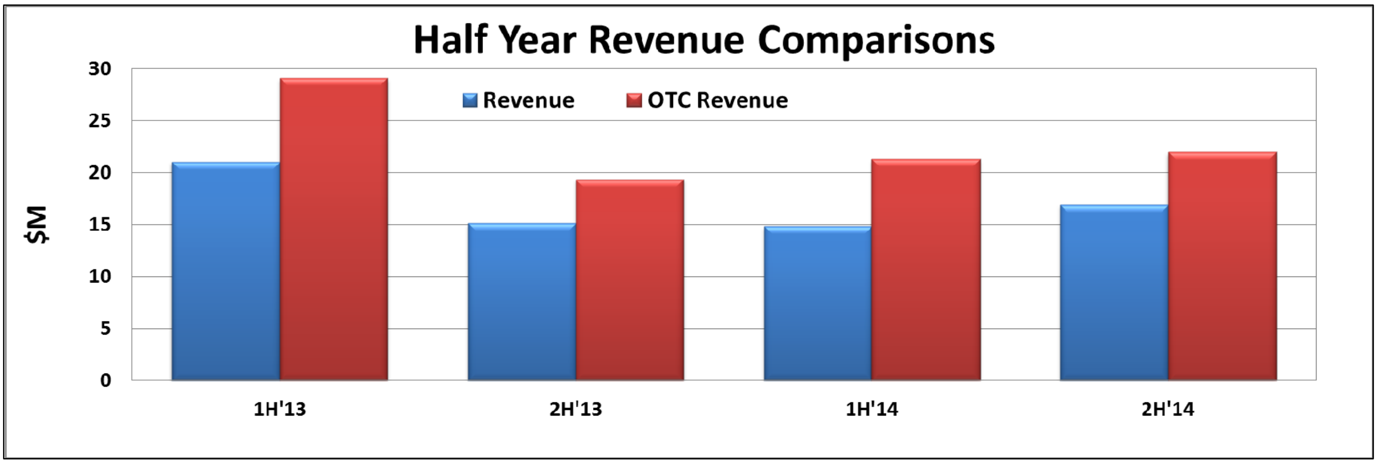
Compared to the previous year's first half, the half year to December 2013 started in a dental industry whose total revenue was about 20% smaller than it was in the previous year. For 1300SMILES, this first half was one in which we operated in relatively normal conditions:

- no inflated revenue from CDDS
- ongoing organic and incremental growth
- early indications of success for our $1-a-day Dental Care Plan membership program
- significant capacity within our surgeries for organic growth
- early contributions from our public-private operations which have taken much of the backlog load from Queensland Health while not creating any dependence on a big single purchaser of dental services as had developed under CDDS.

In the first half to December 2013, 1300SMILES delivered the results which form our new baseline: OTC Revenue of $21.3 million, NPAT of $2.5 million, EPS of 10.69 cents per share, and a fully-franked interim dividend of 6.5 cents.

The second half to June 2014 compares favourably to these results on all measures, reflecting the fact that the company delivered growth on all fronts: organic growth, with more dentists working more hours in more surgeries; growth in membership fees and additional professional fees in our Dental Care Plan; and, late in the year, our acquisition of BOH Dental, an important step which I will discuss separately.

Please see below a chart showing the Revenue and OTC Revenue results for the four consecutive half-years to June 2014. I rather hope that this is the last time I'll have to talk about what happened in the transition year of 2013.



As I have outlined above and elsewhere, the baseline against which we will measure our future results is the first half of the 2014 year. Against that first half, the second half of the year showed solid progress:

- Statutory Revenue up 14.1%
- OTC Revenue up 3.2%
- EBITDA up 5.0%
- Fully franked dividend up 23%

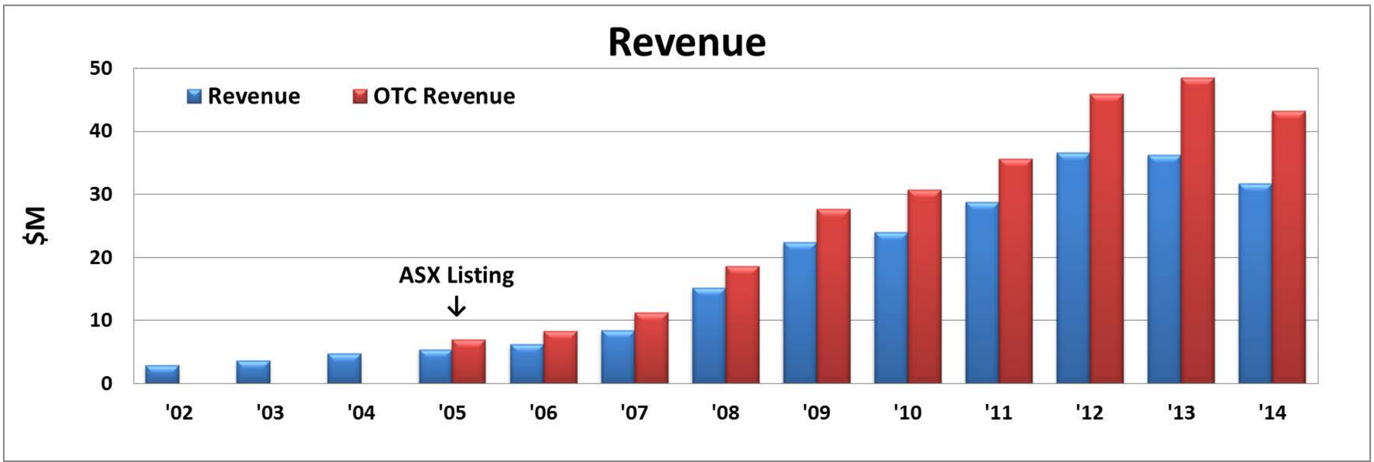
I am confident that these first indications of renewed growth will prove to be illustrative of the new growth phase the company has entered.

Financial Results for the year ended 30 June 2014

I am proud to deliver for shareholder inspection our results for 2014, the first year of the new era:

- Revenue (Statutory) down 12.3% to $31.8 million
- NPAT down 21.7% to $5.0 million
- Revenue (Over-the-Counter) down 10.7% to $43.3 million
- Earnings Per Share down 21.9% to 21.0c
- EBITDA down 13.1% to $9.7 million
- Full year dividend down 21.6% at 14.5c per share

On virtually all important financial measures, the results for the 2014 full year are inferior to those of the previous year. These declines across the board are all attributable, in whole or in part, to the abrupt end of the CDDS. As I have noted before, we are entitled to be proud of these results given that the entire dental industry has recently undergone a step-change downward in total industry revenue of about 20%. Make no mistake, conditions in our industry were as tough during the 2014 year as they have ever been. I believe that our company has emerged from this tough period more resilient and efficient than ever, and that our results, while down on previous periods, are more robust and more thoroughly tested than ever before.



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

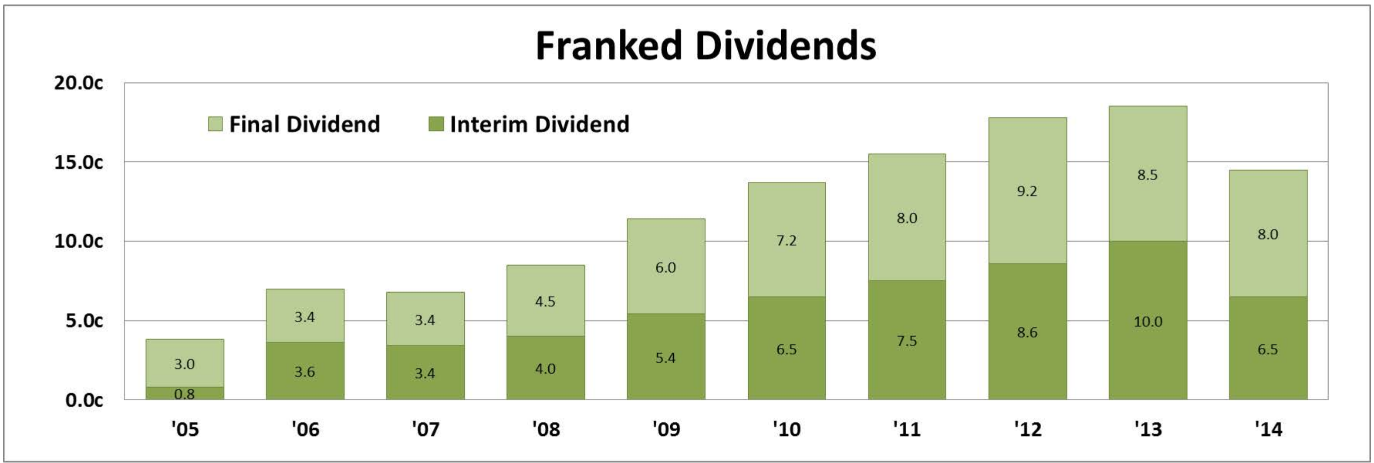
"Revenue" in the chart above is the Revenue we report in our statutory accounts.

