For personal use only

Appendix 4E

Preliminary Final Report to the Australian Stock Exchange

Name of Entity	**1300SMILES Limited**
ABN	91 094 508 166
Financial Year Ended	30 June 2020
Previous Corresponding Reporting Period	30 June 2019

Results for Announcement to the Market

	$'000	**Percentage increase/ (decrease) over previous corresponding period**
Revenue from ordinary activities	39,802	(1.3%)
Profit / (loss) from ordinary activities after tax attributable to members	7,145	(8.1%)
Net profit / (loss) for the period attributable to members	**7,145**	**(8.1%)**

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	12.5 cents	100%
Interim Dividend	13.25 cents	100%
Record date for determining entitlements to the dividends		4 September 2020

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

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

Dividends

Date the dividend is payable	11 September 2020
Record date to determine entitlement to the dividend	4 September 2020
Amount per security	12.5 cents
Total dividend	$2,959,798
Amount per security of foreign sourced dividend or distribution	Nil
Details of any dividend reinvestment plans in operation	N/A
The last date for receipt of an election notice for participation in any dividend reinvestment plans	N/A

NTA Backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	28.8 cents*	27.9 cents

* The net tangible asset (NTA) backing per ordinary share of 28.8 cents presented above is inclusive of right-of-use assets and liabilities.

Commentary on the Results for the Year

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

Audit/Review Status

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

Financial Statements

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

By Order of the Board
Patrick Wyatt
Company Secretary
11 August 2020

For personal use only

For personal use only

1300 SMILES Dentists

ANNUAL REPORT

For the year ended 30 June 2020

1300 Smiles™ We Care

Contents

	Page
Letter from the Managing Director	1
Directors' Report	7
Auditor's Independence Declaration	22
Corporate Governance Statement	23
Consolidated Statement of Comprehensive Income	24
Consolidated Balance Sheet	25
Consolidated Statement of Changes in Equity	26
Consolidated Statement of Cash Flows	26
Notes to the Financial Statements	28
Directors' Declaration	66
Independent Auditor's Report	67
Shareholder Information	72
Corporate Directory	74

For personal use only

Letter from the Managing Director
30 June 2020

Dear Shareholders,

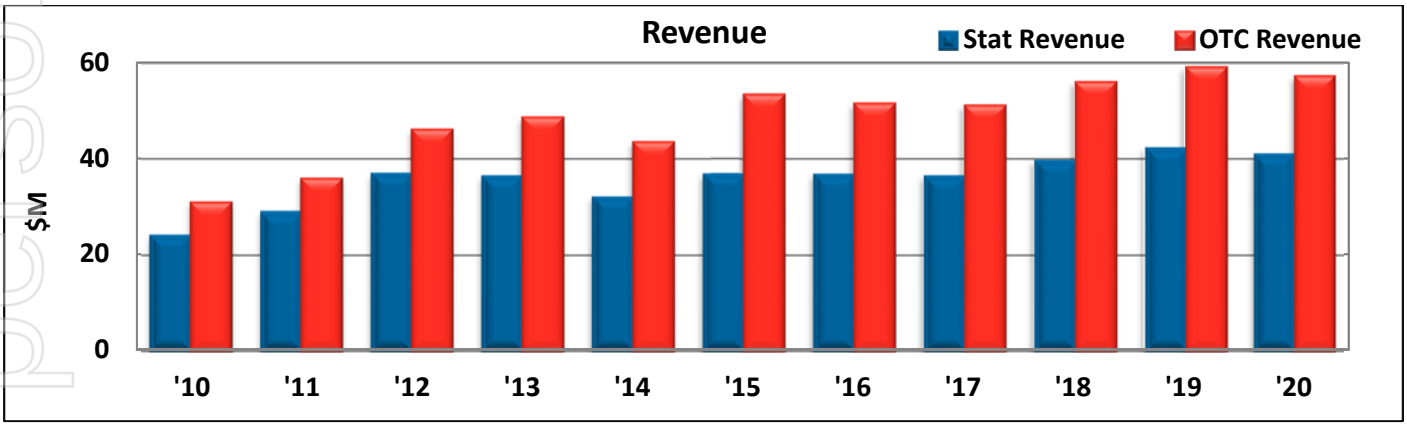
Flood, fire, plague. Since our company was first listed on the stock exchange in 2005, I have written thirty-one shareholder letters to go with our interim and final reports. Along the way there have been many surprises, but never before have we seen such startling change as in the year ended 30 June 2020.

The good news is that the COVID-19 disruption, while a severe test of our operations, has allowed the true strength of our business model to shine through and highlighted the ability of our team to cope with and respond positively to challenges. We have emerged from a lengthy shutdown with a business that has rebounded to higher levels of revenue and profit than ever before. In addition, the rationalisation and consolidation of the dental industry have been greatly accelerated, with many weaker players simply leaving the market. I'll address the details later in this letter.

Financial Results for the full year ended 30 June 2020

Our revenue was greatly reduced during the period of maximum economic restriction. Level 2 and Level 3 restrictions applied from 23 March to 11 May 2020. During this time many of our practices were closed and the activities at many others were sharply limited. Subsequent to 11 May our revenue rebounded sharply, with the month of June 2020 delivering our highest monthly revenue ever, by a big margin.

- Revenue (OTC) down 3% to $57.1 million
- EBITDA up 22% to $16.2 million
- NPAT down 8% to $7.1 million
- Full year dividend up 3% to 25.75c
- Revenue (Statutory) down 3% to $40.7 million
- NPBT down 9% to $9.8 million
- Earnings Per Share down 8% to 30.2c
- Net Bank debt down 3% to $8.3 million

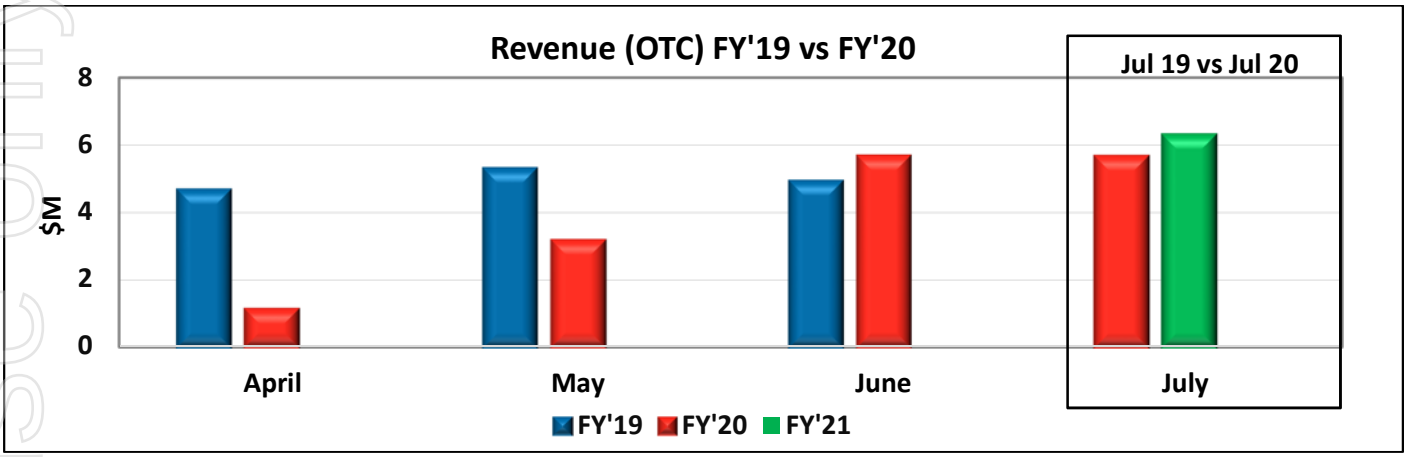


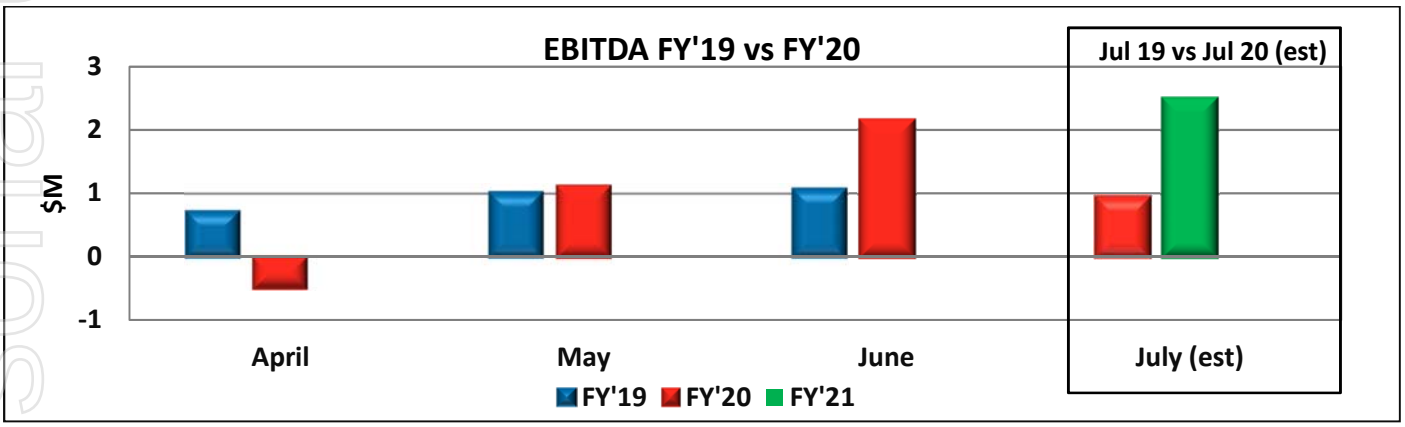
	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
Revenue (OTC) ($m)	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0	55.8	58.9	57.1
Less amount retained by self-employed Dentists ($m)	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8	16.5	17.0	16.4
Revenue (Statutory) ($m)	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2	39.3	42.0	40.7

The results for the quarter, the second half, and the full year mask the fact that we've been through a terrible spell which extended over several weeks, followed by an extremely positive period which lasted right to the end of the financial year and has continued without pause through the end of July.

