

1300SMILES LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2009



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



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DIRECTORS

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

COMPANY SECRETARY

William Bass

REGISTERED OFFICE AND PRINCIPAL BUSINESS OFFICE

1300SMILES Limited
 Ground Floor
 105 Denham Street
 Townsville QLD 4810
 Telephone: + 61 7 4721 1238
 Facsimile: +61 7 4771 5217

LEGAL ADVISERS

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

Corporate

DLA Phillips Fox
 Level 29 Waterfront Place
 1 Eagle Street
 Brisbane QLD 4000

SHARE REGISTER

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

AUDITOR

Ernst & Young
 1 Eagle Street
 Brisbane, QLD, 4000

COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Stock Exchange Limited
 ASX Code: ONT

INTERNET ADDRESS

www.1300SMILES.com.au

AUSTRALIAN BUSINESS NUMBER

ABN 91 094 508 166



LETTER FROM THE MANAGING DIRECTOR

Dear Shareholder,

I take great pleasure in presenting the fifth Annual Report of 1300SMILES Ltd. I invite you to join me in a careful review of what our company has achieved over the past year and over its first five years as a listed company.

The full year ended 30 June 2009 was outstanding, with record results on all significant measures. We began the year confident that our business and our operations were well equipped to cope with the global economic downturn. We finished the year with not only the greatest profit ever but also with the biggest ever increase in annual profit.

Financial results

Compared to those of the previous year, the key results for the year to 30 June 2009 were as follows:

- Revenue up 47% to \$22.4 million
- NPAT up 74% to \$3.8 million
- EBITDA up 68% to \$6.4 million
- Earnings per share up 72% to 18.7c per share
- Final fully franked dividend up 33% to 6.0c per share
- Cash flow from operations up 65% to \$5.4 million

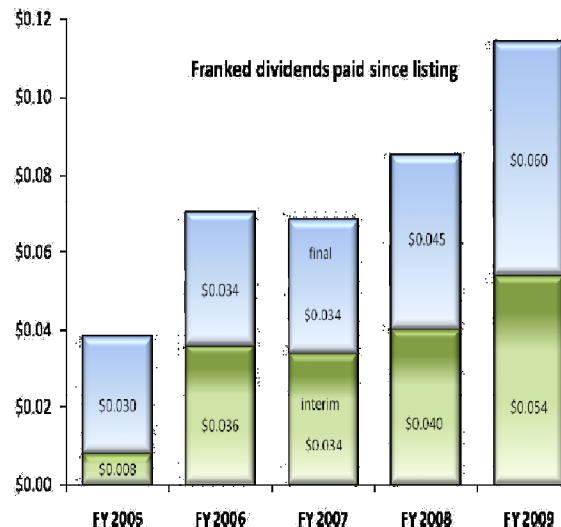
Our dividends reflect our core commitment to shareholders. The full year payout for 2009 will be 11.4c per share, an increase of 34% on the full year dividend from 2008.

In 2005, our first year as a listed company, the annual dividend was 3.8c. The 2009 payment of 11.4c is three times the level of just four years earlier, and represents compound annual dividend growth of 31.6%. I am fond of reminding you that while many other accounting measures are subject to argument, adjustment, and re-interpretation, cash dividends are facts.

I noted in my review of the half year to December 2008 that our company had achieved an efficient operating scale, with growth in revenue leading to a greater increase in Net Profit After Tax. This efficiency is evident in the full year results, in which an increase in revenue of 47% delivered an increase in NPAT of 74%. As our revenue grows and we continue to focus on cost control, an increasing share of revenue makes it to the bottom line.

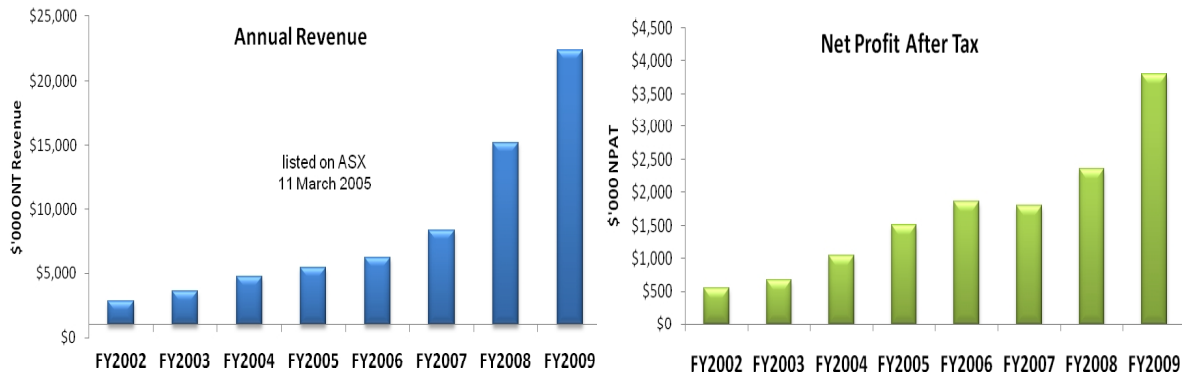
Consolidation, growth, efficiency

The full year 2009 results have been delivered by a tight focus on consolidation, organic growth, and efficiency. During the 2008 year we completed a number of major acquisitions; in 2009 we devoted great effort to integrating these businesses while supporting incremental growth at all of our established sites. Our profit growth came both from the inclusion of the 2008 acquisitions and from the incremental addition of individual dentists and small practices into our existing facilities.





1300SMILES



Going forward, we aim to produce continuing profit growth by refining and improving our established growth campaigns. Our future growth will derive from three sources:

- opportunistic acquisitions, where we can acquire substantial existing practices on favourable terms
- in-filling by attracting more dentists to our existing facilities and expanding those which are already at or approaching full capacity
- providing management and consulting services to large dental facilities owned by others
- establishing new practices in existing and new regions (Greenfield sites).

Our efforts to attract new dentists to established company facilities have paid off well and will continue. At least a dozen of our facilities could accommodate one or more additional dentists immediately, at no or little capital cost, and we design all new facilities with significantly greater capacity than initially required.

The management of facilities owned by others is a relatively new focus for us. In some cases this is a step toward an intended acquisition, giving us a chance to know a business thoroughly before deciding whether to buy it or not. In other cases, we expect to enter into long-term management arrangements of non-owned dental practices.

Growth and our accounts

The increase in NPAT for the half year to 31 December 2008 showed an increase of 83%. I commented at the time that this figure was slightly inflated by certain accounting requirements, and that the realistic growth figure for the period was about 70%. The results for the full year to June 2009, in which NPAT increased by 74% over the previous full year, suggest that our estimate was a somewhat better guide than the accounting figure as required under the Australian Accounting Standards ("AAS").

For the 2009 full year, our accounting results accurately reflect what we believe to be our real, sustainable operating results. Going forward we will advise shareholders if we believe that our accounts under AAS require further explanation.

Outlook

For five years now (and for many years prior to listing) we have pursued the same basic goals in the same ways: we seek to build the largest business we can while ensuring that every bit of growth delivers an incremental increase to both NPAT and earnings per share.

We expect that the coming year will see increased revenue from the management of non-owned facilities, but we have not and will not reduce the enthusiasm we bring to recruiting dentists and making significant acquisitions. All three major sources of revenue growth remain wide open to us. As the current financial crisis continues to roll through the economy, our position grows stronger. We have a very low level of debt and access to ample loan capital, if required. Our cash flow is strongly positive. Many profitable additions to our business require only minor capital outlays in any case.