"OTC Revenue" is a measure we track 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 fees retained by self-employed dentists.

Dividends

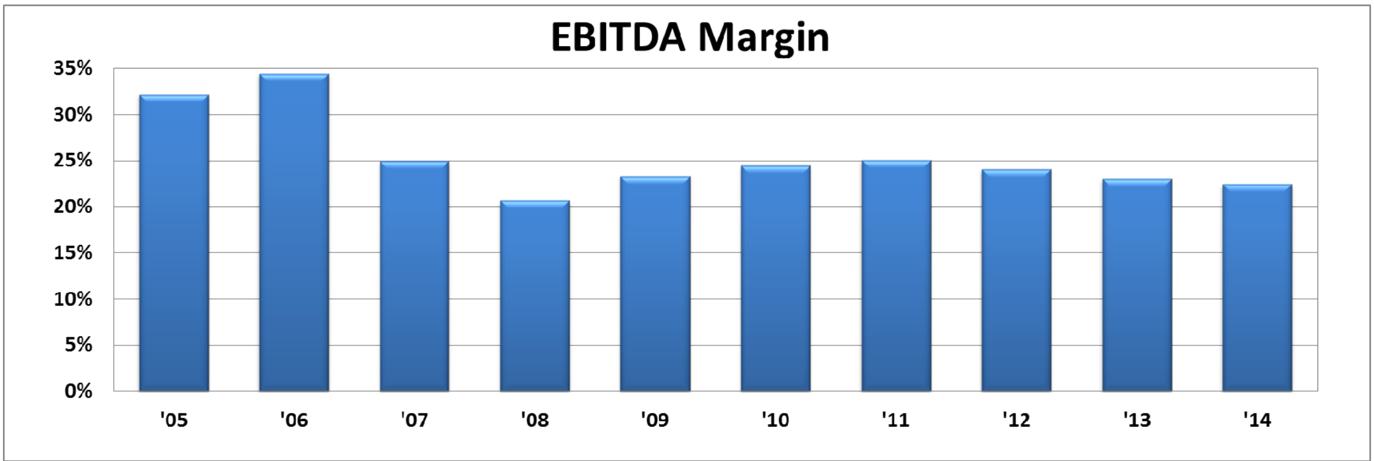
We have always regarded dividends as a way of enabling shareholders to participate in the company as true owners of the business. We are proud of our history of paying steadily growing and always fully franked dividends. For the 2014 year the full year dividend took a step downward, in parallel with our results. I join all shareholders in looking ahead to resumed dividend growth. As I have reminded you many times before, my reward for running the company comes mainly in the form of dividends I receive on my shareholding at exactly the same rate as every other shareholder.

The final dividend of 8.0c per share brings the total for the year to 14.5c. This represents a payout ratio of just under 70% of Earnings Per Share, the same as the previous full year. We endeavour always to set the dividend to ensure that shareholders participate in the company as true owners. With the reduced interim dividend, all shareholders joined me in experiencing the reality of our first half year of operations in the new era. I am extremely pleased that the second half of the year has delivered more agreeable results for all shareholders, and your directors will do their best to ensure that the company remains on this positive trajectory.



Earnings Before Interest, Tax, and Depreciation (EBITDA)

EBITDA is a measure of the quality of a company's core operations. The chart below illustrates the fact that our results at the EBITDA level have proved to be extremely resilient in the face of the industry shocks absorbed over the past two years. This performance results from the endless hard work of ensuring that every aspect of our operation is as efficient and as effective as possible. A lot of this work is neither flashy nor photogenic, but we devote a great deal of management time and real money to the job of enhancing the quality of our total operation.



Outlook

As always, we plan to deliver growth in the following main ways:

1. Organic Growth

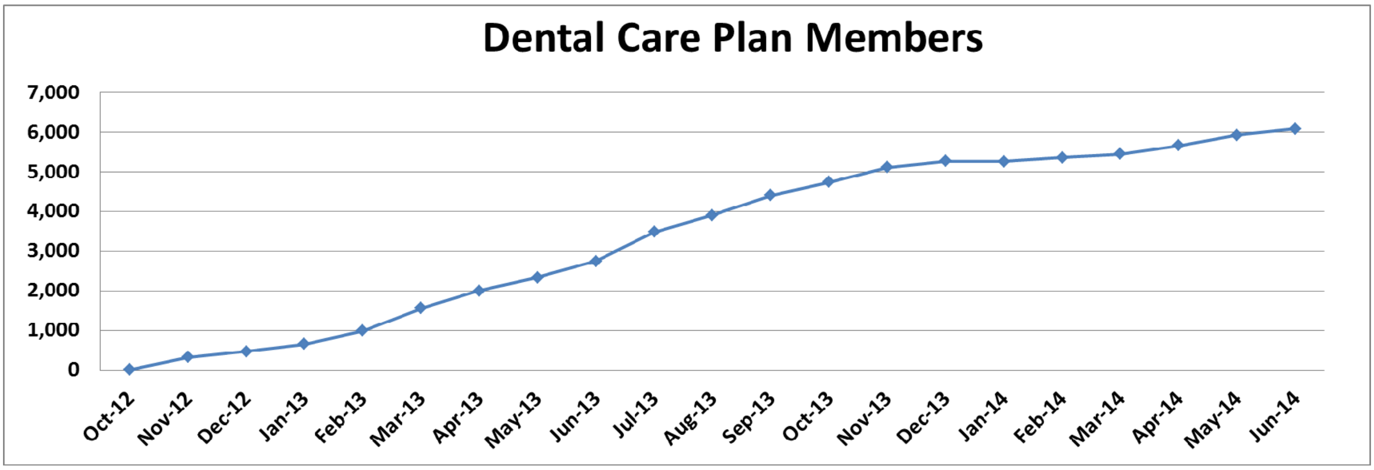
Almost all of our facilities can accommodate extra dentists at no further capital cost and extremely little in the way of startup costs. We always design our facilities with this extra capacity.

2. Acquisitions

We are always extremely picky about acquisitions and we will go for extended periods with no new acquisitions if potential acquisition targets fail to meet our requirements. At the end of the 2014 year, however, we made our largest single acquisition ever. This will deliver an immediate increment to NPAT and Earnings Per Share. This acquisition was included for only a short period in the 2014 year but it will be included for the full year in 2015.

3. Dental Care Plan – *Making Dentistry Affordable*

Under our $1-a-day Dental Care Plan members receive all routine dental maintenance and checkups at no further cost. Where more extensive treatment is required, members benefit from our Dental Treatment Plan, under which they enjoy both a 10% discount on the total cost of treatment plus six month, interest-free payment plans. At the end of the year the combined revenue from membership fees plus treatment fees was running at an annual rate of well over $3 million.



4. New Initiatives and ongoing innovation

Our $1-a-day membership plan boosts our business on many important measures, from the efficiency with which we use our facilities to our success in recruiting additional dentists. This front-end effort is further supported by our fierce commitment to ongoing systems development which enable us to control, measure, benchmark, and improve every aspect of our operations. This is reflected in our excellent EBITDA performance which I address elsewhere in this letter.

5. Child Dental Benefits Scheme

As cautious as we are about becoming dependent on any government scheme, CDBS covers up to $1,000 worth of treatment over two years for a population of about 3.4 million children. (Unlike the defunct CDDS, CDBS is effectively means-tested, but still available to a large proportion of families.) From a zero start in January 2014, CDBS now delivers a steady and useful increment to Revenue. This additional revenue is now running at an annualised rate of over $3 million.

6. New cooperation with government

Our ongoing relationship with Queensland Health has assisted in greatly reducing waiting times for public dental patients while delivering incremental Revenue and profit to the company.

Acquisition of BOH Dental, Brisbane CBD

Completed at the end of May 2014, our acquisition of BOH Dental is the largest we have ever made, on every measure: the biggest increment to Revenue, to NPAT, and to Earnings Per Share arising from any single acquisition, and the highest price we have ever paid. I believe that BOH will prove to be well worth the acquisition price, and a lot more. All of the partners of BOH supported the acquisition and all have committed to stay on in their well-established practices.

The scale and solidity of the BOH business mean that in this case we have acquired a sustainable earnings stream which is both larger and more certain than those of our previous acquisitions. The partners of BOH all agreed, effectively, to underwrite the agreed levels of revenue and margin we expect to derive from the BOH operations. I expect that BOH will make an annual contribution at the EBIT level of at least $1.25 million.