For personal use only

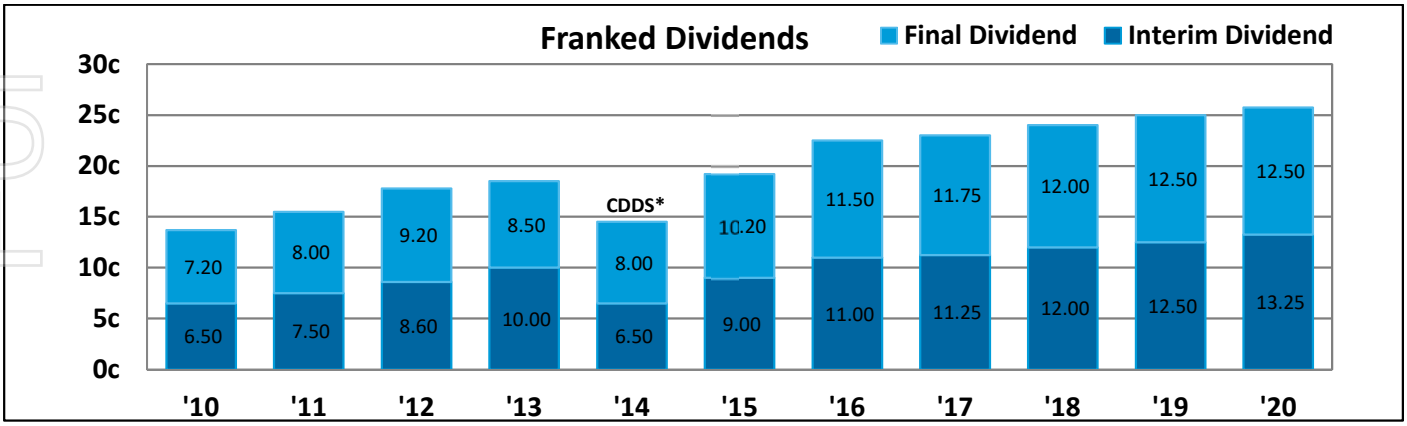
On a quarterly basis, revenue in 2020 exceeded revenue in the previous year in each of the first three quarters. Over the first three quarters, revenue was up by more than 7% over the previous year. All of the COVID-19 interruption was captured within the final quarter of the year, delivering the negative year-on-year changes shown below.





Dividend

The final dividend has been set at 12.5c per share, equal to the previous year's final dividend. This brings the full year dividend payout to 25.75c per share, an increase of 3.0% on the previous year.

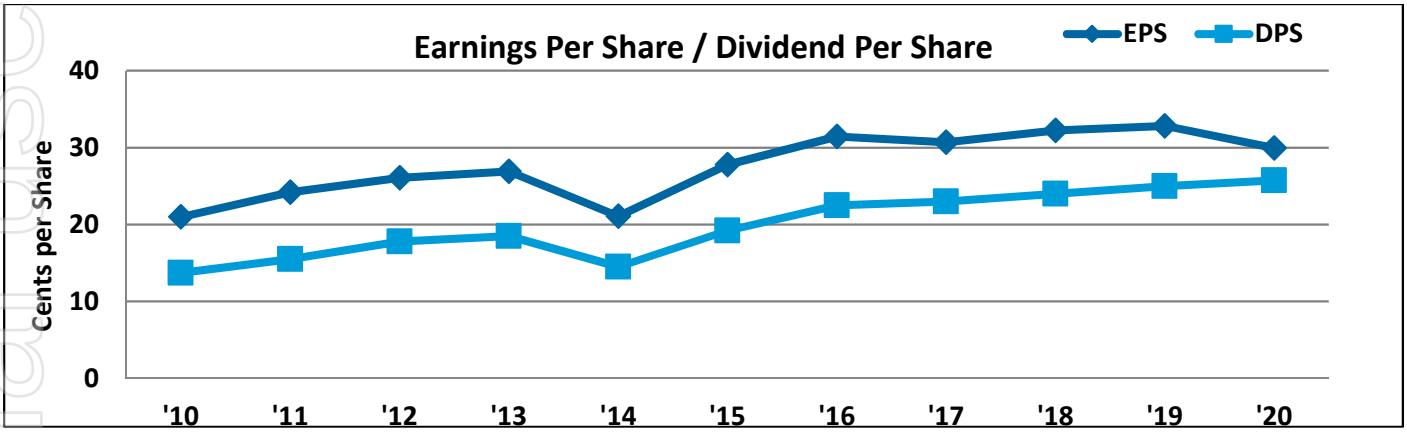


**Chronic Disease Dental Scheme (CDDS)*

For personal use only

Many other ASX-listed companies have suspended the payment of dividends in response to COVID-19, and some have even withdrawn previously announced dividends. In contrast, our strong finish to the financial year validates our board's decision to honour our commitment to treat our shareholders as our partners. At a time when many investors have been severely impacted by COVID-19, we are delighted that we are able to provide the safe and strong returns upon which we have built our relationship with shareholders.

As I have mentioned in previous shareholder letters, the board of 1300SMILES regards the dividend as not only the reward to which shareholders are entitled, but also as a key means of communicating with shareholders about the state of our business. While the COVID-19 pandemic had a negative impact on many of our key metrics in the 2020 year, we believe that the stresses imposed on our business have highlighted some of our real strengths. More importantly, we believe that the impact of the pandemic on the dental industry has put us in a stronger competitive position, something I will address further below.



Testing our business

Long term shareholders know that we have always tried to make our company's business as resilient as possible. We never know what's coming next, so we just aim to make sure that our business is sturdy enough to resist known and unknown challenges.

Sometimes it seems that as we get better at reinforcing our defences, the challenges get bigger and come faster.

In 2008 we saw a big collapse in the share market. This didn't have any direct effect on dentistry, but it made consumers nervous. People sometimes consider their dental health to be discretionary, and we felt this in our revenue. This slowed our progress, briefly, but we came back stronger than ever.

In 2013 the commonwealth government abruptly cancelled the Chronic Disease Dental Scheme (CDDS). Without warning a billion dollars (about 20% of the annual revenue of the ENTIRE Australian dental industry) disappeared overnight. That led to the only time we have had to decrease our dividend. Our full-year dividend for the 2014 year was reduced to 14.5c per share. Since then our dividend has grown by 78% to the current year's 25.75c.

In 2018 Queensland suffered floods greater than any seen in the modern era. All of our practices were sensibly located above the high water, but for a while it didn't make any difference because no one could actually get to several of these sites for a week or more. Many of our dentists and staff suffered real personal losses, but they got straight back on the job, and our business powered through. Looking back over our accounts, the floods had only a minor effect on our results.

So who saw 2020 coming? We all know that something is always headed our way, and I'm proud to say we were as ready as we could have been. Fortunately, our practices were out of the way of the terrible summer bushfires in southern Australia. All our practices were closed for a few to several weeks between March and May 2020 in response

For personal use only

to COVID-19. By June, though, all our facilities were open, and our revenue in the last month of the financial year was significantly up on June 2019. This trend has continued through July 2020.

I take my hat off to our dedicated and resilient staff and dentists who proved once again that they're willing to dig in and get the job done, no matter what obstacles are thrown at us by the economy, the government, or the natural world. We have no idea what challenge is coming next, but our business has been tested in many ways and our terrific team has proved equal to the challenge every time.

Our competitive position

I believe that the events of the past few months have helped to improve our competitive position considerably.

First of all, our facilities inspire confidence in our patients. Our practices are bright and clean, obviously sanitised and disinfected to the highest standard. Our scheduling systems mean that patients spend minimal time in our waiting areas. Our equipment is modern and professionally maintained. We were equipped to prevent disease transmission long before COVID-19 came along, and the presentation of our facilities is reassuring to patients.

Since June we have enjoyed an unprecedented flow of both returning and new patients. Why so many new ones? I speculate that the presentation of our facilities gives people comfort. I speculate that many people who have previously not prioritised their dental and overall health, have reconsidered their life priorities. I also speculate but cannot yet measure another effect of COVID-19: it appears that a number of older dentists have kept their practices closed while they consider whether to resume operations at all.

Many sole practitioners and small partnerships have simply not re-opened. One has to imagine that older dentists, especially those with other elevated risk factors for whom COVID-19 exposure is more dangerous, or who are no longer up to maintaining older fitouts to current disinfection standards, simply won't return to practice. I see this delivering opportunities to a business like ours, which is designed to allow old and young dentists alike to do what they are good at—dentistry—and leave the management of the business to us.

Along with the flood of new patients, we have also enjoyed an unprecedented stream of applications from qualified dentists wishing to join our practices. From our discussions with these applicants, the big motivations are our proven ability to generate a flow of patients and the better career path and lifestyle available within 1300SMILES than as an associate in a one or two dentist practice.

COVID-19 exposure

As of this writing, the serious COVID-19 outbreaks in Australia are concentrated in high-density, low-income centres in Melbourne and to a lesser degree in Sydney. We have no company facilities located in or near any of the current hot spots. The overwhelming majority of our patients, dentists, and staff live in the sort of suburban settings that have so far avoided the worst of the pandemic.

In addition, most of our facilities are located in Queensland. As a state, Queensland has performed well in response to the pandemic. Queensland has a higher proportion of its population located outside its capital city than any other state. As we've seen so far, the structure and design of suburban and regional centres make it easier to resist widespread infection.

None of this adds up to a guarantee that the pandemic won't flare up further in ways that affect our business, but as the governments of Australia and Queensland continue to learn from mistakes made elsewhere, we have some cause for cautious optimism. At the practice level we remain fierce about enforcing best practice infection suppression; these practices are updated as new and better information comes to hand.

For personal use only

We absolutely will not hesitate to restrict any operations where there is a threat to our patients, staff, or dentists.

Change to AASB-16 Leases

Starting with the interim report for the current year we have been required to adopt the change to AASB 16 Leases.

This has no effect on our cash flow or any other practical aspect of our business, but it has a significant effect on the way our accounts are presented. The major effect is that of decreasing our rental expense (for accounting purposes only) and increasing our lease depreciation expense and finance costs.

These changes in turn affect the calculation of EBITDA, our Earnings Before Interest, Tax, Depreciation, and Amortisation. On identical real results, our EBITDA is now higher than it was before AASB-16 Leases. For the purpose of enabling comparison to previous reports, we provide the following comparison of our AASB-16 Leases results (as used in these accounts) to our pre-AASB-16 Leases results (as used in accounts prior to the 2020 year).

	FY'20 $'000	FY'19 $'000	Change
EBITDA	**16,177**	**13,283**	**21.8%**
Rent expense	(2,906)	-	-
EBITDA (pre-AASB 16 Leases)	**13,271**	**13,283**	**-0.1%**

	FY'20 $'000	FY'19 $'000	Change
Net profit before tax	**9,786**	**10,787**	**-9.3%**
Depreciation of right of use assets	2,867	-	-
Lease interest expense	277	-	-
Rent expense	(2,906)	-	-
Net profit before tax (pre-AASB 16 Leases)	**10,024**	**10,787**	**-7.1%**

Practice acquisitions

During the 2020 year we acquired established multi-dentists practices in Gatton and Laidley both in Queensland. While none of these acquired practices has a material effect on our results, all made positive contributions to our revenue and profit for the year, and all meet our operating efficiency standards. We disposed of two smaller operations during the year. Given the scale of our business, such sales are a normal part of our business as we continue to refine our operations and our allocation of resources.

Thanks

Finally, as always, I note that our business only exists thanks to the support of our many patients throughout Australia. This support in turn results from the quality care provided by our dentists, dental support staff, and practice and business management teams – thank you to all of you; my admiration for your resilience, professionalism and care has grown even more this year. Finally, I thank our shareholders for your continuing support.

Dr Daryl Holmes OBE, B.D.Sc (Hons.)
Managing Director

Authorised for release to ASX by the Managing Director

For personal use only

For personal use only

ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

1300SMILES Ltd owns and operates full-service dental facilities at its sites in New South Wales, and in the ten major population centres in Queensland. The company continually seeks to expand its presence into other geographical areas throughout Australia. It does so both by establishing its own new operations and by acquiring existing dental practices. The administrative and corporate offices are in Townsville.