We speculate that certain of our competitors, who have built significant collections of dental practices by borrowing huge sums, will find that capital for such highly-leveraged schemes is in much shorter supply going forward. We believe that our long history of successful operation and our conservative balance sheet give some comfort to dentists who are considering joining 1300SMILES.

On the acquisition side, we have the resources required to complete significant acquisitions. We can do so because we have modest debt, committed credit lines available to draw as needed, and strong established cash flow. That said, we are under no pressure to make further acquisitions, and we will do so only when we can acquire practices on terms which ensure that the acquired businesses make an immediate positive contribution to NPAT and to earnings per share.

As a rule, we do not forecast future performance and profits, but I can say that we do not expect business conditions to change significantly in the foreseeable future, and we will do everything we can to continue our long history of profit growth.

Market presence

1300SMILES Ltd has seventeen multi-dentist facilities located in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, Caloundra, Brisbane, Toowoomba, and Tweed Heads.

Earnings per share

As I have mentioned to you many times, our top objective is that of increasing earnings per share (EPS). To grow our EPS, we must not only increase profit, but we must also keep the number of shares on issue under tight control.

We issued a small number of shares (281,273) early in the year as part consideration for the practice acquired in Bundaberg. This brought the total number of issued shares to 20,340,508, an increase of just 1.4% in the total number of shares on issue. Despite the slightly expanded number of shares issued, earnings per share increased by 70% on the previous year. I invite you to keep this analysis in mind when you consider the accounts of similar listed companies generally. Often big increases in NPAT are significantly diluted by big increases in the number of issued shares.

Borrowing and the financial markets

The company closed the period with net debt of \$3.3 million, down from \$4.5 million at 30 June 2008. All of this debt was incurred in the course of acquiring profitable dental practices. These funds were drawn from established facilities with our banks.

Finally, please bear with me as I repeat my advice from one year ago: the gyrations in the financial markets have caused us no difficulties of any kind. Our access to loan funds has not been affected in any way, and we believe that our continuing growth will not be inhibited by any restriction on funds available to us. We employ no fancy financial structures of any kind. We hold our surplus funds in conventional bank facilities. We have no exposure of any kind to any structured financial product.

Thank you

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

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

Yours faithfully,

Dr Daryl Holmes
Managing Director



ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

The Company provides the use of dental surgeries, practice management and other services to self employed dentists who carry on their own dental practices. The Company provides surgery facilities at seventeen sites located in the ten major population centres in Queensland. The head administrative office is in Townsville.

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.

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 interest 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 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 the number of dentists who use the Company's existing facilities.
- Assisting the dentists who use the Company's facilities to increase their turnover.
- Acquiring and managing additional practices in existing and new regions.
- Establishing new practices in existing and new regions (Greenfield sites).

DENTIST ENQUIRIES

Owners of dental practices who are interested in unlocking the goodwill value of their businesses are invited to contact Dr. Daryl Holmes, Managing Director, on 07 4721 1238 or on md@1300SMILES.com.au.

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



DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of 1300SMILES Limited (the Company) and the entity it controlled at the end of or during the year ended 30 June 2009.

DIRECTORS

The names of the directors of the Company in office during the year and until the date of this report are shown below. Directors were in office for this entire period unless otherwise stated.

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

CORPORATE INFORMATION

Corporate structure

1300SMILES Limited is a company limited by shares that is incorporated and domiciled in Australia. 1300SMILES (WA) Pty Ltd, a wholly owned subsidiary, was registered during the year; the company is dormant.

Employees

As at 30 June 2009, the Company employed 105 full-time equivalent employees (excluding the Directors), (2008: 110 full-time employees).

REVIEW OF FINANCIAL CONDITION DIVIDENDS

Dividends paid to or declared by the Company to the members since the end of the previous financial year were:

Final ordinary dividend in relation to the half-year ended 30 June 2008 of 4.5 cents (2007: 3.4 cents) per fully paid share paid on 19 September 2008.	901,131
Interim ordinary dividend in relation to the half-year ended 31 December 2008 of 5.4 cents (2008: 3.4 cents) per fully paid share paid on 17 March 2009.	1,098,387
Final ordinary dividend in relation to the half-year ended 30 June 2009 of 6.0 cents (2008: 4.5 cents) per fully paid share declared on 6 August 2009.	1,220,430

Capital structure

At 30 June 2009, and at the date of this report, the Company had 20,340,508 ordinary shares on issue.

Treasury policy

The Company does not have a formally established treasury function. The Board is responsible for managing the Company's finance facilities.

Liquidity and funding

The Company has sufficient funds to finance its operations and to allow the Company to take advantage of favourable business opportunities, not specifically budgeted for, or to fund unforeseen expenditure.

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Company were to provide dentistry services in Australia.



REVIEW OF OPERATIONS

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

No significant changes in the state of affairs of the Company occurred during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

A fully franked final dividend of 6.0 cents per share has been declared and is payable in September 2009.

Other than the event mentioned above, there have been no other matters or circumstances that have arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (a) the Company's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Company's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no further developments of which the Directors are aware which could be expected to affect the results of the Company's operations in subsequent financial years other than information which the Directors believe comment on or disclosure of, would prejudice the interests of the Company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

INFORMATION ON DIRECTORS

Robert Jones
MAICD
(Chairman)

Experience and Expertise

Mr Jones has been a director and chairman of the Mater Health Services North Qld Ltd since 2000. The

company owns and operates two fully accredited private hospitals in Townsville, the Mater Hospital (Pimlico) and the recently acquired Mater Hospital (Hyde Park).

The latter was formerly part of the Wesley group; it is presently being reconfigured to become the Mater Womens' and Childrens' Hospital.

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

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

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

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

Other current directorships

Mater Health Services North QLD Ltd
Hermit Bus Park Service Pty Ltd

Former directorships in last 3 years

Nil

Special responsibilities

Member of Remuneration and Nomination Committee and Audit Committee.

Interest in shares and options

27,606 ordinary shares in 1300SMILES Limited



Dr. Daryl Holmes
BDS_c (Hons) MAICD
(Managing Director)

Experience and Expertise

Dr. Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (BDS_c (Hons)) at Queensland University in 1987.

During the last two years of his five year degree he accepted a scholarship from the Royal Australian Air Force (RAAF).

Upon completion of his degree he practised dentistry as a RAAF Dental Officer (1988-91). Thereafter, in 1991, he began private dental practice in Ayr and Home Hill, North Queensland later that year. Since that time he has operated dental surgeries in the Burdekin region, Townsville, Cairns and more recently throughout most of Queensland's major centres.

Dr. Holmes has been a member of the Australian Dental Association ("ADA") for 21 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 dentist clients.

Dr. Holmes has been a Director, and currently Deputy Chairman, of the Cowboys Leagues Club for the past 7 years.

Other current directorships
Cowboys Leagues Club Ltd

Former directorships in last 3 years
Nil

Special responsibilities
Member of Remuneration and Nomination Committee and Audit Committee.

Interest in shares and options

15,199,924 ordinary shares in 1300SMILES Limited

William Bass
BEcon, CA, AlnstIB, FCS, FTIA, JP(Qual)
(Non-Executive Director)

Experience and Expertise

Mr William Bass was appointed Non-Executive Director on 25 January 2007. Mr Bass has considerable corporate and listed company experience. He brings extensive commercial and financial management experience from a range of leading Australian and international public companies including General Electric, Billabong, Country Road and On Card International.