We believe that benefits will flow in both directions. Seven of the ten BOH dentists are senior specialists, enabling dentists elsewhere in the 1300SMILES system to make referrals within our system. While BOH's long-established practice is quite a strong business in its own right, we believe we can build further on that strength by introducing our Dental Care Plan to the thousands of BOH patients to whom it was not previously available. BOH is located in the heart of the Brisbane CBD and gives us a substantial presence in that city.

Allow me a soapbox moment (1)

The only shadow over our acquisition of BOH Dental is the accounting treatment of stamp duty. Our acquisition of BOH caused us to incur a stamp duty charge of $544,031. This is a real cash expense which reduced our 2014 NPAT by that full amount and, accordingly, exerted downward pressure on our Earnings Per Share.

There is, however, a bizarre twist. That stamp duty, which we paid with real cash and which our accounts recognise as a real expense, is NOT deductible for tax purposes. The Australian Tax Office regards stamp duty as a capital cost. That could make sense, but only if the tax treatment and the accounting treatment were aligned. While the accounts are presented in accordance with accounting standards, this misalignment gives a distorted view of the effect of this transaction. If the $500,000 were an expense--as it is in our accounts--it would also reduce our tax bill by $150,000. As it is, we must record the $500,000 as an expense while still paying the $150,000 tax which would be due in the absence of this expense. At the very least, this makes it difficult for shareholders to appreciate the immediate and lasting benefit to be derived from the BOH acquisition.

Stamp duty in its many forms is a job-killer, discouraging productive transactions across the economy. Its continued damaging effects arise, I understand, because the commonwealth and state governments cannot seem to work out a sensible way of sharing GST revenue, leaving the state to rely on destructive, job-killing taxes such as Stamp Duty and Payroll Tax. Both the state and federal governments have been under the control of the same party for a long time now; it's time to sort out the revenue sharing issue so the state can reduce or eliminate these damaging, job-destroying taxes.

Allow me a soapbox moment (2)

I usually avoid detailed discussions of obscure accounting matters because they tend to even out from one year to the next. But this year I must mention the impact of our effective company tax rate. Over time, the income tax paid by 1300SMILES averages out at a figure very close to 30%, the standard company tax rate. The company does not pursue any aggressive tax strategy, and we structure our business activities to achieve the greatest possible sustainable return.

In most years, our effective tax rate is either a little above or a little below 30%, thanks to timing differences which inevitably arise in every accounting period. In the 2014 year, however, we have seen a particularly large swing, from 28.79% in 2013 to 32.36% in 2014, an increase of 3.57%.

Our net profit before tax for 2014 was $7.37 million. If we add back the stamp duty expense the figure rises to nearly $8 million. That 3.57% change in effective tax rate therefore caused our Net Profit After Tax figure to be lower by more than $280,000, compared to what it would have been had the previous year's rate applied.

Combined with the $544,031 stamp duty charge mentioned above, these two non-operational numbers have the effect of reducing our NPAT by more than $800,000--a decrement of more than 16%, with an equal effect on our Earnings Per Share. Our underlying business suffered no such decline and it's a pity that the accounting standards require us to present our accounts in this way.

QIP Accreditation

I am proud to advise that 1300SMILES Ltd has achieved the highest level of accreditation for all of its dental practices under a scheme developed by the Quality Innovation Performance Group (QIP) under the Australian Dental Association's accreditation program. QIP advises that "1300SMILES is the first dental group in Australia to undertake accreditation of all of their dental practices in a single process to achieve accreditation by QIP against the National Safety and Quality Health Service standards."

I invite you to consider the implications of this achievement. We believe that individual dental practices will in many cases struggle to satisfy the QIP requirements, if for no other reason than that the administrative demands of achieving this certification may be beyond the management capacity of smaller dental operations. Within 1300SMILES, dentists enjoy the administrative support required to deliver the many management services which are essential but not directly related to the delivery of patient care. Our business focusses totally on freeing dentists to do what they do best--hands-on dentistry--while freeing them from the administrative burdens.

Only a few hundred of Australia's 8,000 dental practices have achieved this qualification; we have achieved it for all twenty five of our facilities.

Youth With A Mission

YWAM continues to deliver medical, dental and optical services on an extraordinary scale directly to remote areas of Papua New Guinea which for the most part have no other medical care available.

I am joined by many 1300SMILES staff and dentists who have volunteered their time and effort both on board the ship and in other capacities. As a company, we support and encourage this generosity on the part of our people.

YWAM's latest initiative, called "Overcoming the Impossible," aims to raise the remaining $5 million required to convert a former cruise ship into its primary operating vessel, known as M.V. Ammari. I personally am proud to assist YWAM with this effort.

OLD SHIP – Pacific Link

$6.5m

NEW SHIP – MV Ammari

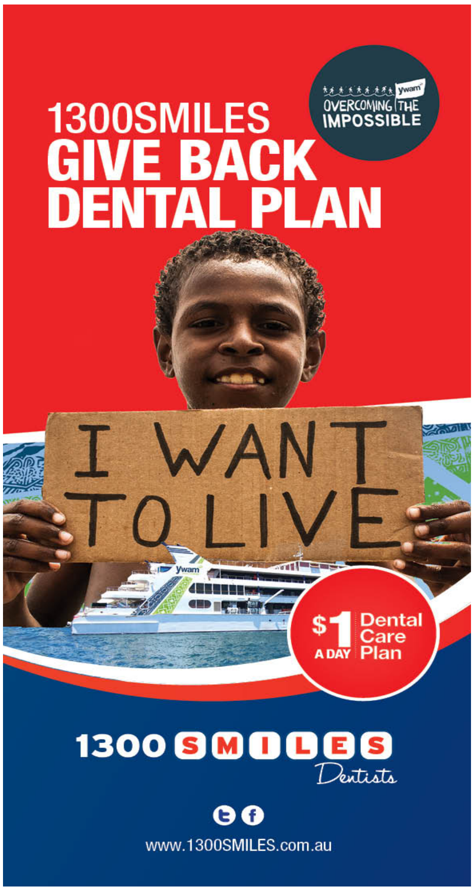
VISIT YWAMSHIPS.ORG.AU

ywam medicalships

FOLLOW #OVERCOMEIMPOSSIBLE

I am especially pleased to invite all shareholders to take the opportunity to visit YWAM's new ship during the Overcoming the Impossible Tour. The ship will call in at ten ports between Cairns and Sydney between August and December. I urge you to come aboard and have a tour. You will be amazed by the facilities, and the generosity of the volunteer crew will leave you speechless. For more information and details please visit their website at www.ywamships.org.au

Most recently we announced that five percent of the ongoing payments received from all new members in our $1-a-day Dental Care Plan will be donated to YWAM Medical Ships. This ongoing funding will assist YWAM to address critical oral health problems in some of PNG's most remote and vulnerable communities.



Thank you

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

Yours faithfully,

Dr Daryl Holmes
Managing Director

ABOUT 1300SMILES LIMITED

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 also Encouraged to contact Dr. Holmes directly or email dentalcareers@1300smiles.com.au or visit our www.dentalcareersaustralia.com.au.

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of 1300SMILES Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled for the year ended 30 June 2014.

Directors

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

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

Principal activities

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

Dividends

Dividends paid during the financial year were as follows:

	2014 $'000	2013 $'000
Final dividend for the year ended 30 June 2013 of 8.5 cents (2012: 9.2 cents) per ordinary share paid on 9 October 2013 fully franked based on a tax rate of 30%	2,013	2,205
Interim dividend for the half year ended 31 December 2013 of 6.5 cents (2012: 10.0 cents) per ordinary share paid on 14 April 2014 fully franked based on a tax rate of 30%	1,539	2,354
	3,552	4,559

Since the end of the financial year, the Directors declared, for the year ended 30 June 2014, a final fully franked ordinary share dividend of 8.0 cents ($1,894,271) which is payable on 15 October 2014.

Review of operations

The profit for the group after providing for income tax amounted to $4,987,000 (30 June 2013: $6,367,000).

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 dental practices in Cammeray, New South Wales and Brisbane, Queensland.

Events since the end of the financial year

A fully franked final dividend of 8.0 cents per share has been declared and is payable on 15 October 2014.

Apart from the matters mentioned above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

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

Environmental regulation

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

Information on Directors

Robert Jones
Chairman
MAICD

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

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

Other current Directorships:
None.

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

Special responsibilities:
Chairman of Remuneration and Nomination Committee.

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

Interests in options:
None.

Dr. Daryl Holmes
Managing Director
BDSc (Hons) MAICD

Experience and expertise:
Dr. Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (BDSc (Hons)) at Queensland University in 1987. During the last two years of his five year degree he accepted a scholarship from the Royal Australian Air Force (RAAF). Upon completion of his degree he practised dentistry as a RAAF Dental Officer (1988-91). Thereafter, in 1991, he began private dental practice in Ayr and Home Hill, North Queensland later that year. Since that time he has operated dental surgeries in the Burdekin region, 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 27 years.