1300SMILES enables the delivery of services to patients by providing the use of dental surgeries, practice management and other services to self-employed dentists who carry on their own dental practices. The services provided by the company allow the dentists to focus on the delivery of dental services rather than on the administrative aspects of carrying on their businesses. The dentists pay fees to the company for the provision of these services under a Dental Service Agreement with the company. In some circumstances the company also employs qualified dentists.

The dentists who use the company's services range from new graduates to experienced dental professionals. Several dentists who use the company's services have special interests and experience in such areas as endodontics, oral surgery, implants and periodontics and cross-refer work to other dentists who use the company's services.

The company provides comprehensive services in the areas of marketing, administration, billing and collections, and facilities certification and licensing to all participating dentists. The company also provides all support staff, equipment and facilities, and sources all consumable goods using the buying power which derives from such a large group of dental businesses.

FUTURE DEVELOPMENTS

The company's core objective is to continue to increase profits and shareholder returns while providing a rewarding environment for our staff and the dentists using our facilities.

The company aims to achieve a combination of organic growth in its existing locations and the addition of new practice management facilities.

The key drivers for future growth of the company are:

- Increasing profits by attracting more dentists to our existing facilities and expanding those facilities which are already at full capacity;
- Assisting dentists who already practice within the 1300SMILES system to increase their turnover and income through benchmarking, training, and mentoring;
- Establishing new practices in existing and new regions (greenfield sites);
- Acquiring substantial existing practices where we can do so on favourable terms; and
- Managing dental facilities owned by others.

DENTIST ENQUIRIES

Owners of dental practices who are interested in unlocking the goodwill value of their businesses (or freeing themselves from all the management hassles) are invited to contact Dr. Daryl Holmes, Managing Director, on +61 (7) 4720 1300 or *md@1300SMILES.com.au*.

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

Your directors present their report on the consolidated entity consisting of 1300SMILES Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020. Throughout the report, the consolidated entity is referred to as the group.

Directors

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

Robert Jones (Non-Executive Chairman)
Dr Daryl Holmes (Managing Director)
Jason Smith (Non-Executive Director)
Evonne Collier (Non-Executive Director) (Resigned 6 April 2020)

Company secretary

The following person was company secretary of 1300SMILES Limited during the whole of the financial year and up to the date of this report:

Patrick Wyatt

Principal activities

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

Dividends – 1300SMILES Limited

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

	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 12.5 cents (2018: 12.00 cents) per ordinary share paid on 16 September 2019 fully franked based on a tax rate of 30%	**2,960**	2,841
Interim dividend for the half year ended 31 December 2019 of 13.25 cents (2018: 12.5 cents) per ordinary share paid on 27 March 2020 fully franked based on a tax rate of 27.5%	**3,137**	2,960
	6,097	5,801

Since the end of the financial year, the Directors have recommended the payment of a final ordinary dividend of 12.5 cents ($2,959,798) to be paid on 11 September 2020 out of retained earnings at 30 June 2020.

Review of operations

The profit for the group after providing for income tax amounted to $7,145,000 (30 June 2019: $7,772,000).

Detailed comments on operations up to the date of this report are included separately in the Annual Report. Please refer to the Letter from the Managing Director on pages 1 to 7 of this annual report.

For personal use only

For personal use only

Significant changes in the state of affairs

Bank facilities
On 27 June 2019, the group entered into a new multi-option loan facility agreement with the Commonwealth Bank of Australia. The loan facility was settled on 2 August 2019 with transfer of securities occurring on this date. The details of the loan facility include:

- Total loan facility is for $25 million and a $25 million accordion facility
- Interest terms vary according to the net leverage ratio, with the current rate at 2.81%
- Security for the loan facility consists of first ranking general security interest over all assets and undertakings of 1300SMILES Ltd and 1300SMILES (BOH Dental) Pty Ltd, and a cross guarantee and indemnity between 1300SMILES Ltd and 1300SMILES (BOH Dental) Pty Ltd
- Debt covenants include:
    - Debt leverage ratio not greater than 2.75x
    - Fixed interest charge cover ratio must not fall below 1.80x
- The termination date of the loan facility is 2 August 2022

Acquisitions
The group acquired two dental practices in Gatton and Laidley (Queensland) on 23 December 2019.

Coronavirus (COVID-19) pandemic
The group actively managed the impact of COVID-19 on its team and business through Q4 of 2020, and continues to monitor the impact going forward. Our key focus throughout lockdowns was and continues to remain the health and safety of our team and maintaining a high level or service and reliability for our customers, to support them through these unprecedented times.

Overall financial impact on business
Since the easing of Level 3, then Level 2 COVID-19 restrictions back down to Level 1 restrictions on Monday, 11 May 2020, the group has carefully and rapidly scaled-up its operations, reopening all Practices as soon as possible thereafter, to meet the sudden and growing influx of patient demand for dental services within all the communities we operate in, returning progressively to full operations day-by-day, throughout May 2020.

Although the pandemic materially affected our April & May revenue and profitability, our post COVID recovery has been extremely positive and profound.

Events since the end of financial year

A fully franked final dividend of 12.5 cents per share has been declared and is payable on 11 September 2020.

Apart from the matters mentioned above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

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

For personal use only

Information on directors

Robert Jones
Non-Executive Chairman
MAICD

Experience and expertise:
Robert was a Director and Chairman of the Mater Health Services North Qld Ltd from 1993 until 2013. Mater Health Services North Qld Ltd owns and operates two fully accredited private hospitals in Townsville, the Mater Hospital (Pimlico) and Mater Hospital (Hyde Park). Robert has been a Director and Chairman since 2007.

Robert is a member of the Australian Institute of Company Directors.

Robert is considered an Independent Director by the Board. Robert was appointed Chairman on 25 September 2007.

Other current Directorships:	Hermit Park Bus Service Pty Ltd (unlisted)
Former Directorships (in the last 3 years):	Mater Health Services North QLD Ltd (unlisted)
Special responsibilities:	Nil
Interest in shares:	37,521 ordinary shares in 1300SMILES Limited
Interests in options:	None

Dr Daryl Holmes OBE
Managing Director
B.D.Sc (Hons.), MAICD

Experience and expertise:
Dr Holmes is the founder of 1300SMILES Limited and a qualified dentist having obtained his dental qualifications (B.D.Sc (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. Dr Holmes has been a Director of the company since its inception in 2000.

For 12 years he pioneered and perfected a range of innovative management and marketing techniques for his dentistry business, in the process transforming a cottage industry into a polished and professional customer service experience, backed up by affordable high quality dental health care.

1300SMILES Limited successfully listed on the ASX in March 2005. It now operates practices in the ten major population centres in Queensland and more recently in New South Wales.

Dr Holmes has been a member of the Australian Dental Association (ADA) for 33 years.
Dr Holmes has been a Director of the Cowboys Leagues Club for the past 18 years, and in May 2014 he was elected Chairman.

Information on directors (continued)

Dr Holmes is not considered to be an Independent Director by the Board given his role as Managing Director.

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

Jason Smith
Non-Executive Director

Experience and expertise:
Jason is founder and Executive Chairman of Back In Motion Health Group. With 100+ locations in Australia and New Zealand, Back In Motion was rated by BRW five years consecutively in the top 15 fastest growing franchises.

Jason is author of a recent best-selling book titled "Outside In Downside Up Leadership" and was listed as the No.2 Top Franchise Executive in Australia for 2019. He has also previously published the international best seller "Get Yourself Back In Motion" – a physiotherapist's secrets to pain relief and optimal health. He is a regular contributor and presenter on health & wellness, leadership and business-related subjects on television, radio, print and online channels. Jason has demonstrated commitment to those less fortunate through his work with numerous humanitarian welfare organisations and community groups.

In addition, Jason is a member of the Franchise Council of Australia, the Australian Physiotherapy Association, various CEO groups and special interest business forums. He is highly regarded for his contribution and advocacy in leadership development, health promotion, boardroom strategy and innovative business. Jason is based in Melbourne, Victoria.

Jason is considered an Independent Director by the Board. Jason was appointed Director of the Board on 23 November 2017.

Other current Directorships:	Back In Motion Health Group (unlisted) SOS Health Foundation (unlisted) Iceberg Leadership Institute (unlisted)
Former Directorships (in the last 3 years):	S.A.L.T. (unlisted)
Special responsibilities:	Nil
Interests in shares:	2,068 ordinary shares in 1300SMILES
Interests in options:	Limited None

For personal use only

For personal use only

Information on directors (continued)

Evonne Collier (Resigned 6 April 2020)
Non-Executive Director

Experience and expertise:
Evonne is an experienced leader with a successful track record in business scale-up and transformation, brand/channel strategy, new to world and category innovation, digital disruption and B2B and B2C customer experience. She has 25 years' senior executive experience working within blue-chip local and multinational companies in the FMCG, Health/Pharmaceutical and Entertainment/Technology sectors. She has a strong financial acumen with a track record in overseeing large balance sheets, CAPEX projects and strategic growth initiatives (organic and acquisitive) to optimise shareholder returns.

Evonne has extensive board and executive experience with ASX and large shareholder based businesses.

She currently holds Independent directorships with Think Childcare (ASX:TNK); Motorama Automotive Group and BML (Brisbane Markets).

Evonne holds undergraduate and postgraduate business and finance qualifications (BA, MBus, GradCertAppFin), is a certified scrum master and a graduate member of the AICD.

Evonne is considered an Independent Director by the Board. Evonne was appointed Director of the Board on 23 November 2017 and resigned on 6 April 2020.

Other current Directorships	Think Childcare Limited (listed) Motorama Automotive Group (unlisted) Brisbane Markets Limited (unlisted) Ingredients Plus Pty Ltd (unlisted)
Former Directorships (in the last 3 years):	Winson Group; Catch.com.au Group
Special responsibilities:	Nil
Interests in shares:	None
Interest in options:	None

Meetings of directors

The number of meetings of the company's Board of Directors and Board Committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Attended	Held
Robert Jones	11	11
Dr Daryl Holmes	11	11
Jason Smith	11	11
Evonne Collier*	8	8

*Evonne Collier resigned on 6 April 2020

For personal use only

Remuneration report (audited)

The Directors present the 1300SMILES Limited 2020 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

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

(a) Key management personnel covered in this report

Non-Executive and Executive Directors (see pages 9 to 11 for details about each Director)
Robert Jones
Dr Daryl Holmes
Jason Smith
Evonne Collier (Resigned 6 April 2020)

Remuneration report (audited) (continued)

Other key management personnel

Name	**Position**
Natalie Duve	Operations Manager
Roman Chideme	Financial Controller (Appointed 30 September 2019)

(b) Remuneration policy and link to performance

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

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

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

The Board is responsible for determining remuneration packages applicable to the Executive Director. The Executive Director determines the remuneration packages for the senior executives of the company in accordance with compensation guidelines set by the Board.

For personal use only

Remuneration report (audited) (continued)

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

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

(c) Board performance evaluation

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

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

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

- A review of Board skills and experience was undertaken during the 2018 financial year, and the collective skills and experience of the current Board and skills the Board is looking to achieve in its membership are in the areas of, but not limited to industry experience and the growth, acquisition and management of independent operating units;
- Industry experience: approved products – substantial experience in the global supply of approved products;
- Executive leadership experience in global communities – substantial experience in senior executive roles for businesses across multiple global locations;
- Strategy – substantial experience in the development and implementation of strategic plans to deliver investor returns over time;
- Capital management – substantial experience in capital management strategies, including partnerships and capital raisings;
- Financial and risk management – expertise and experience in financial accounting and reporting, internal controls and financial disclosure;
- Human resources – substantial experience in oversight of remuneration, incentives, equity programs, benefits and employment contracts; and
- Governance – substantial experience in public entity disclosure, management oversight and inquiry, listing rules and compliance.