Mr Bass has a Bachelor of Economics, is an Associate of the Institute of Chartered Accountants and the Institute of Independent Business and a Fellow of the Institute of Chartered Secretaries and Taxation Institute of Australia.

Other current directorships
Business Advisory Network Limited

Former directorships in last 3 years
Nil

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

Interest in shares and options

16,200 ordinary shares in 1300SMILES Limited



MEETINGS OF DIRECTORS

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

	Board		Audit Committee		Remuneration & Nomination Committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Robert Jones	11	11	2	2	1	1
Daryl Holmes	11	11	2	2	1	1
William Bass	11	11	2	2	1	1

REMUNERATION REPORT (audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report Key Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Company receiving the highest remuneration.

For the purposes of this, the term “executive” encompasses the Managing Director, senior executives and secretaries of the Company.

Remuneration Practices

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

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

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

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director and Key Management Personnel remuneration is separate and distinct.

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.

The Constitution of the Company and the ASX Listing Rules specify that Non-Executive Directors are entitled to receive remuneration for their services as determined by the Company in 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 for the period ending 30 June 2009 is detailed in part (b) of this Remuneration Report.

Executive Director and Key Management Personnel Remuneration

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

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

The remuneration of the Executive Director and Key Management Personnel for the period ending 30 June 2009 is set out in the below table.

Employment contracts

It is the Board's policy to establish employment agreements with all Executive Directors, Executives and employees. The current executive service

agreement with the Managing Director has a three month notice period. All other employment agreements have one month, or less, notice periods. No current employment contracts contain early termination clauses.

Managing Director

The Company has entered into an executive service agreement with Dr Daryl Holmes in relation to his role as Managing Director of the Company.

Under the agreement, Dr Holmes was appointed Managing Director commencing on 8 March 2005. This remuneration comprises a salary of \$89,927 per year inclusive of statutory superannuation entitlements and 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.

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.

Key Management Personnel

Employment contracts entered into with Greg Kentish and Deborah Bowling contain the following key terms:

Event	Company Policy
Performance based salary increases and/or bonuses	Board discretion
Resignation / notice period	1 month
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (i.e. 'golden handshakes')	None



(a) Details of Directors and Key Management Personnel

(i) Directors		(ii) Key Management Personnel	
Robert Jones	Chairman	Greg Kentish	Chief Operating Officer (resigned 8 December 2008)
Daryl Holmes	Managing Director	Deborah Bowling	Financial Controller (promoted 15 August 2008)
William Bass	Non-Executive Director, Company Secretary		

(b) Remuneration of Directors and Key Management Personnel

	Short Term			Superannuation	Total
	Salary & Fees	Cash Bonus	Net DSA income		
	\$	\$	\$	\$	\$
Directors					
Robert Jones ⁽¹⁾					
2009	27,523	-	-	2,477	30,000
2008	20,642	-	-	1,858	22,500
Daryl Holmes ⁽²⁾					
2009	82,502	-	45,054	7,425	134,981
2008	82,502	-	51,485	7,425	141,412
William Bass ⁽³⁾					
2009	54,423	-	-	2,477	56,900
2008	92,573	-	-	2,477	95,050
Morris Marrinon ⁽⁴⁾					
2009	-	-	-	-	-
2008	10,625	-	-	-	10,625
Guy Drummond ⁽⁵⁾					
2009	-	-	-	-	-
2008	11,468	-	-	1,032	12,500
Total Remuneration: Directors					
2009	164,448	-	45,054	12,379	221,881
2008	217,810	-	51,485	12,792	282,087
Key Management Personnel					
Deborah Bowling ⁽⁶⁾					
2009	58,559	5,000	-	5,240	68,799
2008	-	-	-	-	-
Greg Kentish ⁽⁷⁾					
2009	63,457	-	-	5,711	59,168
2008	84,458	-	-	7,601	92,059
Duncan Cornish ⁽⁸⁾					
2009	-	-	-	-	-
2008	12,500	-	-	-	12,500
Total Remuneration: Key Management Personnel					
2009	122,016	5,000	-	10,951	137,967
2008	96,958	-	-	7,601	104,559
Total Remuneration of Directors and Key Management Personnel					
2009	286,464	5,000	45,054	23,330	359,848
2008	314,768	-	51,485	20,393	386,646

(1) Robert Jones was appointed Chairman on 25 September 2007.
(2) Includes net dental service income received from DSA as disclosed in Note 20.
(3) Includes secretarial and practice acquisition services as disclosed in Note 20. Mr Jones and Dr Holmes are of the view that these services are of independent expertise in character, and do not compromise Mr Bass in acting as a non executive director of the company.
(4) Mr Marrinon resigned as a non-executive director on 25 September 2007.
(5) Mr Drummond resigned as a non-executive director on 28 September 2007.
(6) Miss Bowling joined the company on 28 May 2008 and was promoted to Financial Controller on 15 August 2008. 7% of Miss Bowling's remuneration was an at risk bonus payment in 2009.
(7) Mr Kentish resigned as Chief Operating Officer on 8 December 2008.
(8) Mr Cornish resigned from company secretary duties on 30 November 2007.



(c) Options issued as part of remuneration for the period ended 30 June 2009

No options were granted as remuneration during the period ended 30 June 2009. There are no outstanding options at 30 June 2009.

(d) Shares issued on exercise of remuneration options

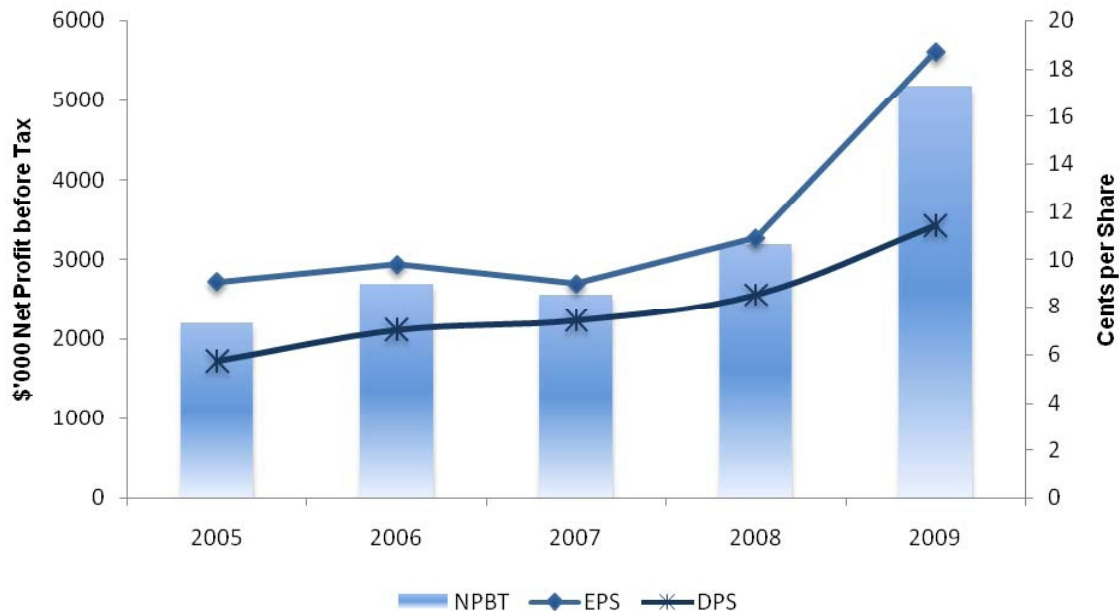
There have been no shares issued during the year on exercise of remuneration options.