Dr. Holmes has extensive experience in operating dental practices and an intimate knowledge of the management, administrative and other support services required in a dental practice. He has been instrumental in establishing the support network and suite of services that 1300SMILES Limited currently provides to its dental clients.

Dr. Holmes has been a Director and Deputy Chairman of the Cowboys Leagues Club for the past 12 years, and in May 2014 was elected Chairman.

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

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

Special responsibilities:
Member of Remuneration and Nomination Committee.

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

Interests in options:
None.

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

Experience and expertise:
Mr Bass has considerable corporate and listed Company experience. He brings extensive commercial and financial management experience from a range of leading Australian and international public companies including General Electric, Billabong, Country Road and On Card International.

Other current Directorships:
China Magnesium Corporation Limited
Silicon Lakes Limited (unlisted)
Alzheimer's Australia, Inc. (unlisted)
Alzheimer's Australia (Qld) Limited (unlisted)

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

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

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

Interests in options:
None.

Meeting of Directors

	Board		Nomination and Remuneration Committee		Risk and Audit Committee*	
	Attended	**Held**	**Attended**	**Held**	**Attended**	**Held**
Robert Jones	9	9	1	1	4	4
Daryl Holmes	9	9	1	1	4	4
William Bass	9	9	1	1	4	4

* The Board resolved in its meeting on 27 March 2014, to amalgamate the responsibilities of the Audit and Risk Committee, and assume all of the responsibilities on the basis of the commonality of the members.

Remuneration report (audited)

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

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

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

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

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

The Nomination and Remuneration Committee comprises the entire Board and is responsible for determining remuneration packages applicable to the Board members and the Managing Director. The Managing Director determines the remuneration packages for the senior Executives of the Company in accordance with compensation guidelines set by the Board.

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

In accordance with best practice corporate governance, the structure of non-executive Directors and executive remunerations are separate.

Non-executive director remuneration

The Company seeks to set aggregate remuneration at a level which provides the Company with the ability to attract, retain and motivate Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

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

The Company has resolved that the maximum aggregate amount of Directors' fees (which does not include remuneration of Executive Directors and other Non-Director services provided by Directors) is $150,000 per annum. Non-Executive Directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the Company. A Director may also be remunerated as determined by the Directors if that Director performs additional or special duties for the Company. A former Director may also receive a retirement benefit of an amount determined by the Directors in recognition of past services, subject to the ASX Listing Rules and the Corporations Act 2001.

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

Executive director and other key management personnel remuneration

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

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

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

Group performance and link to remuneration

Remuneration is reviewed on an annual basis by the Board and increases are at the discretion of the Board. Bonuses and incentive payments are at the discretion of the Board.

(b) Details of remuneration

Amounts of remuneration

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

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

- Eric van Niekerk – Group Operations Manager (resigned 30 June 2013)

Remuneration of Directors and Key Management Personnel

Name	Short-term benefits Salary and fees	Post-employment benefits Super-annuation	Share based payments Equity settled shares	Total
	$	$	$	$
Non-Executive Directors:				
Robert Jones				
2014	27,523	2,529	-	30,052
2013	27,523	2,477	-	30,000
William Bass*				
2014	64,523	2,529	-	67,052
2013	57,523	2,477	-	60,000
Executive Directors:				
Daryl Holmes				
2014	82,875	7,665	-	90,540
2013	102,443	9,220	-	111,663
Other Key Management Personnel:				
Eric van Niekerk				
2014	-	-	-	-
2013	159,556	14,360	-	173,916
Total				
2014	174,921	12,723	-	187,644
2013	347,045	28,534	-	375,579

* Includes Company secretarial services.

(c) Service agreements

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

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

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

Details:
Dr Holmes' remuneration comprises a salary of $90,194 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. In addition, Dr Holmes is entitled to be reimbursed for reasonable expenses incurred by him in carrying out his obligations under the agreement. Dr Holmes also provides dental services pursuant to a Dental Service Agreement on normal commercial terms and conditions. The Directors believe that the remuneration is appropriate for the duties allocated to Dr Holmes, the size of the Company's business, the industry in which the Company operates and that Dr Holmes also receives income from a Dental Service Agreement with the Company. There are no pay-outs upon resignation or termination, outside of industrial regulations.

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

Resignation
Mr Van Niekerk resigned on 30 June 2013, due to personal and family reasons. He continues to provide management consulting services on an external ad-hoc basis.

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

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

(d) Share-based compensation

Issue of shares
No shares were issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2014 (2013: 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 2014 (2013: 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 2014 (2013: nil).

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 and storage premises;
- 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 $594,421 committed to Ashbourne Park Pty Ltd over a period of 5 years and $1,408,570 committed to Golden Arch Pty Ltd over a period of 5 years.

There were trade no trade receivables from related parties at the reporting date. There were trade payables of $41,597 owing to Dr Daryl Holmes in relation to credit card payments at the reporting date.

There were no loans to or from related parties at the reporting date, other than the trade payable to Dentist Members Australia Pty Ltd of $26,000.

During the year, the group made payments of $694,305 (2013: $313,000) 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:

	2014 $	2013 $
Received for goods and services:		
Commission revenues	**203,148**	110,000
Dental management services	**77,308**	79,378
Payment for other expenses:		
Rental expense paid to related parties	**506,042**	539,720

Shares under option
There were no options outstanding as at 30 June 2014 (2013: 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 2014 (2013: nil).

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

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

Proceedings on behalf of the Company

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

Non-audit services

The 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.

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.*

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

	2014 $	2013 $
PricewaterhouseCoopers		
Tax compliance and consulting services	**12,296**	2,200

Rounding of amounts

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

Auditor's independence declaration

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

Auditor

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

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

On behalf of the Directors

Dr Daryl Holmes
Director

29 August 2014
Townsville

Auditor's Independence Declaration

As lead auditor for the audit of 1300SMILES Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
29 August 2014

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

1300SMILES Limited (the company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the group in this statement.

A description of the group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations, which are as follows:

Principle 1: Lay solid foundations for management and oversight;
Principle 2: Structure the Board to add value;
Principle 3: Promote ethical and responsible decision making;
Principle 4: Safeguard integrity in financial reporting;
Principle 5: Make timely and balanced disclosure;
Principle 6: Respect the rights of shareholders;
Principle 7: Recognise and manage risk; and
Principle 8: Remunerate fairly and responsibly.

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

Any departures to the Council's best practice recommendations as at the date of this report, or throughout the year ended 30 June 2014, are set out below.

Structure of the Board

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

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

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

Name	**Position**
Robert Jones	Chairman
William Bass	Non-Executive Director

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

Name	**Position**
Dr. Daryl Holmes	Managing Director

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

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

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

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

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

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

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

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

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

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

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

Name	**Term in office**
Robert Jones	6 years and 8 months
Daryl Holmes	13 years and 11 months
William Bass	7 years and 6 months

Diversity and Workplace Gender Equality

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

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

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

	Objective		Actual	
	Number	**%**	**Number**	**%**
Number of women employees in the whole organisation	236	80	236	93
Number of women in senior executive positions	4	50	5	45
Number of women on the Board	1	20	-	-

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

Remuneration and Nomination Committee

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

The Committee comprises the entire Board.

Risk and Audit Committee

The Board resolved in its meeting on 27 March 2014, to amalgamate the responsibilities of the Audit and Risk Committee, and assume all of the responsibilities on the basis of the commonality of the members. The Board adheres to the same Charter as previously delegated to the Risk and Audit Committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

All members are financially literate and have suitable skills to discharge the Risk and Audit responsibilities. The Company Secretary (Mr Bass) has a Bachelor of Economics and is an Associate of the Institute of Chartered Accountants.

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

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

Performance

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

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

Remuneration

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

For details on the amount of remuneration for each of the highest paid (non-Director) executives during the year, and for all Directors, please refer to the Remuneration Report within the Directors' Report. In relation to the payment of bonuses and retirement benefits, discretion is exercised by the Board, having regard to the overall performance of 1300SMILES Limited and the performance of the individual during the period.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, subject to the Company's constitution and prior shareholder approvals, and the Executive team. As noted above, the Board has established a Remuneration and Nomination Committee.