Each of these skills is well represented on our Board.

Remuneration report (audited) (continued)

(d) Elements of remuneration

Non-Executive Director Remuneration

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

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

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

The remuneration of Non-Executive Directors is detailed in part (h) of this remuneration report.

Executive Director and other key management personnel remuneration

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

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

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

(e) Link between remuneration and performance

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

(f) Remuneration expenses for executive and non-executive KMP

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

For personal use only

For personal use only

Remuneration report (audited) (continued)

Fixed remuneration	Short-term benefits Salary and fees $	Post-employment benefits $	Total $
*Non-Executive Directors**			
Robert Jones			
2020	**40,000**	**3,470**	**43,470**
2019	36,530	3,470	40,000
Evonne Collier (resigned 6 April 2020)			
2020	**22,500**	**-**	**22,500**
2019	30,000	-	30,000
Jason Smith			
2020	**22,500**	**-**	**22,500**
2019	30,000	-	30,000
Executive Directors			
Dr Daryl Holmes			
2020	**83,211**	**7,905**	**91,115**
2019	82,557	7,843	90,400
Other Key Management Personnel			
Natalie Duve			
2020	**135,129**	**12,837**	**147,966**
2019	137,993	11,266	149,259
Roman Chideme**			
2020	**64,582**	**6,135**	**70,717**
2019	-	-	-
Total 2020	**367,922**	**30,347**	**398,269**
Total 2019	317,080	22,580	339,659

**Non-executive directors have waived their fees for 6 months from April to September 2020.*
*** Roman joined on 30 September 2019*

(g) Contractual arrangements with executive KMPs

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

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

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

Details:
Dr Holmes' remuneration comprises a salary of $90,400 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. In addition, Dr Holmes is entitled to be reimbursed for reasonable expenses incurred by him in carrying out his obligations under the agreement. Dr Holmes also provides dental services pursuant to a Dental Service Agreement on normal commercial terms and conditions.

For personal use only

Remuneration report (audited) (continued)

The Directors believe that the remuneration is appropriate for the duties allocated to Dr Holmes, the size of the Group's business, the industry in which the Group operates, and that Dr Holmes also receives income from a Dental Service Agreement with the company. There are no pay-outs upon resignation or termination, outside of industrial regulations.

Natalie Duve (Operations Manager)
Agreement commenced: 18 October 2017

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

Details:
Natalie's remuneration comprises a salary of $164,250 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. In addition, Natalie is entitled to be reimbursed for reasonable expenses incurred by her in carrying out her obligations under the agreement. There are no pay-outs upon resignation or termination, outside of industrial regulations.

Roman Chideme (Financial Controller)
Agreement commenced: 30 September 2019

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

Details:
Roman's remuneration comprises a salary of $100,000 inclusive of statutory superannuation entitlements and is reviewable on a yearly basis. There are no pay-outs upon resignation or termination, outside of industrial regulations.

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

(h) Non-executive Director arrangements

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

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

Base fees	**30 June 2020**
Chair	$40,000
Other Non-Executive Directors*	$30,000

**Non-executive directors have waived their fees for 6 months from April to September 2020.*

Remuneration report (audited) (continued)

(i) Additional statutory information

Relative proportions of fixed vs variable remuneration expense

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the table on page 15.

		Fixed remuneration	
		2020	2019
Executive Directors	Daryl Holmes	**100%**	100%

Share-based compensation

Issue of shares

No shares were issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2020 (2019: nil).

Options

There were no options issued to Directors and other key management personnel as part of compensation that were outstanding as at 30 June 2020 (2019: nil).

There were no options granted to or exercised by Directors and other key management personnel as part of compensation during the year ended 30 June 2020 (2019: nil).

Shareholdings

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

2020 Ordinary shares	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Robert Jones	**37,521**	**-**	**-**	**-**	**37,521**
Dr Daryl Holmes	**14,711,729**	**-**	**-**	**-**	**14,711,729**
Jason Smith	**71**	**-**	**1,997**	**-**	**2,068**
Natalie Duve	**26,962**	**-**	**-**	**-**	**26,692**
	14,776,283	**-**	**1,997**	**-**	**14,778,280**

2019 Ordinary shares	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Robert Jones	35,021	-	2,500	-	37,521
Dr Daryl Holmes	14,711,729	-	-	-	14,711,729
Jason Smith	71	-	-	-	71
Natalie Duve	10,273	-	16,689	-	26,962
	14,757,094	-	19,189	-	14,776,283

Loans given to key management personnel

As at 30 June 2020, there are no loans made to Directors of 1300SMILES Limited and other key management personnel of the group, except for a share loan of $219,166 to Natalie Duve as disclosed as part of Note 14, including their close family members and entities related to them.

For personal use only

For personal use only

Remuneration report (audited) (continued)

Other transactions with key management personnel
The group is party to the following agreements on normal commercial terms and conditions with the Managing Director, Dr Daryl Holmes, or entities related to Dr Holmes:
- Golden Arch Pty Limited ATF the Whistler Trust provides rental premises;
- Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental premises;
- Three Island Pty Ltd provides rental premises.

The company received revenue for dental management services from Golden Arch (Qld) Pty Ltd for services provided under a Dental Service Agreement. Consulting revenue of $320,000 consists of services provided to related parties of the Group.

Included in lease liability is $996,851 committed to Golden Arch Pty Ltd over a period of 5 years, and $426,535 committed to Three Island Pty Ltd over a period of 6 years, and $609,156 committed to Ashbourne Park Pty Limited over a period of 5 years.

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

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

	2020 $	2019 $
Received for goods and services:		
Dental management services	**45,283**	60,383
Payment for other expenses:		
Rental expense paid to related parties	**498,410**	829,170

Voting of shareholders at last year's annual general meeting
1300SMILES Limited received more than 89.9% of "yes" votes on its remuneration report for the 2019 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

(j) Voluntary information: remuneration received

The amounts disclosed in the table on page 15 as executive and KMP remuneration for the 2020 financial year reflect the actual benefits received by each KMP during the reporting period. The remuneration values disclosed have been determined as follows:

Fixed remuneration
Fixed remuneration includes base salaries received, payments made to superannuation funds, the taxable value of non-monetary benefits received and any once-off payments such as sign on bonuses or termination benefits, see page 15 for details. Fixed remuneration excludes any accruals of annual or long-service leave.

End of remuneration report

Shares under option

There were no options outstanding as at 30 June 2020 (2019: nil).

Shares issued on the exercise of options

There were no shares of 1300SMILES Limited issued on the exercise of options during the year ended 30 June 2020 (2019: nil).

For personal use only

Diversity

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

A copy of the diversity policy is available at www.1300smiles.com.au

With respect to gender diversity, the Group has set the following objectives:

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

The following table reports the Group's progress towards achieving its gender diversity objectives for points one and two above. In regard to point three, the Group did ensure that an equal opportunity existed for gender participation in all levels of professional development programs during the year. For completeness, as at 30 June 2020 the Company had 337 employees, of which 306 (91%) were female.

	Number of women As at 30 June 2020	Number of women As at 30 June 2019	Increase / (decrease)
Board of Directors	**0**	1	(1)
Senior Executive	**6**	6	-

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

Environmental regulation

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

Indemnification of officers and auditors

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

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

For personal use only

Proceedings on behalf of the Company

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

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

Non-audit services

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

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

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

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

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

	2020 $	2019 $
PKF Brisbane		
Tax compliance services	**24,120**	15,300

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 22.

Rounding of amounts

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

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



Dr Daryl Holmes
Managing Director

Townsville
11 August 2020

For personal use only

For personal use only

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

PKF BRISBANE AUDIT



SHAUN LINDEMANN
PARTNER

DATED THIS 11TH DAY OF AUGUST 2020
BRISBANE

PKF Brisbane Audit
ABN 33 873 151 348

Level 6, 10 Eagle Street, Brisbane QLD 4000
GPO Box 1568, Brisbane QLD 4001
p +61 7 3839 9733
f +61 7 3832 1407

8 East Street, PO Box 862
Rockhampton QLD 4700
p +61 7 4927 2744
f +61 7 4927 4317

Liability limited by a scheme approved under Professional Standards Legislation. PKF International Limited administers a network of legally independent firms which carry on separate business under the PKF Name. PKF International Limited is not responsible for the acts or omissions of individual member firms of the network. For office locations visit www.pkf.com.au

Corporate governance statement

For the year ended 30 June 2020

1300SMILES Limited and the Board are committed to achieving and demonstrating the highest standards of corporate governance. 1300SMILES Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (4th edition) published by the ASX Corporate Governance Council.

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

For personal use only

Consolidated statement of comprehensive income

For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue			
Services revenue	5	**39,802**	40,313
Other income	6	**897**	1,639
Total revenue		**40,699**	41,952
Expenses			
Consumables, lab fees and other supplies		**(5,153)**	(4,082)
Employee benefits expense	7	**(14,203)**	(15,909)
Depreciation and amortisation expense	7	**(5,507)**	(2,268)
Property expenses		**(522)**	(3,304)
Operating expenses		**(4,063)**	(4,565)
Corporate and administrative expenses	7	**(581)**	(808)
Finance costs	7	**(884)**	(229)
Total expenses		**(30,913)**	(31,165)
Profit before income tax expense		**9,786**	10,787
Income tax expense	8	**(2,641)**	(3,015)
Profit for the year		**7,145**	7,772
Other comprehensive income		**-**	-
Total comprehensive income for the year		**7,145**	7,772
		Cents	Cents
Earnings per share			
Basic earnings per share	9	**30.2**	32.8
Diluted earnings per share	9	**30.2**	32.8

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

For personal use only

Consolidated balance sheet

As at 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	**6,681**	634
Trade receivables	12	**2,197**	1,839
Inventories		**257**	20
Other assets	13	**1,792**	1,033
Current tax assets	8	**-**	71
Loans receivable	14	**271**	1,655
Financial assets - investments	15	**259**	-
Total current assets		**11,457**	5,252
Non-current Assets			
Loans receivable	14	**5,551**	3,538
Financial assets - investments	15	**-**	208
Property, plant and equipment	16	**12,767**	13,264
Right-of-use asset	17	**8,447**	-
Investment property	18	**1,625**	1,625
Intangible assets	19	**34,308**	33,482
Total non-current assets		**62,698**	52,117
Total Assets		**74,155**	57,369
LIABILITIES			
Current Liabilities			
Trade and other payables	21	**4,300**	3,803
Provisions	22	**838**	630
Current tax liabilities	8	**1,222**	-
Other liabilities	23	**1,315**	634
Lease liabilities	17	**2,865**	-
Total current liabilities		**10,540**	5,067
Non-current Liabilities			
Trade and other payables	21	**401**	458
Deferred tax liabilities	20	**360**	541
Provisions	22	**444**	427
Other liabilities	23	**260**	1,591
Loans payable	24	**15,000**	9,200
Lease liabilities	17	**6,017**	-
Total non-current liabilities		**22,482**	12,217
Total Liabilities		**33,022**	17,284
Net Assets		**41,133**	40,085
EQUITY			
Contributed equity	25	**15,501**	15,501
Retained profits		**25,632**	24,584
Total Equity		**41,133**	40,085