(e) Shareholdings of Director and Key Management Personnel

Shares held in 1300SMILES Limited (number)	Balance 1 July 2008	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2009
Directors					
Robert Jones	27,606	-	-	-	27,606
Daryl Holmes	15,199,224	-	-	-	15,199,224
William Bass	16,200	-	-	-	16,200
Key Management Personnel					
Greg Kentish	-	-	-	-	-
Deborah Bowling	-	-	-	-	-
Total	15,243,030	-	-	-	15,243,030

(f) Company performance

The performance of 1300SMILES Ltd and the comparison of the company's Net Profit Before Tax (NPBT), its earnings per share (EPS) and dividends paid per share (DPS) for the last 5 years is illustrated in the graph below.



1300SMILES Ltd	2005	2006	2007	2008	2009
Share Price (\$)	1.10	2.10	3.08	2.60	2.60



SHARE OPTIONS

Unissued shares

As at the date of this report (and at the balance date) there were no unissued ordinary shares under options.

Shares issued as a result of the exercise of options

There were no options on issue during the year. Therefore, no options were exercised and converted into ordinary shares during the year (2008: no options were exercised and converted into ordinary shares).

SHARE BUY BACK

During the year, effective from 22 December 2008, the company implemented a share buy-back plan. The plan operates for no longer than 12 months. No shares have been bought back under this plan at the date of this report.

DIRECTORS' DEED OF INDEMNITY, INSURANCE AND ACCESS

Each of the Directors and the Secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those directors.

The Company has insured all of the Directors of 1300SMILES Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

Details of the amounts paid to the auditor of the Company, Ernst & Young, and its related practices for

audit and non-audit services provided during the year are set out below.(2008: PKF Chartered Accountants).

The Board has considered the non-audit services provided during the year by the auditor and was satisfied that the provision of those services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact on the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, or acting as an advocate for the Company or jointly sharing risks and rewards.

	30 June 2009	30 June 2008
Non-Audit services:	\$	\$
Non-audit service – tax compliance	-	8,150

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 14.

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

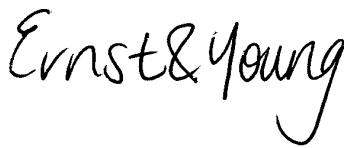
1300SMILES Limited

**Dr Daryl Holmes
Director**

6th August 2009

Auditor's Independence Declaration to the Directors of 1300SMILES Limited

In relation to our audit of the financial report of 1300SMILES Limited for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Alison de Groot' in a cursive style.

Alison de Groot
Partner
6 August 2009



CORPORATE GOVERNANCE STATEMENT

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

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

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

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

A copy of the Eight Essential Corporate Governance Principles and the Best Practice Recommendations can be found on the ASX's website at www.asx.com.au, and 1300SMILES relevant practices as detailed at www.1300SMILES.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 2009, 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 5% 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 Director's 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

Reason for non-compliance

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	1 year and 8 months
Daryl Holmes	8 years and 11 months
William Bass	2 years and 6 months

Remuneration and Nomination Committee

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

The Committee comprises the entire Board.

Audit Committee

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

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

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

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



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

Performance

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

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

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating

Directors and Key Executives fairly and appropriately with reference to relevant and employment market conditions. To assist in achieving this objective, the Board will link the nature and amount of Executive Director's and Officer's emoluments to the Company's financial and operations 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.



INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$'000	2008 \$'000
Revenue	3	22,369	15,191
Direct cost of sales		(2,816)	(1,915)
Employee benefits expense		(10,056)	(7,252)
Depreciation and amortisation expense		(957)	(604)
Property expenses		(1,263)	(845)
Operating expenses		(1,400)	(1,033)
Corporate and administration expenses		(398)	(307)
Finance costs		(307)	(51)
Profit before income tax		5,172	3,184
Income tax expense	5	(1,362)	(998)
Profit for the period		3,810	2,186
Earnings per share			
		Cents	Cents
Basic and diluted earnings per share	21	18.7	10.9

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



BALANCE SHEET AS AT 30 JUNE 2009

	Note	2009 \$'000	2008 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	1,807	715
Trade and other receivables	8	393	349
Inventories	9	-	176
Current tax assets	5	-	99
Other current assets	10	295	175
TOTAL CURRENT ASSETS		2,495	1,514
NON-CURRENT ASSETS			
Property, plant and equipment	11	5,669	5,591
Intangible assets	12	7,986	9,135
Investments	13	10	1
Deferred tax asset	5	111	38
TOTAL NON-CURRENT ASSETS		13,776	14,765
TOTAL ASSETS		16,271	16,279
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	1,743	1,439
Current tax liabilities	5	234	-
Provisions	15	139	97
Financial liabilities	16	1,557	2,369
TOTAL CURRENT LIABILITIES		3,673	3,905
NON-CURRENT LIABILITIES			
Provisions	15	50	32
Financial liabilities	16	3,340	5,723
TOTAL NON-CURRENT LIABILITIES		3,390	5,755
TOTAL LIABILITIES		7,063	9,660
NET ASSETS		9,208	6,619
EQUITY			
Share capital	17	4,770	3,991
Retained earnings		4,438	2,628
TOTAL EQUITY		9,208	6,619

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



STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

2009	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance from 1 July 2008	3,991	2,628	6,619
Net profit	-	3,809	3,809
Shares issued during the year	779	-	779
Dividends recognised during the year	-	(1,999)	(1,999)
Balance at 30 June 2009	4,770	4,438	9,208

2008	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance from 1 July 2007	3,991	1,926	5,917
Net profit	-	2,186	2,186
Dividends recognised during the year	-	(1,484)	(1,484)
Balance at 30 June 2008	3,991	2,628	6,619

The above statement of changes in equity is to be read in conjunction with the attached notes.



CASHFLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	2009 \$'000	2008 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		23,885	16,653
Payments to suppliers and employees (inclusive of goods and services tax)		(17,050)	(11,236)
Interest received		26	56
Interest and other costs of finance paid		(257)	(51)
Income tax paid		(1,175)	(1,201)
GST paid		17	(930)
Net cash flows from operating activities	22(a)	5,446	3,291
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		7	11
Acquisition of plant and equipment		(1,035)	(1,498)
Payment for shares		(10)	-
Payment for the purchase of dental practices (net of cash equivalents)	22(b)	-	(5,897)
Payment for additional costs related to the acquisition of dental practices		(79)	-
Net cash flows used in investing activities		(1,117)	(7,384)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds/(repayment) of borrowings		(1,234)	4,360
Payment for costs associated with share issue		(4)	-
Dividends paid		(1,999)	(1,484)
Net cash flows from/(used in) financing activities		(3,237)	2,876
Net decrease in cash and cash equivalents		1,092	(1,217)
Cash and cash equivalents at beginning of financial year		715	1,931
Cash and cash equivalents at end of financial year	7	1,807	715

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



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 1: INTRODUCTION

1300SMILES Limited (covering the financial statements of 1300SMILES Limited and its subsidiary) for the year ended 30 June 2009 is a public company incorporated in Australia.