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

Corporate Reporting
In complying with recommendation 7.3, the Managing Director and General Manager – Operations and Finance have made the following certifications to the Board:

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

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Revenue	5	**31,591**	36,183
Other income	6	**164**	5
Expenses			
Consumables, lab fees and other supplies		**(3,500)**	(5,284)
Employee benefits expense		**(11,920)**	(15,044)
Depreciation and amortisation expense	7	**(2,278)**	(2,120)
Property expenses		**(2,283)**	(2,207)
Operating expenses		**(3,311)**	(2,187)
Corporate and administration expenses		**(110)**	(251)
Business growth and development		**(912)**	(51)
Finance costs	7	**(4)**	(106)
		(24,318)	(27,250)
Share of net (loss) / profit of associates	16	**(64)**	3
Profit before income tax expense		**7,373**	8,941
Income tax expense	8	**(2,386)**	(2,574)
Profit after income tax expense for the year attributable to the owners of 1300SMILES Limited		**4,987**	6,367
Other comprehensive income for the year, net of tax			
Items that may be reclassified to profit or loss		-	-
Items that will not be reclassified to profit or loss		-	-
		4,987	6,367
Total comprehensive income for the year attributable to the owners of 1300SMILES Limited		**4,987**	6,367
		Cents	**Cents**
Basic earnings per share	9	**21.0**	26.9
Diluted earnings per share	9	**21.0**	26.9

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

	Note	Consolidated 2014 $'000	2013 $'000
Assets			
Current Assets			
Cash and cash equivalents	11	**1,369**	8,051
Trade receivables	12	**1,468**	795
Inventories	13	**30**	-
Other	14	**76**	202
Total current assets		**2,943**	9,048
Non-current Assets			
Loans receivable	15	**2,137**	1,827
Investments accounted for using the equity method	16	**269**	333
Property, plant and equipment	17	**11,990**	8,747
Intangible assets	18	**20,989**	13,314
Deferred tax assets	19	**472**	546
Other	14	**6**	31
Total non-current assets		**35,863**	24,798
Total Assets		**38,806**	33,846
Liabilities			
Current Liabilities			
Trade and other payables	20	**5,786**	3,876
Current tax liability		**858**	886
Provisions	21	**575**	338
Other liabilities	22	**150**	154
Total current liabilities		**7,369**	5,254
Non-current Liabilities			
Provisions	21	**301**	290
Other liabilities	22	**406**	350
Trade and other payables	20	**1,511**	-
Total non-current liabilities		**2,218**	640
Total liabilities		**9,587**	5,894
Net Assets		**29,219**	27,952
Equity			
Contributed equity	23	**15,501**	15,501
Retained profits		**13,718**	12,451
Total Equity		**29,219**	27,952

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

	Note	Contributed equity $'000	Retained profits $'000	Total equity $'000
Consolidated				
Balance at 1 July 2013		15,501	12,451	27,952
Profit after income tax expense for the year		-	4,987	4,987
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	4,987	4,987
Transactions with owners in their capacity as owners:				
Dividends paid	10	-	(3,552)	(3,552)
Recognition of dividends payable	10	-	(168)	(168)
Balance at 30 June 2014		15,501	13,718	29,219
Balance at 1 July 2012		15,370	10,643	26,013
Profit after income tax expense for the year		-	6,367	6,367
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	6,367	6,367
Transactions with owners in their capacity as owners:				
Deferred tax benefit-share issue costs	23	131	-	131
Dividends paid	10	-	(4,559)	(4,559)
Balance at 30 June 2013		15,501	12,451	27,952

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

	Note	Consolidated 2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**32,315**	37,050
Payments to suppliers and employees (inclusive of GST)		**(22,387)**	(26,621)
		9,928	10,429
Insurance claims refunds and other income		**164**	5
Interest received		**352**	684
Interest and other finance costs paid		**(4)**	(229)
Income taxes paid		**(2,284)**	(2,272)
Net cash from operating activities	34	**8,156**	8,617
Cash flows from investing activities			
Investments in share loans		**(303)**	(110)
Payments for property, plant and equipment	17	**(1,605)**	(672)
Payments for intangible assets	18	**(1,003)**	(532)
Payment for purchase of businesses, net of cash acquired	31	**(8,375)**	(557)
Net cash used in investing activities		**(11,286)**	(1,871)
Cash flows from financing activities			
Repayment of borrowings		**-**	(7,607)
Dividends paid		**(3,552)**	(4,559)
Net cash used in financing activities		**(3,552)**	(12,166)
Net decrease in cash and cash equivalents		**(6,682)**	(5,420)
Cash and cash equivalents at the beginning of the financial year		**8,051**	13,471
Cash and cash equivalents at the end of the financial year	11	**1,369**	8,051

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

Note 1. Corporate information

The financial report of 1300SMILES Ltd and its wholly owned subsidiary (together, the group) was authorised for issue in accordance with a resolution of directors on 29 August 2014. The directors have the power to amend and reissue the financial reporting. 1300SMILES Ltd is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the group are described in the Directors' Report. The financial report is presented in Australian dollars.

Note 2. Significant accounting policies

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

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

New and amended standards adopted by the group
The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2013:

- AASB 13 *Fair Value Measurement and* AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13;*
- AASB 119 *Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011).*

The adoption of AASB119 did not have a material impact on the group. The other standards only affected the disclosures in the notes to the financial statements.

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

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

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of 1300SMILES Limited ('Company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. 1300SMILES Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

(i) Subsidiaries

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

Note 2. Significant accounting policies (continued)

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details.

(ii) 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.

(iii) Changes in ownership interests
When the group ceases to have 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 recognised when it is probable that the economic benefit will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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

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. Significant accounting policies (continued)

Membership and treatment plans
Membership and treatment plan revenue is recognised on an accrual basis, whereby revenue is recognised when 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 be recognised.

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

Income tax

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

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

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

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

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

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

1300SMILES Limited and its wholly-owned subsidiary have decided to implement the tax consolidated legislation in the year ended 30 June 2014 but the effective implementation date is yet to be finalised. 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. The adoption of the tax consolidation system has not yet been formally notified to the Australian Taxation Office.

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

Trade receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the

Note 2. Significant accounting policies (continued)

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 gilt-edged 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.

Loans and receivables

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

Impairment of financial assets

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

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

Property, plant and equipment

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

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 10 years
- Leasehold improvements 3 to 10 years

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

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

Note 2. Significant accounting policies (continued)

Leases

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

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

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

Intangible assets

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

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

Future maintainable revenue stream
Future maintainable revenue stream is 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 years.

Impairment of non-financial assets

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

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units as groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

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

Trade and other payables

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

Note 2. Significant accounting policies (continued)

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

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:
- interest on short-term and long-term borrowings;
- interest on finance leases.

Employee benefits

Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits 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 that are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

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 government 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.

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.

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

Note 2. Significant accounting policies (continued)

Contributed equity
Ordinary shares are classified as equity.

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

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

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

- fair values of the assets transferred
- liabilities incurred
- 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 expense 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 acquire 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. Significant accounting policies (continued)

Earnings per share

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

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

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

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

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

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

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

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 3. Critical accounting judgements, estimates and assumptions (continued)

Current Asset Deficiency
The Company acquired BOH Dental in June 2014 from current cash reserves. Immediately prior to this transaction the Company held a significant net current asset surplus.

As at 30 June 2014, following the acquisition, the Company has a current assets deficiency of $4,426,000.

The board and senior management meet monthly and review in detail the current cash position and cash flow forecasts. The Directors are confident that the Company can meet working capital requirements from operating cash flows. However, the Company has a number of options available to it to continue to ensure it has sufficient reserves to meet its obligations as and when they fall due. These options include but are not limited to, the sale of surplus assets, negotiating loan and debt facilities, and overhead cost reductions.

The directors are confident that all current liability commitments will continue to be met from operating cash generated in the normal business course and as such the financial report has been prepared on a going concern basis.

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 $8,173,000 (2013: $15,795,000) and dental management services of $22,712,000 (2013: $19,589,000) within a particular geographic area. The operating segments are aggregated into the one reportable segment as the long term financial performance and economic characteristics of the operating segments are similar.