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

For personal use only

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Note	Contributed equity $'000	Retained profits $'000	Total equity $'000
Consolidated Balance at 30 June 2018		15,501	22,613	38,114
Total comprehensive income for the year		-	7,772	7,772
Transactions with owners in their capacity as owners:				
Dividends paid	10	-	(5,801)	(5,801)
Consolidated Balance at 30 June 2019		15,501	24,584	40,085
Total comprehensive income for the year		**-**	**7,145**	**7,145**
Transactions with owners in their capacity as owners:				
Dividends paid	10	**-**	**(6,097)**	**(6,097)**
Consolidated Balance at 30 June 2020		**15,501**	**25,632**	**41,133**

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

For personal use only

Consolidated statement of cash flows

For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**41,513**	43,791
Payments to suppliers and employees (inclusive of GST)		**(29,114)**	(34,167)
		12,399	9,624
JobKeeper receipts		**1,805**	-
Interest received		**370**	358
Interest and other finance costs paid		**(513)**	(229)
Income taxes paid		**(1,477)**	(2,848)
Net cash inflow from operating activities	36	**12,584**	6,905
Cash flows from investing activities			
Advances (payments) of loans provided		**80**	346
Advances (payments) of share loans provided		**(250)**	(1,276)
Investment (payments) of loans established		**-**	(500)
Payments of investments		**(375)**	(207)
Proceeds from sale of property, plant and equipment		**521**	25
Payments of property, plant and equipment	16	**(1,720)**	(1,968)
Payments of intangible assets		**(30)**	(488)
Payments for deferred consideration	23	**(100)**	(1,030)
Payments for purchase of businesses, net of cash acquired	33	**(1,886)**	(4,917)
Net cash outflow from investing activities		**(3,760)**	(10,015)
Cash flows from financing activities			
Repayment of borrowings		**(15,500)**	(6,999)
Drawdown of borrowings		**21,300**	14,248
Dividends paid	10	**(6,097)**	(5,801)
Repayment of lease liabilities	17	**(2,480)**	-
Net cash (outflow)/inflow from financing activities		**(2,777)**	1,448
Net (decrease)/increase in cash and cash equivalents		**6,047**	(1,662)
Cash and cash equivalents at the beginning of the financial year		**634**	2,296
Cash and cash equivalents at the end of the financial year	11	**6,681**	634

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

For personal use only

For personal use only

Note 1. Corporate information

The financial report of 1300SMILES Limited and its wholly owned subsidiaries (together, the group) was authorised for issue in accordance with a resolution of Directors on 11 August 2020. The Directors have the power to amend and reissue the financial report. 1300SMILES Limited is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the group are described in the Directors' Report. The financial report is presented in Australian dollars.

Note 2. Summary of significant accounting policies

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

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. 1300SMILES Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the 1300SMILES Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) that are mandatory for the current reporting period.

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

The following Accounting Standards and Interpretations are most relevant to the group:

New standards and interpretations adopted by the group in 2020

The Group adopted AASB 16 Leases as of 1 July 2019.

AASB 16 'Leases' replaces AASB 117 'Leases' along with three Interpretations.

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from AASB 117 and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117.

For personal use only

Note 2. Summary of significant accounting policies (continued)

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. As a result, there is no adjustment to retained earnings.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The following table presents the impact of the application of AASB 16 on the opening balance sheet:

	As of 30 June 2019 $'000	Impact of the transition to AASB 16 $'000	As of 1 July 2019 $'000
Total assets	57,369	11,028	68,397
Total liabilities	17,284	11,028	28,312
Shareholders' equity	40,085	-	40,085

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 2.82%. Lease liabilities totalled $11.0 million as of 1 July 2019 and comprised of lease liabilities recognised in respect of 31 operating leases in effect as of 1 July 2019.

Right-of-use assets totalled $11.0 million as of 1 July 2019 and comprised of assets corresponding to the newly recognised lease liabilities.

The following is a reconciliation of total operating lease commitments at 30 June 2019 (as disclosed in the financial statements to 30 June 2019) to the lease liabilities recognised at 1 July 2019:

	$'000
Total operating lease commitments disclosed at 30 June 2019	**14,019**
Recognition exemptions:	
Leases with remaining lease term of less than 12 months	(434)
Other adjustments relating to commitment disclosure	(3,418)
Operating lease liabilities before discounting	**10,167**
Discount using incremental borrowing rate	(615)
Operating lease liabilities	**9,552**
Reasonably certain extension options	1,476
Total lease liabilities recognised under AASB 16 at 1 July 2019	**11,028**

Note 2. Summary of significant accounting policies (continued)

The Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 117.

Critical accounting estimates

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

Principles of consolidation

Subsidiaries

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

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

The acquisition method of accounting is used to account for business combinations by the group (refer to note 33).

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

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

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM') – being the Board of Directors. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue recognition

Revenue is recognised on the following basis:

Rendering of services

Revenue from the rendering of dental services over the counter is recognised at a point in time, upon the performance of the service by the dentist. Patients are billed at the time of service delivery and revenue recognised. Service fees from contract dentists is recognised upon the performance of services. There is no major judgement required with there being one performance obligation being the rendering of services.

For personal use only

Note 2. Summary of significant accounting policies (continued)

Membership and treatment plans

Revenue from membership and treatment plans is recognised on an accrual basis over time, in line with services rendered. In the circumstance whereby no service has been rendered, revenue will start to be recognised by the group when a service obligation has occurred per the contract.

Interest revenue

Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of a financial asset. Interest revenue is derived from loans receivable and cash at bank.

Other revenue

Other revenue is recognised when performance obligations have been achieved in accordance with contracts with customers.

Income tax

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

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

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

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

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

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

For personal use only

Note 2. Summary of significant accounting policies (continued)

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

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired.

The consideration transferred for the acquisition of a dental practice comprises the:

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

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

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

For personal use only

Note 2. Summary of significant accounting policies (continued)

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

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

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

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

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment, in accordance with the expected credit losses requirements of AASB 9. The group applies the AASB 9 simplified approach to recognising expected credit losses which uses a lifetime expected loss allowance for all trade receivables. No provision for impairment was determined by the Board at balance date.

Inventories

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

For personal use only

Note 2. Summary of significant accounting policies (continued)

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial assets unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. Where there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either:

- held for trading, where they are acquired for the purpose of selling in the short term with an intention of making a profit, or a derivative; or
- designated as such upon initial recognition where permitted.

Fair value movements are recognised in profit or loss.

Impairment of financial assets

The group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue costs or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis or the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduced the asset's carrying value with a corresponding expense through profit or loss.

Property, plant and equipment

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

For personal use only

Note 2. Summary of significant accounting policies (continued)

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

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

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

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

Investment property

Investment properties are held for long-term rental yields or appreciation in sale value. They are carried at fair value in accordance with AASB 140. Fair value is determined using a market approach using recent observable market data for similar properties. Changes in fair value are presented in profit or loss as part of other income.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site of asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

The group has elected not to recognise a right-of-use assets and corresponding liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Goodwill

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

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

For personal use only

Note 2. Summary of significant accounting policies (continued)

Intellectual property

Intellectual property has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate cost of the intellectual property over the estimated useful life of the intellectual property which is 10-20 years.

Future maintainable revenue stream

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

Software

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

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

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

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

Trade and other payables

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

Loans payable

Loans payable are initially recognised at fair value, net of any transaction costs. Loans payable are subsequently stated at amortised cost using the effective interest method, where any difference between the net proceeds and redemption value is recognised in profit or loss over the period of the borrowing. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after Balance Sheet date. All borrowing costs are expensed.

For personal use only

Note 2. Summary of significant accounting policies (continued)

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use assets is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expenses in the period in which they are incurred.

Provisions

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

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

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

Employee benefits

Short-term obligations

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

For personal use only

Note 2. Summary of significant accounting policies (continued)

Other long-term employee benefit obligations

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

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

Bonus plans

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

Termination benefits

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

Fair value measurement

When an asset or liability, financial or non-financial is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell and asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For personal use only

Note 2. Summary of significant accounting policies (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Contributed equity

Ordinary shares are classified as equity.

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

Dividends

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Goods and services tax (GST)

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

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

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

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

For personal use only

For personal use only

Note 2. Summary of significant accounting policies (continued)

Rounding of amounts

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

Parent entity financial information

The financial information for the parent entity, 1300SMILES Limited, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investment in subsidiaries, associates and joint venture entities

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

Tax consolidation legislation

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

Comparative Amendments

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the group based on known information. This consideration extends to the nature of the services offered, customers, supply chain, staffing and geographic regions in which the group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the group unfavorably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

There were significant trading disruptions between April and May 2020, however Government stimulus (JobKeeper) was obtained and trading has returned to pre-pandemic levels. The board continues to actively monitor the situation.

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

Business combinations

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

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

Goodwill

The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital, and growth rates of the estimated future cash flows. Refer to note 19 for further information.

Investment property

The group measures investment property at fair value through profit or loss. Judgement was involved in the determination of the fair value attributed to the portion of 361 Flinders Street, Townsville which related to investment property as opposed to the owner occupied portion. Management used rental returns and the original premises acquisition cost as inputs in allocating the fair value.

Estimation of useful lives of assets

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

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

For personal use only

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

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 4. Operating segments

Identification of reportable operating segments

Operating segments have been determined on the basis of reports reviewed by the Board of Directors (who are identified as the chief operating decision makers). The Board considers the business from a geographic perspective and assess performance and allocate resources on this basis.

Each reporting segment derives revenue from dental services of $37,979,000 (2019: $39,180,000) within a particular geographic area. The operating segments are aggregated into the one reportable segment as the long term financial performance and economic characteristics of the operating segments are similar.