Operations and principal activities

During the year the principal continuing activities of the Company were to provide dentistry services in Australia. Further information can be found in the Directors' Report under Review of Operations.

Currency

The financial report is presented in Australian Dollars. Amounts in the financial report and Directors' Report have been rounded to the nearest thousand dollars.

Authorisation of the financial report

The financial report was authorised for issue on the 6th of August 2009 by Dr Daryl Holmes. The Directors have the power to amend the financial report after issue.

Correction of errors and revisions of accounting estimates

Due to incorrect accrual accounting for the year ended 30 June 2008, the income statement was overstated by \$162,033 (net after tax effect accounting). This error had the effect of understating consolidated trade and other payables and provisions by \$179,000 and \$16,800 respectively, and overstating cash and other cash equivalents by \$36,100.

An error in the calculation of the deferred settlement payables relating to the acquisition of Bundaberg and Toowoomba at 30 June 2008 resulted in an understatement of both goodwill and financial liabilities of \$90,975.

The classification of balances within the Balance Sheet has been corrected resulting in an increase to cash and cash equivalents and trade payables of \$312,720. A decrease of trade payables and increase of financial liabilities of \$1,500,125 resulting from a reclassification, coupled with a classification change of non-current trade and other payables to financial liabilities valued at \$2,586,470 from non-current to current.

The errors have been corrected by restating each of the

affected financial statement line items for the prior year, as described above.

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was a reduction of 0.08 cents.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by 1300SMILES Limited comprising the parent entity and its subsidiary are stated in order to assist in a general understanding of the financial report.

(a) Statement of Compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

Compliance with AAS ensures the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

(b) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the financial report from the date that control commences until the date that control ceases.

At 30 June 2009 Parent accounts are not presented as these are not materially different to the consolidated accounts.

(c) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

(d) Employees benefits

Salaries, wages, annual leave and long service leave

Liabilities for salaries, wages and annual leave are recognised, and are measured as the amount unpaid at the reporting date at amounts expected to be paid when the liability is settled plus on-costs.

(e) Property, plant & equipment

Property, plant and equipment is impairment tested when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant and equipment which is impaired must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expensed through the income statement.

All Company assets of property, plant and equipment are tested to ensure the carrying amount does not exceed recoverable amount and write downs are made to reflect any losses resultant.

The depreciable amount of all fixed assets including capitalised lease assets are depreciated over their useful life commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

The depreciation rates used for each class of assets are:

Class of Fixed Assets	Depreciation Rate
Plant and Equipment	7.5% - 50% Diminishing Value
Improvements	15% Diminishing Value
Leased Assets	15% Diminishing Value

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the profit before income tax of the Company in the year of disposal.

(f) Goods & Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis.

(g) Revenue

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

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(h) Leases

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 the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected useful life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense. Lease liabilities are secured against the relevant assets they relate to. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

(i) Intangibles – goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on 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 cash which is subject to an insignificant risk of changes in value.

(k) Inventories

Inventories are measured at the lower of cost and net

realisable value. Inventories are recorded using the first-in first-out method.

(l) Trade and other receivables

Trade and other receivables are stated at their cost less any impairment losses.

(m) Equity

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit applicable.

(n) Financial assets and liabilities

Financial assets and liabilities are recognised on the balance sheet when the Company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

(o) Tax consolidation

1300SMILES Limited and its Controlled Entity has not formed a tax consolidated group.

(p) Capital Management

The Company considers its share capital and retained earnings as capital.

When managing capital, the objective is to ensure the Company continues as a going concern, as well as to maintain optimum returns to shareholders and benefits for other stakeholders. The Company also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Company does not have any specific capital targets



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

and nor is it subject to any external capital restrictions. The Board and senior management meet monthly and review in detail the current cash position and cashflow forecasts having regard to planned expansions and takes the necessary action to ensure sufficient funds are available.

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

(q) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009): AASB 8 will result in a significant change in the approach to segment reporting, as it requires adopting of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Company will adopt AASB 8 from 1 July 2009. It may result in an increase in the number of reportable segments presented. In addition, the segments will be reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 (effective from 1 January 2009): The revised AASB 123 has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Company.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

(effective from 1 January 2009): The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company will apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009): AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Company's share based payments.

(v) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009): The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Company will



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES
(continued)

apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

(vi) AASB 2008-5 and 6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009): The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Company will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

(vii) AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009): In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. The Company will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be

tested for impairment as a result of the dividend payment. Under the Company's current policy, these dividends are deducted from the cost of the investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(viii) AASB 2008-8 Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 July 2009): AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Company will apply the amended standard from 1 July 2009. It is not expected to have an impact on the Company's financial statements.

(r) Going concern

At 30 June 2009 the Company had a deficit of working capital of \$1.17 million. Included in financial liabilities are deferred payments totalling \$1.5 million. The Company has unused borrowing facilities of \$1.7 million which will be utilised to address any working capital shortfalls if required. The Directors are confident the Company has adequate working capital capacity and reserves to meet current and expected needs and pay their debts as and when they fall due.

	2009 \$'000	2008 \$'000
NOTE 3: REVENUE		
<i>Operating revenue</i>		
Dental fees received	13,766	10,588
Service fees: contract dentists	8,167	4,517
	21,933	15,105
<i>Non-operating revenue</i>		
Interest	26	56
Management fees	231	-
Other revenue	179	30
	22,369	15,191



Notes to the Financial Statements for the year ended 30 June 2009

	2009 \$'000	2008 \$'000
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NOTE 4: ITEMS INCLUDED IN PROFIT

Depreciation and amortisation of non-current assets	957	604
Operating lease payments - minimum lease payments	1,170	800
	\$	\$
Audit services		
Audit and review of financial reports – PKF	-	49,000
Non-audit services – tax compliance – PKF	-	9,000
Audit and review of financial reports – Ernst & Young	58,000	-
Non-audit services – Ernst & Young	-	-

	2009 \$'000	2008 \$'000
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NOTE 5: INCOME TAX

The components of tax expense comprise:

Current tax	1,409	1,054
Deferred tax	(72)	(89)
Under/(over) provision for tax in prior period	25	33
	1,362	998

Explanation of the relationship between tax expense and accounting profit:

Accounting profit before income tax	5,172	3,346
Tax at the applicable rate of 30%	1,552	1,004
Under/(over) provision for tax in prior period	25	33
Other	(215)	-
Income tax expense	1,362	998
Current tax asset/(liability)	(234)	99

Deferred tax assets and liabilities for each type of temporary difference:

<i>Deferred tax assets</i>		
Accrued expenses	117	121
Provision for employee benefits	56	34
Lease liabilities	-	-
Deferred tax asset	173	155



Notes to the Financial Statements for the year ended 30 June 2009

	2009 \$'000	2008 \$'000
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NOTE 5: INCOME TAX (continued)

Deferred tax liabilities

Inventory	-	53
Property, plant and equipment	63	64
Deferred tax liability	63	117
Net deferred tax asset/(liability)	111	38

Movements in deferred tax balances recognised in income tax expense:

Provision for employee benefits	(22)	(5)
Accruals	4	(99)
Inventory	(53)	(9)
Property, plant and equipment	(1)	25
Deferred tax expense	(72)	(88)

NOTE 6: DIVIDENDS

	Cents per Share	Total Amount \$'000	Date of Payment	Franked/ Unfranked
--	-----------------------	---------------------------	-----------------	-----------------------

Dividends recognised in the current year by the company are:

2009

Interim 2009 ordinary	5.4	1,098	17 March 2009	Franked
Total Amount		1,098		
Franking Account		962		

2008

Interim 2008 ordinary	4.0	802	12 March 2008	Franked
Final 2008 ordinary	4.5	901	19 September 2009	Franked
Total Amount		1,703		
Franking Account		813		

Franked dividends declared or paid during the period were franked at the tax rate of 30%.