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

	Consolidated	
	2014	**2013**
	$'000	**$'000**
Note 5. Revenue		
Sales revenue		
Service fees	**30,885**	35,384
Other revenue		
Interest	**360**	578
Other revenue	**346**	221
	706	799
Revenue	**31,591**	36,183
Note 6. Other income		
Other income	**164**	5

	Consolidated 2014 $'000	2013 $'000
Note 7. Expenses		
Profit before income tax includes the following specific expenses:		
Depreciation and amortisation		
Leasehold improvements	**662**	720
Plant and equipment	**1,288**	1,245
Total depreciation	**1,950**	1,965
Amortisation		
Software	**167**	103
Intellectual property	**47**	47
Other	**114**	5
	328	155
Finance costs		
Interest and finance charges paid/payable	**4**	106
Rental expense relating to operating leases		
Minimum lease payments	**2,044**	1,931
Defined contribution superannuation expense	**722**	794
Net loss on sale of non-current assets	**29**	-
Gain on de-recognition of contingent consideration	**(221)**	-
Note 8. Income tax expense		
Income tax expense		
Current tax	**2,311**	2,858
Deferred tax	**130**	220
Under/(over) provision in prior years	**(55)**	(504)
Aggregate income tax expense	**2,386**	2,574
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	**130**	(175)
Under/(over) provision in prior years	**-**	395
Increase in deferred tax assets (note 19)	**130**	220
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	**7,373**	8,941
Tax at the Australian tax rate of 30% (2013: 30%)	**2,212**	2,682
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Deductible capitalised business acquisition costs	**170**	-
Entertainment	**10**	-
Share of net profit of associates	**19**	-
De-recognition of contingent consideration	**(66)**	-

Note 8. Income tax expense (continued)

	Consolidated 2014 $'000	Consolidated 2013 $'000
Other	**(32)**	-
	2,313	2,682
Adjustments for current tax of prior periods	**(55)**	(503)
Adjustments for deferred tax of prior periods	**128**	395
Income tax expense	**2,386**	2,574

Note 9. Earnings per share

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

	2014 $'000	2013 $'000
Net profit attributable to ordinary equity holders	**4,987**	6,367

	2014 No of shares	2013 No of shares
Weighted number of ordinary shares for basic earnings per share	**23,678,384**	23,678,384

Earnings per share	**21.0**	26.9
Diluted earnings per share	**21.0**	26.9

Note 10. Dividends

Dividends	Consolidated 2014 $'000	Consolidated 2013 $'000
Final dividend for the year ended 30 June 2013 of 8.5 cents (2012: 9.2 cents) per ordinary share paid on 9 October 2013 fully franked based on a tax rate of 30%	**2,013**	2,205
Interim dividend for the half year ended 31 December 2013 of 6.5 cents (2012: 10 cents) per ordinary share paid on 14 April 2014 fully franked based on a tax rate of 30%	**1,539**	2,354
	3,552	4,559

As at 30 June 2014 the group recognised a liability for unclaimed dividends of $170,498.

Since the end of the financial year, the Directors declared, for the year ended 30 June 2014, a final fully franked ordinary share dividend of 8.0 cents ($1,894,271) which is payable on 15 October 2014.

Note 10. Dividends (continued)

Franking credits	Consolidated 2014 $'000	Consolidated 2013 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**5,919**	5,183

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 $858,421 (2013 – $885,842).

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 11. Cash and cash equivalents		
Cash on hand	**8**	8
Cash at bank	**1,361**	8,043
	1,369	8,051
Note 12. Trade receivables		
Trade receivables	**770**	517
Membership and treatment plan receivables *	**698**	278
	1,468	795

*Membership and treatment plan receivables are recognised in the accounting period in which the dental services are provided. The instalments receivable under these plans are allocated over pre-specified time periods usually twelve months. Of the $698,000 Membership and treatment plan receivables at June 2014, $698,000 is not yet due for settlement and will be collected within twelve months from reporting date.

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

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $444,000 as at 30 June 2014 ($337,000 as at 30 June 2013). These past due debtors were all 1 to 3 months overdue. The group considered there to be no credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 13. Inventories		
Current assets		
Stock on hand	**30**	-

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 14. Other assets		
Current assets		
Prepayments	**71**	64
Other current assets	**5**	138
	76	202
Non-current assets		
Other non-current assets	**6**	31

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 15. Loans receivable		
Share loan principal	**1,912**	1,610
Share loan interest	**225**	217
	2,137	1,827

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. (Refer to note 24 for further information on the share loan).

Note 16. Joint arrangements

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

Note 16. Joint arrangements (continued)

The group's share of loss from its equity accounted investment for the year was $64,000 (2013: profit of $3,000). The group did not receive any dividends from its equity accounted investment during the year.

	Consolidated	
	2014 $'000	2013 $'000
Shares in Dental Members Australia Pty Ltd *(*ownership interest 33%)	**269**	333
Share of associate's assets and liabilities		
Current assets		
Cash and cash equivalents	**360**	156
Receivables	**338**	524
Total current assets	**698**	680
Non-current assets	**288**	453
Total assets	**986**	1,133
Current liabilities		
Trade and other payables	**169**	124
Total liabilities	**169**	124
Net assets	**817**	1,009
Reconciliation to carrying amounts		
Opening net assets 1 July	**333**	-
Investment in joint venture	**-**	330
Profit/(loss) for the period	**(64)**	3
Other comprehensive income	**-**	-
Dividends paid	**-**	-
Closing net assets	**269**	333
Group's share in %	**33%**	33%
Group's share in $	**269**	333
Carrying amount	**269**	333
Revenue	**518**	282
Interest income	**3**	-
Depreciation and amortisation	**-**	18
Interest expense	**-**	-
Income tax expense	**-**	4
Profit/(loss) from continuing operations		
Profit/(loss) for the period	**(103)**	9
Other comprehensive income	**-**	-
Total comprehensive income	**(103)**	9
Dividends received from joint ventures	**-**	-

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 17. Property, plant and equipment		
Leasehold improvements - at cost	**5,309**	4,924
Less: Accumulated depreciation	**(2,809)**	(2,147)
	2,500	2,777
Plant and equipment - at cost	**15,489**	10,680
Less: Accumulated depreciation	**(5,999)**	(4,710)
	9,490	5,970
	11,990	8,747

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 2013	-	5,970	2,777	8,747
Additions	246	1,152	207	1,605
Additions through business combinations (note 31)	-	3,617	-	3,617
Transfers	-	69	(69)	-
Disposals	-	(29)	-	(29)
Depreciation expense	-	(1,289)	(661)	(1,950)
Balance at 30 June 2014	246	9,490	2,254	11,990
Balance at 1 July 2012	116	6,190	3,384	9,690
Capitalised	(116)	116	-	-
Additions	-	507	165	672
Additions through business combinations (note 31)	-	305	45	350
Transfers	-	97	(97)	-
Depreciation expense	-	(1,245)	(720)	(1,965)
Balance at 30 June 2013	-	5,970	2,777	8,747

Consolidated	Software* $'000	Goodwill $'000	Intellectual property * $'000	Other intangible assets * $'000	Total $'000

Note 18. Intangible assets

Balance at 1 July 2013					
Cost and net book amount	325	11,807	874	308	13,314
Additions	309	-	-	694	1,003
Additions through business combinations (note 31)	-	7,129	-	-	7,129
Amortisation charge	(167)	-	(47)	(114)	(328)
Contingent consideration	-	(129)	-	-	(129)
Balance 30 June 2014	467	18,807	827	888	20,989
Balance at 1 July 2012					
Cost and net book amount	209	11,121	921	-	12,251
Additions	219	-	-	313	532
Additions through business combinations (note 31)	-	686	-	-	686
Amortisation charge	(103)	-	(47)	(5)	(155)
Balance at 30 June 2013	325	11,807	874	308	13,314

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

	Consolidated 2014 $'000	2013 $'000
Intangible assets		
Cost	**21,610**	13,607
Accumulated amortisation	**(621)**	(293)
	20,989	13,314

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

	Consolidated 2014 $'000	2013 $'000
North Queensland	**478**	478
Central Queensland	**5,173**	5,173
South East Queensland	**3,312**	3,312
Toowoomba	**2,148**	2,148
Adelaide	**569**	696
Brisbane	**6,293**	-
Sydney	**834**	-
	18,807	11,807

Note 18. Intangible assets (continued)

The recoverable amount of goodwill is based on value-in-use calculations which use cash flow projections based on financial budgets approved by management covering a five year period. Future cash flows are projected over a five year period and use an implied annual growth rate of 5% (2013: 5%) and are discounted using the group's weighted average cost of capital of 13.6% (2013: 11.8%). Cash flows beyond the five year period are extrapolated using an estimated growth rate of 2% (2013: 2%) which does not exceed the long-term average growth rate for the industry in which each CGU operates.

The recoverable amount of goodwill, based on the above assumptions are as follows:

	Consolidated 2014 $'000
North Queensland	**16,158**
Central Queensland	**42,785**
South East Queensland	**8,282**
Toowoomba	**3,549**
Adelaide	**1,402**
Brisbane	**11,363**
Sydney	**2,152**
	85,691

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 19. Deferred tax		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Property, plant and equipment	**343**	309
Employee benefits	**235**	116
Accrued expenses	**111**	50
Equity raising costs	**52**	78
Unearned revenue	**132**	120
Total deferred tax assets	**873**	673
Deferred tax liabilities		
Intellectual property	**(135)**	(92)
Other intangible assets	**(266)**	(35)
Total deferred tax liabilities	**(401)**	(127)
Net deferred tax assets	**472**	546
Deferred tax assets expected to be recovered within 12 months	**484**	262
Deferred tax assets expected to be recovered after more than 12 months	**390**	411
Deferred tax liabilities expected to be recovered within 12 months	**(1)**	(35)
Deferred tax liabilities expected to be recovered after more than 12 months	**(401)**	(92)
	472	546

	Consolidated	
	2014	2013
	$'000	$'000

Note 19. Deferred tax (continued)

Movements:		
Opening balance	**546**	635
(Debited)/Credited to profit or loss (note 8)	**(2)**	(220)
Credited to equity	**-**	131
Adjustments to deferred tax for prior period	**(128)**	-
Acquired in business combination	**56**	-
Closing balance	**472**	54

	Consolidated	
	2014	2013
	$'000	$'000

Note 20. Trade and other payables

Current		
Trade payables	**2,371**	1,416
Sundry payables and accruals	**2,881**	1,840
Unearned revenue	**508**	400
Payable to related parties	**26**	220
	5,786	3,876
Non-current		
Trade payables	**1,511**	-

Refer to note 24 for detailed information on financial instruments.