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

Note 5. Services revenue

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Sales revenue		
Service fees	**37,979**	39,180
Other revenue		
Interest	**455**	358
Consulting revenue	**320**	600
De-recognition of contingent consideration	**550**	-
Other revenue	**498**	175
	1,823	1,133
Services revenue	**39,802**	40,313

For personal use only

For personal use only

Note 6. Other income

	Consolidated 2020 $'000	2019 $'000
Other income	-	69
Gain on sale – fixed assets	**897**	400
Fair value gain – investment property	-	1,170
	897	1,639

Note 7. Expenses

Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	**395**	437
Plant and equipment	**1,769**	1,227
Right-of-use assets	**2,867**	-
Total depreciation	**5,031**	1,664
Amortisation		
Software	**119**	213
Intellectual property	**271**	84
Future maintainable revenue stream	**86**	307
Total amortisation	**476**	604
Total depreciation and amortisation	**5,507**	2,268
Finance costs		
Interest and finance charges paid/payable on borrowings	**607**	229
Interest and finance charges paid/payable on lease liabilities	**277**	-
Total finance costs	**884**	229
Rental expense relating to operating leases		
Minimum lease payments	-	2,859
Short-term lease payments	**233**	-
	233	2,859
Corporate and administrative expense		
Merger and acquisition costs	**122**	357
Other corporate and administrative expenses	**459**	451
	581	808
Employee benefits expense		
Defined contribution superannuation expense	**1,133**	1,254
Dentist expense – employed	**3,030**	2,819
Dental hygienist/therapist – employed	**77**	107
Support and practice staff	**11,768**	11,729
JobKeeper receipts	**(1,805)**	-
	14,203	15,909

Note 8. Income tax expense

	Consolidated 2020 $'000	2019 $'000
Income tax expense		
Current tax	**2,791**	2,684
Deferred tax	**(115)**	331
Adjustments for current tax of prior periods	**(21)**	-
Adjustments for Deferred tax of prior periods	**(14)**	-
Total income tax expense	**2,641**	3,015
Deferred income tax (income) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	**(71)**	-
(Decrease) increase in deferred tax liabilities	**(110)**	331
	(181)	331
Numerical reconciliation of income tax expense to prima facie tax payable		
Total profit (loss) before income tax	**9,786**	10,787
Tax at the Australian tax rate of 27.5% (2019: 30%)	**2,691**	3,236
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**4**	4
Other	**-**	(8)
Non assessable income		
Other expenses	**(19)**	(217)
	2,676	3,015
Adjustments for current tax of prior periods	**(21)**	-
Adjustments for deferred tax of prior periods	**(14)**	-
Income tax expense	**2,641**	3,015

Current tax

Current tax liabilities	**1,222**	-
Current tax assets	**-**	71

For personal use only

For personal use only

Note 9. Earnings per share

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

	2020 $'000	2019 $'000
Net profit attributable to ordinary equity holders	**7,145**	7,772
	Shares	**Shares**
Weighted number of ordinary shares for basic earnings per share		
Number of shares	**23,678,384**	23,678,384
	Cents	**Cents**
Earnings per share	**30.2**	32.8
Diluted earnings per share	**30.2**	32.8

Note 10. Dividends

	Consolidated 2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 12.5 cents (2018: 12.00 cents) per ordinary share paid on 16 September 2019 fully franked based on a tax rate of 30%	**2,960**	2,841
Interim dividend for the half year ended 31 December 2019 of 13.25 cents (2018: 12.50 cents) per ordinary share paid on 27 March 2020 fully franked based on a tax rate of 27.5%	**3,137**	2,960
	6,097	5,801

Since the end of the financial year, the Directors declared, for the year ended 30 June 2020, a final fully franked ordinary share dividend of 12.5 cents ($2,959,798) which is payable on 11 September 2020.

Franking credits available for subsequent financial years based on a tax rate of 27.5%	**8,796**	9,631

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $1,123,000 (2019: $1,268,000).

Note 11. Cash and cash equivalents

	Consolidated 2020 $'000	2019 $'000
Cash on hand	**9**	9
Cash at bank	**6,672**	625
	6,681	634

Classification as cash equivalents

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

Note 12. Trade receivables

Trade receivables	**1,337**	1,496
Sundry debtors	**594**	-
Membership and treatment plan receivables	**266**	343
Allowance for expected credit losses	**-**	-
	2,197	1,839

Past due receivables

Customers with balances past due but not impaired amount to $363,000 as at 30 June 2020 ($179,000 as at 30 June 2019). These past due debtors were all 1 to 3 months overdue. Management do not anticipate a deterioration of receivables recoverability due to the COVID-19 pandemic.

Note 13. Other assets

Current assets		
Prepayments	**339**	301
Other current assets	**1,422**	691
Interest receivable	**31**	41
	1,792	1,033

For personal use only

For personal use only

Note 14. Loans receivable

	Consolidated 2020 $'000	2019 $'000
Current		
Loans receivable (b)	**-**	1,500
Other loans receivable	**271**	155
	271	1,655
Non-current		
Share loan principal (a)	**2,001**	1,751
Share loan interest	**116**	43
Other loans receivable	**434**	619
Loans receivable (b)	**3,000**	1,125
	5,551	3,538

a) Ordinary share loans were made pursuant to a company loan funded program to incentivise consultants, contractors and executive management. Shares are held in voluntary escrow. The voluntary escrow is progressively released over a six year period. The loans are full recourse and repayable 13 months after the company makes a call on the borrowers. The loans are secured by lien over the shares acquired from proceeds of the share loan. In the event the borrowers sell any shares, a proportionate percentage of the outstanding loan is required to be repaid. Interest on loans is charged on a commercial basis, varying from 4.5% to 5.5%.

b) Redeemable preference shares were acquired during the period in an unlisted public company. Terms of fixed interest repayments range from 33 months to 35 months, with rates of return varying from 11% to 12%. No voting rights are attached to the shares held. Management intend to hold the investments for cash flow purposes and not share trading purposes.

Note 15. Financial assets at fair value through profit or loss

Current		
Listed ordinary shares – designated at fair value through profit or loss	**259**	-
Non-current		
Listed ordinary shares – designated at fair value through profit or loss	**-**	208
	259	208
Reconciliation		
Opening fair value	**208**	208
Disposals	**(22)**	-
Revaluation increments	**73**	-
Closing fair value	**259**	208

Note 16. Property, plant and equipment

	Consolidated 2020 $'000	2019 $'000
Leasehold improvements – at cost	**5,936**	5,554
Less: Accumulated depreciation	**(4,373)**	(4,125)
	1,563	1,429
Plant and equipment – at cost	**23,362**	20,989
Less: Accumulated depreciation	**(13,464)**	(10,460)
	9,898	10,529
Land and buildings	**1,306**	1,306
	12,767	13,264

Reconciliations

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

Consolidated	Land and buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Balance at 1 July 2018	1,274	7,913	1,757	10,944
Additions	32	1,808	110	1,950
Addition from business combinations	-	2,580	-	2,580
Transfers	-	(445)	-	(445)
Disposals	-	(100)	-	(100)
Depreciation expense	-	(1,227)	(438)	(1,665)
Balance at 30 June 2019	1,306	10,529	1,429	13,264
Balance at 1 July 2019	**1,306**	**10,529**	**1,429**	**13,264**
Additions	**-**	**1,172**	**-**	**1,172**
Addition from business combinations [#]	**-**	**620**	**47**	**667**
Transfers	**-**	**(600)**	**600**	**-**
Disposals	**-**	**(54)**	**(118)**	**(172)**
Depreciation expense	**-**	**(1,769)**	**(395)**	**(2,164)**
Balance at 30 June 2020	**1,306**	**9,898**	**1,563**	**12,767**

[#] Refer to note 33

For personal use only

Note 17: Leases

Right-of-use assets

Right-of-use assets breakdown as follows, by type of underlying asset:

	30 June 2020 $'000	30 June 2019 $'000
Dental practices	**10,501**	-
Less: Accumulated Depreciation	**(2,575)**	-
	7,926	
Offices	**781**	-
Less: Accumulated Depreciation	**(260)**	-
	521	
Total	**8,447**	-

Change in right-of-use assets during the year breakdown as follows:

	Dental practices $'000	Offices $'000	Total $'000
As of 1 July 2019	**10,247**	**781**	**11,028**
Additions	**323**	**-**	**323**
Disposals	**(37)**	**-**	**(37)**
Depreciation	**(2,607)**	**(260)**	**(2,867)**
As of 30 June 2020	**7,926**	**521**	**8,447**

Lease liabilities

Lease liabilities breakdown as follows:

	30 June 2020 $'000	1 July 2019 $'000
Current lease liabilities	**2,865**	2,627
Non-current lease liabilities	**6,017**	8,401
Total	**8,882**	11,028

Change in lease liabilities during the year breakdown as follows:

	Dental practices $'000	Offices $'000	Total $'000
As of 1 July 2019	**10,247**	**781**	**11,028**
Additions	**323**	**-**	**323**
Disposals	**(37)**	**-**	**(37)**
Interest expense	**258**	**19**	**277**
Lease repayments	**(2,349)**	**(131)**	**(2,480)**
Rent concessions	**(98)**	**(131)**	**(229)**
As of 30 June 2020	**8,344**	**538**	**8,882**

For personal use only

For personal use only

Note 17: Leases (continued)

Lease payments not recognised as a liability

The group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	30 June 2020 $'000
Short-term leases	**233**

Note 18. Investment property

	Consolidated 2020 $'000	2019 $'000
Opening balance	**1,625**	-
Capitalised expenditure	**-**	455
Gain from fair value adjustment	**-**	1,170
	1,625	1,625

Refer to note 2 for the group's accounting policy for investment property. Additional information regarding the investment property is noted in note 3 and note 34 of the financial statements.

Note 19. Intangible assets

Software	**1,435**	1,441
Less: Accumulated amortisation	**(1,261)**	(1,142)
	174	299
Goodwill	**31,638**	30,357
Intellectual property	**2,387**	2,387
Less: Accumulated amortisation	**(697)**	(423)
	1,690	1,964
Future maintainable revenue stream	**2,544**	2,514
Less: Accumulated amortisation	**(1,738)**	(1,652)
	806	862
	34,308	33,482

Note 19. Intangible assets (continued)

Reconciliations

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

Consolidated	Software* $'000	Goodwill $'000	Intellectual property* $'000	Future maintainable revenue stream* $'000	Total $'000
Balance at 1 July 2018	431	25,551	1,048	1,098	28,128
Additions	81	-	1,000	71	1,152
Addition from business combinations	-	4,806	-	-	4,806
Amortisation expense	(213)	-	(84)	(307)	(604)
Balance at 30 June 2019	299	30,357	1,964	862	33,482
Balance at 1 July 2019	**299**	**30,357**	**1,964**	**862**	**33,482**
Additions	**-**	**-**	**-**	**30**	**30**
Addition from business combinations #	**-**	**1,333**	**-**	**-**	**1,333**
Disposals	**(6)**	**-**	**(3)**	**-**	**(9)**
Measurement period adjustments	**-**	**(52)**	**-**	**-**	**(52)**
Amortisation expense	**(119)**	**-**	**(271)**	**(86)**	**(476)**
Balance at 30 June 2020	**174**	**31,638**	**1,690**	**806**	**34,308**

*Software, intellectual property and future maintainable revenue stream are separately acquired
Refer to note 33

Impairment tests for goodwill

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

	2020 $'000	2019 $'000
North Queensland	**1,009**	1,009
Central Queensland	**6,196**	6,196
South East Queensland	**19,981**	18,700
New South Wales	**4,452**	4,452
	31,638	30,357

For personal use only

Note 19. Intangible assets (continued)

The recoverable amount of goodwill is based on value-in-use calculations which use cash flow projections based on financial budgets approved by management covering a five year period. Future cash flows are projected over a five year period and use an implied annual growth rate of 3% (2019: 5.3%) and are discounted using the group's weighted average cost of capital of 8.3% (2019: 11.7%). Cash flows beyond the five year period are extrapolated using an estimated growth rate of 2% (2019: 2%) which does not exceed the long-term average growth rate for the industry in which each CGU operates. Impairment testing was conducted as at 30 April 2020.

The coronavirus pandemic (COVID-19), has had an adverse economic impact within Australia and globally, however it is not possible to accurately determine the future nature, extent or duration of the impact on the group, material or otherwise, at the date of signing the financial statements. The directors of the group have considered the potential impacts of COVID-19 and do not believe that, based on the information currently available, it has a significant impact in the assessment of impairment at balance date.