Subsequent events

Since the end of the financial year, the directors declared the following dividend:

Final 2009 ordinary	6.0	1,220	15 September 2009	Franked
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The balance of franking account represents the financial year-end balance adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years.



Notes to the Financial Statements for the year ended 30 June 2009

	2009 \$'000	2008 \$'000
NOTE 7: CASH AND CASH EQUIVALENTS		
Cash on hand	5	5
Cash at bank and on deposit	1,802	710
	1,807	715
NOTE 8: TRADE & OTHER RECEIVABLES		
Trade receivables	393	349
NOTE 9: INVENTORIES		
Stock on hand	-	176
NOTE 10: OTHER ASSETS		
Prepayments	182	150
Other current assets	113	25
	295	175
NOTE 11: PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment under finance lease at cost	743	743
Less accumulated amortisation	(665)	(575)
Total plant and equipment under finance lease	78	168
Capital works at cost	119	477
Less accumulated amortisation	-	-
Total capital works	119	477
Plant and equipment at cost	5,188	3,801
Less accumulated depreciation	(1,259)	(663)
Total plant and equipment	3,928	3,138
Leasehold improvements at cost	2,050	2,045
Less accumulated amortisation	(507)	(237)
Total leasehold improvements	1,543	1,808
Total property, plant and equipment	5,669	5,591

All assets of the company are pledged as security against facilities disclosed in note 16.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (continued)

Movements during the year

2009	Plant and equipment under finance lease	Capital works	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance from 1 July 2008	169	477	3,137	1,808	5,591
Additions	-	123	906	5	1,034
Transfers	-	(481)	481	-	-
Disposals	-	-	-	-	-
Depreciation/Amortisation	(90)	-	(596)	(271)	(957)
Balance at 30 June 2009	79	119	3,928	1,542	5,668

2008	Plant and equipment under finance lease	Capital works	Plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance from 1 July 2007	55	215	1,550	1,079	2,899
Additions	-	1,400	98	-	1,498
Additions through business acquisitions	169	-	1,563	74	1,806
Transfers	-	(1,138)	276	862	-
Disposals	-	-	(8)	-	(8)
Depreciation/Amortisation	(55)	-	(342)	(207)	(604)
Balance at 30 June 2008	169	477	3,137	1,808	5,591

	2009	2008
	\$'000	\$'000

NOTE 12: INTANGIBLE ASSETS

Goodwill at cost	7,986	9,135
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Movements during the year

Opening balance	9,135	1,471
De-recognition of Goodwill acquired through business combinations	(1,228)	-
Miscellaneous expenditure	79	-
Acquisitions through business combinations	-	7,747
Reductions from changes in contingent consideration payable	-	(83)
	7,986	9,135



Notes to the Financial Statements for the year ended 30 June 2009

	2009 \$'000	2008 \$'000
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NOTE 12: INTANGIBLE ASSETS (continued)

The total amount of goodwill has been allocated to the following individual cash generating units (dental practice):

Cash generating unit (dental practice)

Belgian Gardens	146	145
Fulham Road	40	40
The City	107	106
Upper Ross	84	84
Mackay	21	20
Chevron Island	-	72
Cairns Central	67	67
Gladstone	108	108
Carindale	759	756
Caloundra	1,049	1,049
Rockhampton	259	214
Toowoomba	1,735	2,170
Bundaberg	3,529	4,304
Tweed Heads	75	-
Other	7	-
	7,986	9,135

During the prior period, the goodwill relating to the Chevron Island practice was transferred to the Tweed Heads practice to reflect the merging of equipment and databases of the Chevron Island practice to Tweed Heads.

The recoverable amount of goodwill is based on value in use calculations. Value in use has been determined by reference to the expected future performance of each dental practice. Each dental practice's future cash flows are projected over a 5 year period and are discounted using the Company's weighted average cost of capital. Future cash flows for each practice are based on historical results extrapolated using historical growth rates specific to each practice.

Details of each practice's contribution to the Company's profit:

1300SMILES operates multiple dental practices through a central head office to achieve cost savings. Head office expenses attributable to each operation cannot be determined and consequently it is not practical to determine the amount of each practice's profit included in the Company's profit for the period.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 12: INTANGIBLE ASSETS (continued)

During the period the following dental practices were acquired:

2009

No dental practices were acquired during the year.

2008

Dental Practice	Consideration paid or payable	Net fair value of assets acquired	Goodwill arising on acquisition
	\$'000	\$'000	\$'000
Caloundra	1,401	352	1,049
Rockhampton	401	187	214
Toowoomba ⁽¹⁾	1,254	481	1,735
Bundaberg ⁽¹⁾	2,705	824	3,529
	<u>5,761</u>	<u>1,844</u>	<u>6,527</u>

(1) Refer to note 26

During the period, the Company incurred minor additional acquisition costs of \$79,309 (2008: \$11,200) relating to several practices which are not included in the above acquisitions.

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

	2009	2008
	\$'000	\$'000

NOTE 13: OTHER FINANCIAL ASSETS

Available for sale financial asset	10	1
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Details of controlled entity	Balance date	Country of incorporation	% of shares held	
			30 June 2009	30 June 2008
1300SMILES (WA) Pty Ltd	30 June	Australia	100	-

1300SMILES (WA) Pty Ltd, a wholly owned subsidiary, was registered during the year ended 30 June 2009. The company is dormant.



Notes to the Financial Statements for the year ended 30 June 2009

	2009 \$'000	2008 \$'000
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NOTE 14: TRADE AND OTHER PAYABLES

Trade creditors	943	733
Sundry creditors and accruals	800	706
	1,743	1,439

NOTE 15: PROVISIONS

CURRENT

Employee benefits	139	97
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NON-CURRENT

Employee benefits	50	32
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NOTE 16: FINANCIAL LIABILITIES

CURRENT

Deferred settlement	1,500	2,282
Lease liabilities	57	87
	1,557	2,369

NON-CURRENT

Deferred settlement	-	1,178
Term loan (net of borrowing costs)	3,291	4,454
Lease liabilities	49	91
	3,340	5,723

NOTE 17: SHARE CAPITAL

Issued and paid up capital	4,770	3,991
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(a) Ordinary Shares

	2009		2008	
	Number of Shares	\$'000	Number of Shares	\$'000
Balance 30 June	20,340,508	4,770	20,059,235	3,991

Ordinary shares participate in dividends and the proceeds on winding up of the Parent Entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Shares issued during 30 June 2009 relate to acquisitions completed during 30 June 2008.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 17: SHARE CAPITAL (continued)

(b) Options

During the 2009 financial year, no options were issued over ordinary shares. At 30 June 2009 there were no (2008: Nil) unissued ordinary shares in respect of which options were outstanding.