	Consolidated 2014 $'000	Consolidated 2013 $'000
Note 21. Provisions		
Make good provision (a)	**230**	240
Provision for employee benefits	**646**	388
	876	628
Current		
Provision for employee benefits	**575**	338
Non-current		
Make good provision	**230**	240
Provision for employee benefits	**71**	50
	301	290
Make good provision		
Balance at 1 July	**240**	230
Charged/ (credited) to income statement	**(10)**	10
Balance at 30 June	**230**	240

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

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 $575,000 (2013: $338,000) 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 2014 $'000	Consolidated 2013 $'000
Current leave obligations expected to be settled after 12 months	**71**	50

	Consolidated 2014 $'000	Consolidated 2013 $'000

Note 22. Other liabilities

	2014 $'000	2013 $'000
Current		
Contingent settlement payable	**150**	154
Non-current		
Contingent settlement payable	**406**	350
Contingent settlement payable		
Balance at 1 July	**504**	25
Additions through business combinations	**400**	479
Settled / utilised during the year	**(348)**	-
Balance at 30 June	**556**	504

Note 23. Contributed equity

	Consolidated 2014 Shares	Consolidated 2013 Shares	Consolidated 2014 $'000	Consolidated 2013 $'000
Ordinary shares - fully paid	**23,678,384**	23,678,384	**15,501**	15,501

At 30 June 2014 82,682 (2013: 143,266) shares were held under escrow. Expiry dates range between financial years ending 2014 and 2019.

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$'000
Balance	1 July 2012	23,678,384		15,370
Deferred tax - share issue costs	30 June 2013	-		131
Balance	30 June 2013	23,678,384		15,501
Balance	30 June 2014	23,678,384		15,501

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

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.

Note 23. Contributed equity (continued)

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.

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 2014 and 30 June 2013 were as follows:

	Consolidated	
	2014	**2013**
	$'000	**$'000**
Cash and cash equivalents	**1,369**	8,051
Net cash	**1,369**	8,051
Total equity	**29,219**	27,952
Total capital	**29,219**	27,952
Cash to equity ratio	**5%**	29%

Note 24. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

Note 24. Financial instruments (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 2014.

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

	Weighted Average interest rate %	2014 $'000	Weighted Average Interest rate %	2013 $'000
Consolidated				
Cash and cash equivalents	5.30%	**1,369**	5.32%	8,051
Share loans	5.70%	**2,137**	5.32%	1,827
Net exposure to cash flow interest rate risk		**3,506**		9,878

A movement in interest rates of 1% (2013: 1%) would have an adverse/favourable effect on profit before tax of $35,060 (2013: $89,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk

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

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

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

With respect to share loans the group may at any time, by written notice, call on the borrower to repay all or part of the outstanding amount within 13 months after the company makes a call. A lien will remain effective after escrow has been removed on the proportionate percentage of the total shares subject to the loan outstanding. $2,137,000 (2013: $1,827,000) of the share loans are receivable from two parties that are consultants/contractors to the group and one party that is an employee 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.

Note 24. Financial instruments (continued)

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 ratio is disclosed in Note 3 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 2014						
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	2,371	259	488	764	3,882
Sundry payables and accruals	-	2,881	-	-	-	2,881
Payables to related parties	-	26	-	-	-	26
Other liabilities	-	150	406	-	-	556
Total non-derivatives		5,428	665	488	764	7,345
Balance at 30 June 2013						
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	1,416	-	-	-	1,416
Sundry payables and accruals	-	1,840	-	-	-	1,840
Payables to related parties	-	220	-	-	-	220
Other liabilities	-	154	350	-	-	504
Total non-derivatives		3,630	350	-	-	3,980

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

Fair value

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

Note 25. Key management personnel disclosures

Compensation

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

	Consolidated	
	2014 $	2013 $
Short-term employee benefits	**174,921**	347,045
Post-employment benefits	**12,723**	28,534
	187,644	375,579

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:

2014	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Robert Jones	32,606	-	-	-	32,606
Daryl Holmes	14,711,729	-	-	-	14,711,729
William Bass	16,200	-	-	-	16,200
	14,760,535	-	-	-	14,760,535

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

Related party transactions

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

Note 26. Remuneration of auditors

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

	Consolidated	
	2014	**2013**
	$	**$**
PricewaterhouseCoopers		
(i) Audit and other assurance services		
Audit and review of financial statements	**113,000**	61,700
(ii) Taxation services		
Tax compliance services	**12,296**	2,200
Total remuneration of PricewaterhouseCoopers	**125,296**	63,900

Note 27. Contingent liabilities

The group had no contingent liabilities as at reporting date (2013: nil).

Note 28. Commitments for expenditure

	Consolidated	
	2014	**2013**
	$'000	**$'000**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	**2,201**	1,851
One to five years	**4,382**	3,998
More than five years	**613**	456
	7,196	6,305

Lease commitments – finance
As at 30 June 2014 and 30 June 2013 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% interest in 1300SMILES Limited.

Subsidiaries
Interests in subsidiaries are set out in note 33.

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

Note 29. Related party transactions (continued)

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

	Consolidated 2014 $	2013 $
Received for goods and services:		
Commission revenues*	**203,148**	110,000
Dental management services**	**77,308**	79,378
Payment for other expenses:		
Rental expense paid to related parties**	**506,042**	539,720

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

**The group 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 to an amount of $419,229 (2013: $460,225).
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage premises to an amount of $86,813 (2013: $79,495).
- The company received revenue of $77,308 (2013: $79,378) for dental management services from Golden Arch (Qld) Pty Ltd for services provided under a Dental Service Agreement.

Included in operating lease commitments in note 28 is $594,421 committed to Ashbourne Park Pty Ltd over a period of 5 years and $1,408,570 committed to Golden Arch Pty Ltd over a period of 5 years.

Receivable from and payable to related parties
There were trade no trade receivables from related parties at the reporting date. There were trade payables of $41,597 owing to Dr Daryl Holmes in relation to credit card payments at the reporting date.

Loans to/from related parties
There were no loans to or from related parties at the reporting date, other than the trade payable to Dentist Members Australia Pty Ltd (refer Note 20).

Other transactions
During the year, the group made payments of $694,305 (2013: $313,000) to Dentist Members Australia Pty Ltd for dental plans.

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

Note 30. Parent entity information

(a) Summary financial information

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

	2014 $'000	2013 $'000
Balance Sheet		
Current assets	**1,894**	9,048
Total assets	**38,092**	33,846
Current liabilities	**6,618**	5,254
Total liabilities	**9,095**	5,894
Shareholders equity		
Contributed equity	**15,501**	15,501
Retained earnings	**13,496**	12,451
	28,997	27,952
Profit or loss for the year	**4,765**	6,367
Total comprehensive income	**4,765**	6,367

(b) 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 2014 and 30 June 2013.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

(d) 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 2014 and 30 June 2013.

Note 31. Business combinations

(a) Summary of acquisition

On 7 April 2014 The Dental Practice on Amherst located in Cammeray, New South Wales was acquired. In addition to this acquisition, the BOH Dental Group located in Brisbane, Queensland was acquired on 19 May 2014. These acquisitions provide the group with the opportunity to grow revenue from associated management fees.

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

	2014 $'000	2013 $'000
Purchase consideration (refer to (b) below):		
Cash paid	**8,375**	557
Contingent consideration	**400**	479
Vendor finance	**1,781**	-
Total purchase consideration	**10,556**	1,036

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

	Fair value $'000	Fair value $'000
Property, plant and equipment	**3,617**	350
Goodwill	**7,129**	686
Inventories	**36**	-
Deferred tax asset	**56**	-
Employee provisions	**(294)**	-
Other	**12**	-
Net assets acquired	**10,556**	1,036

In 2014 and 2013 goodwill has arisen from customer relationships that do not meet the definition of an identifiable intangible asset at the date of acquisition and synergies expected to be achieved from integrating the back office processing of the acquired practices with the existing business of 1300SMILES Limited. None of the goodwill is expected to be deductible for tax purposes. At the end of the current and prior year there have been no adjustments to this balance of goodwill.