No impairment losses were recorded in the current year.

Note 20. Deferred tax

	Consolidated 2020 $'000	Consolidated 2019 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**-**	-
Employee benefits	**289**	263
Accrued expenses	**22**	94
Utilised losses	**41**	-
Leases	**68**	-
Unrecognised exchange losses	**8**	-
Total deferred tax assets	**428**	357
The balance comprises temporary differences attributable to:		
Investment property	**(322)**	(351)
Intellectual property	**(225)**	(346)
Other	**(241)**	(201)
Total deferred tax liabilities	**(788)**	(898)
Net deferred tax assets/(liabilities)	**(360)**	(541)
Deferred tax assets expected to be recovered within 12 months	**428**	357
Deferred tax assets expected to be recovered after more than 12 months	**-**	-
Deferred tax liabilities expected to be settled within 12 months	**-**	-
Deferred tax liabilities expected to be settled after more than 12 months	**(788)**	(898)
	(360)	(541)

For personal use only

Note 20. Deferred tax (continued)

	Consolidated 2020 $'000	2019 $'000
Movements in deferred tax:		
Opening balance	**(541)**	(210)
Opening balance adjustment	**66**	-
Credited (charged) to the statement of comprehensive income (note 8)	**115**	(331)
Closing balance	**(360)**	(541)

Note 21. Trade and other payables

Current		
Trade payables	**2,343**	1,720
Sundry payables and accruals	**1,293**	1,449
Unearned revenue	**429**	429
Other payables	**235**	205
	4,300	3,803
Non-current		
Other payables	**401**	458

Refer to note 26 for detailed information on financial risk management.

Note 22. Provisions

Current		
Provision for employee benefits	**838**	630
Non-current		
Make good provision	**325**	310
Provision for employee benefits	**119**	117
	444	427
Make good provision		
Balance at 1 July	**310**	290
Charged/ (credited) to income statement	**15**	20
Balance at 30 June	**325**	310

Make good provision

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

For personal use only

Note 22. Provisions (continued)

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $838,000 (2019: $630,000) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	Consolidated 2020 $'000	Consolidated 2019 $'000
Leave obligations expected to be settled after 12 months	**119**	117

Note 23. Other liabilities

Current		
Contingent settlement payable	**1,315**	634
Non-current		
Contingent settlement payable	**260**	1,591
Contingent settlement payable		
Balance at 1 July	**2,225**	660
Additions through business combinations	**-**	1,665
Settled / (written back) during the year	**(100)**	(100)
Derecognised during the year	**(550)**	-
Balance at 30 June	**1,575**	2,225

Note 24. Loans payable

Non-current		
Loans payable *	**15,000**	9,200

* The loan payable is a multi-option loan facility agreement with the Commonwealth Bank of Australia. The loan facility was settled on 2 August 2019 with transfer of securities occurring on this date. The details of the loan facility included:

- Total loan facility is for $25 million and a $25 million accordion facility
- Interest terms vary according to the net leverage ratio, with the current rate at 2.07%
- Security for the loan facility consists of first ranking general security interest over all assets and undertakings of 1300SMILES Ltd and 1300SMILES (BOH Dental) Pty Ltd, and a cross guarantee and indemnity between 1300SMILES Ltd and 1300SMILES (BOH Dental) Pty Ltd
- Debt covenants include:
    - Net debt leverage ratio not greater than 2.75x
    - Fixed interest charge cover ratio must not fall below 1.80x
- The termination date of the loan facility is 2 August 2022

For the 12 months ended 30 June 2020, the net leverage ratio and the fixed cover ratio were 0.85x and 4.6x respectively.

For personal use only

For personal use only

Note 25. Contributed equity

	Consolidated			
	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares – fully paid	**23,678,384**	23,678,384	**15,501**	15,501

At 30 June 2020 333,324 (2019: 333,324) shares were held under escrow.

Ordinary shares

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

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

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

Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The group does not have any specific capital targets and nor is it subject to any external capital restrictions. The Board and senior management meet monthly and review in detail the current cash position and cash flow forecasts having regard to planned expansions and take the necessary action to ensure sufficient funds are available. The group also ensures it has sufficient reserves available to pay two dividends each year. The Board reviews the group's position before declaring any dividend.

The cash to equity ratios at 30 June 2020 and 30 June 2019 were as follows:

	Consolidated	
	2020 $'000	2019 $'000
Cash and cash equivalents		
Net cash	**6,681**	634
Total equity		
Total capital	**41,133**	40,085
Cash to equity ratio	**16%**	2%

Note 26. Financial risk management

Financial risk management objectives

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

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

Market risk

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

Price risk

The group is not exposed to any significant price risk.

Interest rate risk

The group's main interest rate risk arises from cash and cash equivalents and loans. The group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and investing options and the mix of fixed and variable interest rates. The group is only exposed to interest rate risk on cash and cash equivalents and the loans payable at 30 June 2020. As at the reporting date, the following assets and liabilities were exposed to Australian variable and fixed interest rates:

Consolidated	Weighted Average interest rate %	2020 $'000	Weighted average interest rate %	2019 $'000
Variable interest				
Cash and cash equivalents	**0.53%**	**6,681**	1.49%	634
Loan payable	**2.07%**	**(15,000)**	1.52%	(9,200)
Fixed interest				
Share loans	**5.03%**	**2,117**	5.10%	1,795
Other loans receivable	**5.00%**	**219**	5.00%	299
Loans receivable	**11.67%**	**3,000**	12.71%	2,625
Net exposure to cash flow interest rate risk		**(2,983)**		(3,849)

For personal use only

Note 26. Financial risk management (continued)

A movement in interest rates of 1.0% (2019: 1.0%) would have an (adverse)/favourable effect on profit before tax of ($29,830) (2019: ($38,490)) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

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

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

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

With respect to share loans the group may at any time, by written notice, call on the borrower to repay all or part of the outstanding amount within 13 months after the company makes a call. Where applicable, if an employee ceases to be employed by the company, the money owing will become payable on the date which is three (3) months after the date on which the employment ceases, if the employment ceases after the probationary period. A lien will remain effective after escrow has been removed on the proportionate percentage of the total shares subject to the loan outstanding. $1,451,000 (2019: $1,399,000) of the share loans are receivable from two parties comprising external consultants of the group.

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

Liquidity risk

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

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

Further analysis of the group's current cash to equity ratio is disclosed in note 25 of these accounts.

Remaining contractual maturities

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

For personal use only

Note 26. Financial risk management (continued)

Consolidated	Weighted Average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total $'000
Balance at 30 June 2019						
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	1,720	-	-	-	1,720
Sundry payables and accruals	-	1,449	-	-	-	1,449
Other liabilities	-	634	1,331	260	-	2,225
Other liabilities	-	205	143	143	172	663
Interest bearing						
Loans payable*	1.52%	-	-	9,200	-	9,200
Total non-derivatives		4,008	1,474	9,603	172	15,257
Balance at 30 June 2020						
Non-derivatives						
Non-interest bearing						
Trade and other payables	**-**	**2,343**	**-**	**-**	**-**	**2,343**
Sundry payables and accruals	**-**	**1,293**	**-**	**-**	**-**	**1,293**
Other liabilities	**-**	**1,315**	**260**	**-**	**-**	**1,575**
Other liabilities	**-**	**321**	**143**	**172**	**-**	**636**
Interest bearing						
Loans payable*	**2.07%**	**-**	**-**	**15,000**	**-**	**15,000**
Lease Liability	**2.81%**	**2,865**	**2,494**	**3,134**	**389**	**8,882**
Total non-derivatives		**8,137**	**2,897**	**18,306**	**389**	**29,729**

* as described in note 24, the loan facility has a termination date of 2 August 2022

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

Fair value

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

For personal use only

For personal use only

Note 27. Key management personnel disclosures

Compensation

	Consolidated 2020 $'000	Consolidated 2019 $'000
Short-term employee benefits	**368**	317
Post-employment benefits	**30**	23
	398	340

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 18.

Shareholdings

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

Related party transactions

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

Note 28. Remuneration of auditors

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

	Consolidated 2020 $'000	Consolidated 2019 $'000
(i) Audit and other assurance services		
Audit and review of financial statements – PKF Brisbane Audit	**94**	81
(ii) Taxation services		
Tax compliance services – PKF Brisbane	**24**	15
Total remuneration	**118**	96

Note 29. Contingent liabilities

The group had total facilities of $1,153,000 (2019: $612,000) with $991,000 used at reporting date (2019: $612,000) in respect of property guarantees.

Note 30. Commitments

	Consolidated 2020 $'000	Consolidated 2019 $'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities payable:		
Within one year	-	2,954
One to five years	-	9,926
More than five years	-	1,139
	-	14,019

In the current year the group has applied AASB 16 Leases, and therefore amounts related to this lease are now presented in Note 17 Right of use assets and Lease liabilities.

Lease commitments – finance
As at 30 June 2020 and 30 June 2019 there were no commitments in relation to finance leases payable.

Other commitments
The group did not have any other contractual commitments for the acquisition of property, plant or equipment as at 30 June 2020 and 30 June 2019.

Note 31. Related party transactions

Parent entity

1300SMILES Limited is the parent entity.
The ultimate controlling entity is Dr Daryl Holmes who has a 62.13% (2019: 62.13%) interest in 1300SMILES Limited.

Subsidiaries

Interests in subsidiaries are set out in note 35.

Key management personnel

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

Transactions with related parties

The following transactions occurred with related parties:

Received for goods and services:		
Dental management services*	**45**	60
Payment for other expenses:		
Rental expense paid to related parties**	**498**	829

*The company received revenue of $45,283 (2019: $60,383) for dental management services from Golden Arch (Qld) Pty Ltd for services provided under a Dental Service Agreement.
**The group is party to the following agreements on normal commercial terms and conditions with the Managing Director, Dr Daryl Shane Holmes, or entities related to Dr Holmes: (1) Golden Arch Pty Limited ATF the Whistler Trust provides rental premises to an amount of $298,662 (2019: $569,294) (2) Ashbourne Park Pty Limited ATF Daryl Holmes Superannuation Fund provides rental and storage premises to an amount of $113,659 (2019: $156,898). (3) Three Islands Pty Ltd provides rental premises to an amount of $86,089 (2019: $102,977).

For personal use only

Note 31. Related party transactions (continued)

Included in lease liability is $996,851 committed to Golden Arch Pty Ltd over a period of 5 years, and $426,535 committed to Three Island Pty Ltd over a period of 6 years, and $609,156 committed to Ashbourne Park Pty Limited over a period of 5 years.

Consulting revenue of $320,000 consists of services provided to related parties of the Group.

Loans to/from related parties

There were no loans to or from related parties at the reporting date other than the share loan of $219,166 to Natalie Duve, a KMP employee.