	2009 \$'000	2008 \$'000
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NOTE 18: COMMITMENTS

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable		
- not later than one year	1,011	897
- later than one year and not later than five years	2,073	2,201
- later than five years	30	162
Aggregate lease expenditure contracted for at reporting date	3,114	3,260

Operating leases relate to the lease of premises and the hire of dental equip

Finance lease commitments

Reconciliation of Finance lease commitments of the Company to the carrying amount of Lease liabilities:

Time expected to elapse to expected date of payment:

- not later than one year	61	94
- later than one year and not later than five years	51	95
	112	189
- future finance charges	(6)	(11)
Carry amount of lease liabilities	106	178
Current lease liability - Note 16	57	87
Non current lease liability - Note 16	49	91
Total lease liability	106	178



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 19: DIRECTORS AND KEY MANAGEMENT PERSONNEL COMPENSATION

	Short Term Salary & Fees \$'000	Cash Bonus \$'000	Net DSA income \$'000	Superannuation \$'000	Total \$'000
Directors					
Robert Jones ⁽¹⁾					
2009	28	-	-	2	30
2008	21	-	-	2	23
Daryl Holmes ⁽²⁾					
2009	82	-	45	7	134
2008	82	-	51	7	141
William Bass ⁽³⁾					
2009	54	-	-	2	57
2008	93	-	-	2	95
Morris Marrinon ⁽⁴⁾					
2009	-	-	-	-	-
2008	11	-	-	-	11
Guy Drummond ⁽⁵⁾					
2009	-	-	-	-	-
2008	11	-	-	1	12
Total Remuneration: Directors					
2009	164	-	45	12	221
2008	218	-	51	13	282
Key Management Personnel					
Deborah Bowling ⁽⁶⁾					
2009	59	5	-	5	69
2008	-	-	-	-	-
Greg Kentish ⁽⁷⁾					
2009	63	-	-	6	59
2008	84	-	-	8	92
Duncan Cornish ⁽⁸⁾					
2009	-	-	-	-	-
2008	13	-	-	-	13
Total Remuneration: Key Management Personnel					
2009	122	5	-	11	138
2008	97	-	-	8	105
Total Remuneration of Directors and Key Management Personnel					
2009	286	5	45	23	359
2008	315	-	51	21	387

(1) Robert Jones was appointed Chairman on 25 September 2007.

(2) Includes net dental service income received from DSA as disclosed in Note 20.

(3) Includes secretarial and practice acquisition services as disclosed in Note 20. Mr Jones and Dr Holmes are of the view that these services are of independent expertise in character, and do not compromise Mr Bass in acting as a non executive director of the company.

(4) Mr Marrinon resigned as a non-executive director on 25 September 2007.

(5) Mr Drummond resigned as a non-executive director on 28 September 2007.

(6) Miss Bowling joined the company on 28 May 2008 and was promoted to Financial Controller on 15 August 2008. 7% of Miss Bowling's remuneration was an at risk bonus payment in 2009.

(7) Mr Kentish resigned as Chief Operating Officer on 8 December 2008.

(8) Mr Cornish resigned from company secretary duties on 30 November 2007.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 20: RELATED PARTY DISCLOSURES

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

a) Transactions with Directors and director-related entities

The Company has entered into the following agreements with the managing director, Dr Daryl Holmes, or entities related to Dr Holmes.

	2009 \$'000	2008 \$'000
(i) Dentist income*		
Daryl Holmes provided dental services under a dentist service agreement on normal commercial terms and conditions.	45	51
(ii) Rental expense		
Golden Arch (QLD) Pty Limited ATF the Whistler Trust provides leasehold property rental on normal commercial terms and conditions	213	91
Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides leasehold property rental on normal commercial terms and conditions	59	59

* Forms part of remuneration included in the remuneration report on page 11 and note 19.

The Company has entered into the following agreements with Non Executive Director Mr William Bass.

(iii) Secretarial		
William Bass provides company secretarial services on normal commercial terms and conditions	27	10
(iv) Practice acquisition		
William Bass provides practice acquisition services on normal commercial terms and conditions	-	55

(b) Share and Option transactions of Directors and Director-Related Entities are shown in the table below:

2009

<i>Shares held in 1300SMILES Limited (number)</i>	Balance 1 July 2008 '000	Granted as Remuneration '000	On Exercise of Options '000	Net Change Other '000	Balance 30 June 2009 '000
Directors					
Robert Jones	28	-	-	-	28
Daryl Holmes	15,199	-	-	-	15,199
William Bass	16	-	-	-	16
Key Management Personnel					
Greg Kentish	-	-	-	-	-
Deborah Bowling	-	-	-	-	-
Total	15,243	-	-	-	15,243



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 20: RELATED PARTY DISCLOSURES (continued)

2008

<i>Shares held in 1300SMILES Limited (number)</i>	Balance 1 July 2007 '000	Granted as Remuneration '000	On Exercise of Options '000	Net Change Other '000	Balance 30 June 2008 '000
Directors					
Robert Jones	-	-	-	28	28
Daryl Holmes	15,187	-	-	12	15,199
William Bass	14	-	-	2	16
Key Management Personnel					
Greg Kentish	-	-	-	-	-
Total	15,201	-	-	42	15,243

No director or key management personnel held options during 2008 and 2007.

NOTE 21: EARNINGS PER SHARE

	2009 '000	2008 '000
Basic earnings per share (cents)	18.7	10.9
Earnings used in the calculation of basic and diluted earning per share	\$3,810	\$2,186
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	20,340,508	20,059,235



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 22(a): RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 \$'000	2008 \$'000
Profit for the year	3,810	2,186
<i>Non-cash flows in profit from ordinary activities</i>		
Depreciation	957	604
Net (gain) / loss on disposal of property, plant and equipment	(7)	(2)
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in receivables	(44)	(139)
(Increase)/decrease in other assets	(120)	(38)
(Increase)/decrease in inventories	176	31
Increase/(decrease) in payables	304	927
Increase/(decrease) in income tax payable	333	(123)
(Increase)/decrease in deferred taxes	(72)	(65)
Increase/(decrease) in employee benefits	59	(14)
GST clearing	50	13
Cash flows from operations	5,446	3,291
(b) Businesses Acquired		
<i>Aggregate purchase consideration:</i>		
Cash and cash equivalents	-	5,898
Trade and other payables	-	3,601
	-	9,499
<i>Aggregate fair value of assets and liabilities acquired:</i>		
Cash	-	1
Inventory	-	-
Other assets	-	77
Accruals	-	(10)
Provision for employee entitlements	-	(31)
Plant and equipment	-	1,806
	-	1,843
Goodwill on acquisition	-	7,656
Outflow of cash	-	5,966

c) Non-cash Investing Activities

During the period the Company acquired nil (2008: \$168,707) property, plant and equipment by way of finance lease.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

A fully franked final dividend of 6.0 cents per share has been declared and is payable in September 2009, other than the dividend, there have been no events since the end of the financial year that impact upon the financial report as at 30 June 2009.

NOTE 24: SEGMENT INFORMATION

The Company operates predominantly in one business and geographical segment being in the provision of dental services in Australia.

NOTE 25: FINANCIAL INSTRUMENTS

Overall policy

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

(a) Credit risk

Credit risk arises principally from the Company's trade receivables and cash and cash equivalents.

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

	2009 \$'000	2008 \$'000
<i>Maximum exposure to credit risk</i>		
Trade accounts receivable	393	353
Cash and cash equivalents	1,807	715
	2,200	1,068

Receivables

The entity's exposure to risk is minimised due to the majority of clients paying for their services up front. The Company monitors and follows-up its accounts receivable to ensure collections are being made promptly in accordance with contractual terms and conditions and actively pursues amounts past due.