Contingent consideration
In the event that certain pre-determined sales and profit targets are achieved by the Cammeray practice for the year ended 2015 through to 2017, additional consideration of up to $400,000 plus a sliding scale percentage of excess over benchmark EBIT (earnings before interest) achieved may be payable in cash between 2015 to 2017. This has been recognised as a contingent settlement payable at balance date. (Refer to note 22.)

The acquired businesses contributed total revenues of $1,964,116 to 30 June 2014, with BOH Dental contributing revenues of $1,677,954 and the Cammeray practice contributing revenues of $286,162. The BOH Dental Group provided a net profit before tax of $221,718 to the group and the Cammeray practice provided a net profit before tax of $55,825 to the group, contributing a combined net profit before tax of $277,543. The period relating to the above for the BOH Dental Group practice acquired was 19 May 2014 to 30 June 2014 and the Cammeray practice was 7 April 2014 to 30 June 2014.

Note 31. Business combinations (continued)

If the acquisitions had occurred on 1 July 2013, consolidated revenue and profit before tax for the year ended 30 June 2014 would have been $47,580,106 and $9,541,773 respectively. These amounts had been calculated using the group's accounting policies and by adjusting the results of the business to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment had applied from 1 July 2013, together with the consequential tax effects.

(b) Purchase consideration – cash outflow

	Consolidated	
	2014	2013
	$'000	$'000
Cash used to acquire the Cammeray and BOH dental practice's (2013: Adelaide), net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	**10,556**	1,036
Less: contingent consideration	**(400)**	(479)
Less: vendor finance	**(1,781)**	-
Net cash used	**8,375**	557

Acquisition-related costs
During the current year there are acquisition-related costs of $577,791 (2013: $26,830) that are included in operating expenses in profit or loss and in operating cash flows in the statement of cash flows.

	Consolidated	
	2014	2013
	$'000	$'000
Summary of cash payments:		
Cash paid for acquisition of practices	**8,375**	557
Net cash used	**8,375**	557

(c) Business combinations in the prior year

The details of practices acquired in the prior year are described in the financial statements of the group for the year ending 30 June 2013.

Note 32. Fair value measurement of financial instruments

(a) Fair value hierarchy

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 2014 and 30 June 2013 on a recurring basis.

		Consolidated	
		Level 3	Level 3
		2014	2013
	Note	$	$
Other liabilities			
Contingent consideration payable	22	**556**	504

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 2014.

(b) Valuation techniques used to derive level 3 fair values

The fair value of financial instruments not traded is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Discounted cash flow analysis is used to determine the fair value of contingent consideration payable.

(c) Fair value measurements using significant unobservable inputs (level 3)

	Consolidated 2014 $
Opening balance 1 July 2013	504
Additions through business combinations	400
Settled/utilised during the year	(348)
Closing balance 30 June 2014	556

(i) Valuation inputs and relationship to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

The contingent consideration liability arose from the acquisition of the dental practices in Adelaide and Sydney. The following table shows the valuation technique and the key unobservable inputs used in the determination of fair value of the contingent consideration liability.

Note 32. Fair value measurement of financial instruments (continued)

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The fair value is determined considering the expected payment, discounted to present value using a risk adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.	• Forecast annual revenue growth rate (5%) • Forecast EBITDA margin (5%) • Discount rate (4%)	The estimated fair value would increase if: • The annual revenue growth rate was higher • The EBITDA margin was higher • The risk adjusted discount was lower

Changing one or more of the significant unobservable inputs to reasonably possible alternative assumptions in the determination of fair value of contingent consideration liability would have the following effects. These effects have been calculated by recalibrating the values from the valuation technique using alternative estimates of unobservable inputs that might reasonably have been considered by a market participant to price the contingent consideration at the end of the interim reporting period. Any interrelationship between the unobservable inputs is not considered to have a significant impact within the range of reasonably possible assumptions.

(ii) Valuation processes

The finance department of the group includes a team that performs the valuations of non-property items for financial reporting purposes, including level 3 fair values. This team reports directly to the General Manager – Operations and Finance (GMOF) and the Board of Directors (BD). Discussions of valuation processes and results are held between the GMOF, BD, and the valuation team at least once every six months, in line with the group's half yearly reporting periods.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Contingent consideration – expected cash inflows are estimated based on the terms of the sale contract and the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the GMOF, BD and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss
Annual revenue growth rate	0.5%	-
	(0.5%)	-
EBITDA margin	0.5%	-
	(0.5%)	-
Discount rate	4%	-
	(4%)	-

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:

Name of entity	Country of incorporation	Equity holding 2014 %	Equity holding 2013 %
1300SMILES (BOH) Pty Ltd	Australia	100	100*

**1300SMILES (BOH) Pty Ltd was previously known as 1300SMILES (WA) Pty Ltd*

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

	Consolidated 2014 $'000	Consolidated 2013 $'000
Profit after income tax expense for the year	**4,987**	6,367
Adjustments for:		
Capitalised interest on share loans	**(8)**	-
Net loss on sale of non-current assets	**29**	-
Write off of non recoverable deposits and other assets	**31**	-
Share of (profits)/losses of associates not received as dividends	**64**	(3)
Gain on derecognition of contingent consideration	**(219)**	-
Gain on acquisition	**(105)**	-
Depreciation and amortisation	**2,278**	2,120
Change in operating assets and liabilities:		
Increase in trade and other receivables	**(673)**	(454)
Decrease in deferred tax assets	**130**	220
Decrease in other assets	**138**	180
Increase/(decrease) in trade and other payables	**1,633**	(210)
Increase/(decrease) in current tax payable	**(28)**	367
Increase in other provisions	**(95)**	30
Decrease in GST payable	**(6)**	-
Net cash inflows from operating activities	**8,156**	8,617

Note 35. Non-cash investing and financing activities

The group acquired a 33% interest in Dental Members Australia Pty Ltd on 17 August 2012 in exchange for $330,000 which is payable to the joint venture (note 16).

In the Directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

On behalf of the Directors

Dr Daryl Holmes
Director

29 August 2014
Townsville

Independent auditor's report to the members of 1300SMILES Limited

Report on the financial report

We have audited the accompanying financial report of 1300SMILES Limited (the company), which comprises the balance sheet as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for 1300SMILES (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of 1300SMILES Limited is in accordance with the *Corporations Act 2001,* including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 20 of the directors' report for the year ended 30 June 2014. 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.

Auditor's opinion

In our opinion, the remuneration report of 1300SMILES Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Steven Bosiljevac
Partner

Brisbane
29 August 2014

The shareholder information set out below was applicable as at 30 June 2014.

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	1,396
1,001 to 5,000	632
5,001 to 10,000	89
10,001 to 100,000	58
100,001 and over	14
	2,189
Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders

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

	Ordinary shares Number held	% of total shares issued
Dr Daryl Holmes	14,116,837	59.62
JP Morgan Nom Aust Ltd	1,026,850	4.34
Evelin Inv PL	980,000	4.14
Kredithaus Pty Ltd	566,000	2.39
Upper Avalon Pty Ltd	402,500	1.70
Hancock Russell Kay	320,000	1.35
Citicorp Nom Pty Ltd	267,026	1.13
Ashbourne Park Pty Ltd	265,402	1.12
B P J Inv Pty Ltd	250,000	1.06
Ashbourne Park Pty Ltd	235,300	0.99
National Nom Ltd	195,117	0.82
BNP Paribas Noms Pty Ltd	153,500	0.65
ABN AMRO Clearing Sydney	125,381	0.53
Landel Pty Ltd	100,580	0.42
Morris J & IM Marrinon	100,000	0.42
Golden Arch Qld Pty Ltd	94,190	0.40
Kent Gush	86,500	0.37
Gang – Gang Pty Ltd	78,875	0.33
Holmes Kevin John + J D	75,829	0.32
TI Cap Pty Ltd	72,000	0.30
	19,511,887	79.70

There are no unquoted equity securities.

Substantial holders
Substantial holders in the Company are set out below:

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

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

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

There are no other classes of equity securities.

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

Month	2014	2015	2016	2017	2018	2019
January	-	4,000	4,000	4,000	4,000	-
February	-	-	-	-	-	-
March	-	-	-	-	-	-
April	-	-	-	-	-	-
June	-	-	-	-	-	-
September	16,666	-	-	-	-	-
October	-	-	-	-	-	-
November	-	-	-	-	-	-
December	7,502	7,502	7,502	7,502	10,004	10,004
Annual payment	24,168	11,502	11,502	11,502	14,004	10,004
Total payments						**82,682**