Where applicable, an allowance for impairment has been made, that represents the estimate of incurred losses in respect to trade and other receivables.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 25: FINANCIAL INSTRUMENTS (continued)

Impairment considerations

The ageing of trade receivables at the reporting date was:

	2009 \$'000	2008 \$'000
Not past due	166	107
Past due 0-30 days	116	98
Past due 31-60 days	32	86
Past due 60+ days	79	63
	393	353

The Company has not provided for amounts past due as management believes these amounts are not impaired.

Cash investments

The Company limits its risk exposure on cash investments by investing in term deposits or similar, with major banking institutions, and management does not expect any counterparty to fail to meet its obligations.

(b) Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Company's exposure to market interest rates relates primary to the Company's long-term debt obligations and cash. No interest rate swaps have been entered into during the term of the facility.

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

Sensitivity analysis for movement in interest rates:

Variable rate instruments

1% increase in interest rates - effect on profit after tax and equity	(38)	(28)
1% decrease in interest rates - effect on profit after tax and equity	38	28

At balance date the following assets and liabilities were exposed to Australian variable interest rates:

Cash	1,807	715
Term loan	(3,219)	(4,454)
Net	(1,412)	(3,379)



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 25: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. This process involves the review and updating of cash flow forecasts and, when necessary, the obtaining of credit standby arrangements and loan facilities.

The Company’s objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit lines.

The Company maintains the following lines of credit:

- \$5 million interest only term loan expiring in March 2013. \$1.7 million was unused at balance date.

Contractual maturity analysis for financial instrument liabilities:

2009

Consolidated	Contractual Repayment Amount	6 mths or less	6-12 mths	1-5 years
Trade payables	943	943	-	-
Sundry creditors and accruals	800	800	-	-
Deferred settlement	1,500	1,500	-	-
Finance lease liabilities	112	31	30	51
Term Loan	3,831	72	72	3,687
	7,186	3,346	102	3,738

2008

Consolidated	Contractual Repayment Amount	6 mths or less	6-12 mths	1-5 years
Trade payables	733	733	-	-
Sundry creditors and accruals	706	706	-	-
Deferred settlement	3,460	2,282	1,178	-
Finance lease liabilities	189	48	46	95
Term Loan	5,667	72	72	5,523
	10,755	3,841	1,296	5,618

(d) Fair Value

The carrying amount of the Entity’s financial assets and financial liabilities approximate their fair value.



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 26: CONTINGENT LIABILITIES

The Company is subject to bank guarantees totalling \$85,461 (2008: \$144,971).

Included in financial liabilities are deferred settlements of \$1,500,125 (30 June 2008: \$3,368,994) payable in respect of the Toowoomba and Bundaberg practices acquired. These amounts are payable on the respective practices achieving certain revenue and profit benchmarks in the term between June 2008 to June 2012.

During the year the company issued equity in settlement of the first deferred settlement payable amount of \$778,918 for the Bundaberg practice acquired. This amount was previously reported as a deferred settlement liability at 30 June 2008 and was recognised in financial liabilities.

A contingent liability of \$1,457,413 exists in relation to the acquisitions of the Bundaberg and Toowoomba practices. This balance has not been recorded on the balance sheet as at 30 June 2009. The directors do not believe the payment of the deferred settlement liabilities is probable. The liability was previously recorded as a non-current financial liability at 30 June 2008 at a discounted value of \$1,228,000. The corresponding decrease to this liability was goodwill, refer to note 12.

NOTE 27: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results

may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgments

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Company assesses impairment of all assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. These include technology, economic and political environments and future service expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

Taxation

The Company's accounting policy for taxation requires management's judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future revenue, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgments are also



Notes to the Financial Statements for the year ended 30 June 2009

NOTE 27: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

required about the application of income tax legislation.

These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Company determines whether goodwill and

intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated.

The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives including a sensitivity analysis are discussed in note 12.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.



DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes on pages 18 to 43, and the remuneration disclosures that are contained in the Remuneration report in the Directors' report, set out on pages 9 to 12, are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
 - (ii) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2009 and of its performance for the financial year ended on that date.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the managing director and financial controller required by section 295A of the Corporations Act 2001.

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

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

Dr. Daryl Holmes
Director

Dated at Townsville this 6th Day of August 2009

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

Report on the Financial Report

We have audited the accompanying financial report of 1300SMILES Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the 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 controls. 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 met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Auditor's Opinion

In our opinion:

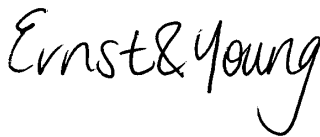
1. the financial report of 1300SMILES Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of 1300SMILES Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Alison de Groot'.

Alison de Groot
Partner
Brisbane
6 August 2009



SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 29 July 2009.

(a) Distribution of equity securities

The number of holders, by size of holding, in each class of security are:

	Ordinary shares	
	Number of holders	Number of shares
1 – 1,000	29	15,244
1,001 – 5,000	240	671,160
5,001 – 10,000	54	424,422
10,001 – 100,000	44	1,344,436
100,001 and over	11	17,885,246
Total	378	20,340,508

There are no shareholders holding less than a marketable parcel of ordinary shares.

(b) Twenty largest holders

The names of the twenty largest holders, in each class of security are:

Ordinary shares:

1	Dr Daryl Holmes <TFD Hybrid Fixed A/C>	14,352,137	70.6%
2	Gandel Springwest Pty Ltd <Gandel Investment No 1 A/C>	1,009,055	4.9%
3	Upper Avalon Pty Ltd <Avalon Family Account>	700,810	3.4%
4	Golden Arch (Qld) Pty Ltd <Whistler Discretionary A/C>	481,685	2.4%
5	J P Morgan Nominees Australia Limited	465,605	2.3%
6	Ashbourne Park Pty Ltd <TFD Hybrid Fixed A/C>	265,402	1.3%
7	Ingham Family Investment Pty Ltd	161,494	0.8%
8	Mr John Patrick Baynes	126,199	0.6%
9	Stockham Investments Pty Ltd	119,779	0.6%
10	Kent Gush	102,500	0.5%
11	Landel Pty Ltd <Lancini Family Discret A/C>	100,580	0.5%
12	Ashbourne Park Pty Ltd <Super Fund A/C>	100,000	0.5%
13	Mr Morris & Mrs Ingrid Marrinon<The MJ & IM Super Fund A/c>	100,000	0.5%
14	Ancam Pty Ltd <Ancam Family Discret Account>	77,500	0.4%
15	Mr Kevin John Holmes & Mrs Janita Dawn Holmes	75,829	0.4%
16	TI Cap Pty Ltd	75,000	0.4%
17	CJ & CA Christofides	60,000	0.3%
18	Mr Kevin Holmes & Mrs Janita Holmes<Holmes Super Fund A/C>	52,500	0.2%
19	Mr Bradley John Holmes & Mrs Seiko Holmes	51,932	0.2%
20	Tomman NQ Pty Ltd	45,000	0.2%

Top 20

18,523,007

91.0%

Total

20,340,508

100.0%



Shareholder Information continued:

(c) **Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 is:

Dr. Daryl Holmes 15,199,224 Ordinary Shares

(d) **Voting rights**

All ordinary shares carry one vote per share without restriction.

(e) **Restricted securities**

There are no restricted securities (held in escrow).

(f) **Business objectives**

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.