Terms and conditions

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

Note 32. Parent entity information

Summary financial information

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

	Consolidated	
	2020	**2019**
	$'000	**$'000**
Balance Sheet		
Current assets	**9,955**	3,829
Total assets	**74,517**	57,986
Current liabilities	**9,934**	4,296
Total liabilities	**31,853**	16,494
Contributed equity	**15,501**	15,501
Retained earnings	**27,163**	25,991
	42,664	41,492
Profit or loss for the year (after tax)	**7,269**	8,292
Total comprehensive income	**7,269**	8,292

Guarantees entered into by the parent entity

The parent entity did not enter into guarantees in respect of bank loans or loans of subsidiaries as at 30 June 2020 and 30 June 2019.

Contingent liabilities of the parent entity

The group had total facilities of $1,153,000 (2019: $612,000) with $991,000 used at reporting date (2019: $612,000) in respect of property guarantees.

Contractual commitments for the acquisition of property, plant or equipment

The parent entity did not have any other contractual commitments for the acquisition of property, plant or equipment as at 30 June 2020 and 30 June 2019.

For personal use only

Note 33. Business combinations

During the year, the group acquired two practices.

The group acquired two dental practices in Gatton and Laidley (Queensland) on 23 December 2019.

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

	Gatton and Laidley $'000	Total $'000
Purchase consideration:		
Cash paid	1,886	1886
Cash payable / deferred consideration	49	49
Contingent consideration	-	-
Total purchase consideration	1,935	1,935

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

	Gatton and Laidley $'000	Total $'000
Liabilities assumed	(65)	(65)
Property, plant and equipment	667	667
Goodwill – provisional	1,333	1,333
Net assets acquired	1,935	1,935

No separate identifiable intangible assets were identified in the business combination. At the end of the current year there have been no adjustments to this balance of goodwill.

Acquisition-related costs

During the current year there are $12,605 (2019: $30,000) acquisition-related costs that are included in operating expenses in profit or loss and in operating cash flows in the statement of cash flows.

Note 34. Fair value measurement

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

AASB13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

For personal use only

For personal use only

Note 34. Fair value measurement (continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

The following table presents the group's financial assets, investment property and financial liabilities measured and recognised at fair value at 30 June 2020 and 30 June 2019 on a recurring basis.

		Consolidated	
		Level 1	Level 1
		2020	2019
	Note	$'000	$'000
Financial assets			
Financial assets – investments	15	**259**	208

		Consolidated	
		Level 2	Level 2
		2020	2019
	Note	$'000	$'000
Other assets			
Investment property	18	**1,625**	1,625

		Consolidated	
		Level 3	Level 3
		2020	2019
	Note	$'000	$'000
Other liabilities			
Contingent consideration payable	23	**1,575**	2,225

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

The group did not measure any financial assets or financial liabilities on a non-recurring basis as at 30 June 2020.

Financial assets – investments are a level 1 financial instrument, which arose from the purchase of shares of two similar companies in the dental industry.

The investment property is a level 2 fair value asset which arose from the initial acquisition and revaluation of 361 Flinders Street, Townsville. Judgement was involved in the determination of the fair value attributed to the portion of 361 Flinders Street, Townsville which related to investment property as opposed to the owner occupied portion. Management used rental returns and the original premises acquisition cost as evidence in allocating the fair value.

The contingent consideration liability is a level 3 financial instrument, which arose from the acquisition of the orthodontic dental practices in New South Wales and more recently the acquisition of two dental practices in South East Queensland. Expected cash flows are estimated on the terms of the sale contract (see note 33) and the group's knowledge of the business and how the current economic environment is likely to impact it. The fair value of contingent consideration payable is analysed at the end of each reporting period.

For personal use only

Note 35. Subsidiaries

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

		Equity holding	
		2020	2019
Name of entity	Country of incorporation	%	%
1300SMILES (BOH Dental) Pty Ltd	Australia	**100**	100
Valudent Pty Ltd	Australia	**100**	100
S. Souzani Dental Pty Ltd	Australia	**100**	100
Plaza Central Dentists Pty Ltd	Australia	**100**	100

Note 36. Cash flow information

(a) Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2020	2019
	$'000	$'000
Profit after income tax expense for the year	**7,145**	7,772
Adjustments for:		
Gain on sale – fixed assets	**(897)**	(400)
Fair value gain – investment property	**-**	(1,170)
Business development costs	**115**	-
Fair value gain on financial assets	**(73)**	-
Interest on lease liabilities	**277**	-
Rent concessions	**(229)**	-
Depreciation and amortisation	**5,507**	2,268
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(358)**	663
(Increase)/decrease in other assets	**(562)**	66
Increase/(decrease) in trade and other payables	**340**	(2,307)
Increase /(decrease) in deferred tax liabilities	**(181)**	331
Increase/(decrease) in current tax payable	**1,293**	(309)
Increase/(decrease) in other provisions	**207**	(9)
Net cash inflows from operating activities	**12,584**	6,905

Note 36. Cash Flow Information (continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year.

	Consolidated 2020 $'000	Consolidated 2019 $'000
Net debt		
Cash and cash equivalents	**6,681**	634
Liquid investments	**259**	208
Leases – repayable within one year	**(2,865)**	-
Leases – repayable after one year	**(6,017)**	-
Borrowings – repayable within one year	**-**	-
Borrowings – repayable after one year	**(15,000)**	(9,200)
	(16,942)	(8,358)
Cash and liquid investments	**6,940**	842
Gross debt – fixed interest rate	**-**	-
Gross debt – variable interest rate	**(23,882)**	(9,200)
Net debt	**(16,942)**	(8,358)

	Cash and cash equivalents $'000	Liquid investments $'000	Borrowings due within 1 year $'000	Borrowings due after 1 year $'000	Leases due within 1 year $'000	Leases due after 1 year $'000	Total $'000
Net debt as at 30 June 2019	634	208	-	(9,200)	-	-	(8,358)
Cash flows	6,047	(22)	-	(5,800)	2,100	-	2,325
Other non-cash movements	-	73	-	-	(4,965)	(6,017)	(10,909)
Net debt as at 30 June 2020	**6,681**	**259**	**-**	**(15,000)**	**(2,865)**	**(6,017)**	**(16,942)**

Note 37. Subsequent events

A fully franked final dividend of 12.5 cents per share has been declared and is payable on 11 September 2020.

Apart from the matters mentioned above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

For personal use only

Directors' declaration

30 June 2020

In the Directors' opinion:

a) the financial statements and notes set out on pages 25 to 66 are in accordance with the *Corporations Act 2001*, including:

   i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

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

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

The Directors have been given the declaration by the Managing Director and finance team leader as required by section 295A of the *Corporations Act 2001*.

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



Dr Daryl Holmes OBE
Managing Director

Townsville
11 August 2020

For personal use only

For personal use only

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF 1300SMILES LIMITED

Report on the Financial Report

Opinion

We have audited the accompanying financial report of 1300SMILES Limited (the company), which comprises the consolidated balance sheet as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of 1300SMILES Limited is in accordance with the *Corporations Act 2001*, including:

i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

Independence

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

Liability limited by a scheme approved under Professional Standards Legislation. PKF International Limited administers a network of legally independent firms which carry on separate business under the PKF Name. PKF International Limited is not responsible for the acts or omissions of individual member firms of the network. For office locations visit www.pkf.com.au

For personal use only

Key Audit Matters

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

1. Carrying amount of intangible assets - goodwill

Why significant	How our audit addressed the key audit matter
As at 30 June 2020 the carrying value of goodwill was $31,638,480 (2019: $30,357,000), as disclosed in Note 19. The consolidated entity's accounting policy in respect of goodwill is outlined in Note 2. Goodwill is recognised on the acquisition of practices. The carrying amount of intangible assets - goodwill is a key audit matter due to: • the significance of the balance (being 43% of total assets); and • the level of judgement applied in evaluating management's assessment of impairment. As outlined in Notes 3 and 19, management assessed the carrying amount of goodwill through impairment testing utilising a value in use model in which significant judgements are applied in determining key assumptions. These assumptions include the assessment of future earnings before interest and tax growth expected to be achieved, as well as the weighted average cost of capital. The judgements made in determining the underlying assumptions in the model have a significant impact on the carrying amount of goodwill, and accordingly the amount of any impairment charge, to be recorded in the current financial year.	In assessing this key audit matter, we involved senior audit team members who understand the dental services industry. Our audit procedures included, amongst others: • evaluating management's methodology for determining the carrying amount of intangible assets by comparing the value in use model with generally accepted valuation methodology and accounting standard requirements; • conducting sensitivity analysis on key assumptions such as the weighted average cost of capital (WACC) and growth rates, within reasonable foreseeable ranges, in which we found that the value in use remained in excess of the carrying value of net assets of each cash-generating unit ('CGU'); • challenging the key assumptions used in management's value in use model by: - assessing growth rates set by management in comparison to historical results - evaluating the WACC rate set by management in comparison to market and industry information available - assessing the impact of the COVID-19 pandemic on all key assumptions • assessing the appropriateness of changes made during the year by management of key assumptions being a reduction in growth rates and the WACC; and • assessing the appropriateness of the related disclosures in Note 19.

For personal use only

2. Business combinations – including allocation of goodwill

Why significant	How our audit addressed the key audit matter
During the year, the group acquired the following dental practices: • Gatton; and • Laidley As disclosed in Note 33, as part of the business combination transactions, the group recognised provisional goodwill of $1,333,333. Business combinations – including allocation of goodwill is a key audit matter due to: • the significant audit effort required to test the group's acquisitions of practices during the year; and • the level of judgement applied in evaluating management's assessment of goodwill allocated in the purchases.	In assessing this key audit matter our work included, but was not limited to, the following procedures: • review of purchase documentation including contracts and business sale agreements; • obtaining a detailed understanding of the acquired practices; • assessing the appropriateness of the valuation methodology of the assets acquired; • reviewing management's fair value assessment of the assets and liabilities acquired; • reviewing management's assessment of the fair value of the consideration paid and any recognition of any deferred consideration upon the acquisition date; • reviewing management's assessment of whether any specific identifiable intangible assets were identified as part of each practice acquisition; • assessment of management's goodwill allocation as part of each practice acquisition; and • assessing the appropriateness of the disclosures in relation to both the business combination and intangible assets acquired included in Notes 2, 19 & 33.

Other Information

Those charged with governance are responsible for the Other Information in the annual report. Other Information is financial and non-financial information in the annual report of the consolidated entity for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

For personal use only

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 consolidated entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

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

For personal use only

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

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

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on the Remuneration Report

Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of 1300SMILES Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PKF BRISBANE AUDIT



SHAUN LINDEMANN
PARTNER

11 AUGUST 2020
BRISBANE, AUSTRALIA

Shareholder information

30 June 2020

The shareholder information set out below was applicable as at 30 June 2020.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	867
1,001 to 5,000	494
5,001 to 10,000	117
10,001 to 50,000	80
50,001 to 100,000	4
100,001 and over	11
	1,573
Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
Dr Daryl Holmes	14,116,837	59.62%
JP Morgan Nominees Australia Ltd	1,762,041	7.44%
Evelin Investments Pty Ltd	980,000	4.14%
Ashbourne Park Pty Ltd	550,702	2.33%
Dr Russell Kay Hancock	500,000	2.11%
Citicorp Nominees Pty Ltd	454,343	1.92%
Upper Avalon Pty Ltd	294,000	1.24%
Mr Kevin John Holmes + Mrs Janita Dawn Holmes	175,633	0.74%
HSBC Custody Nominees	170,688	0.72%
BNP Paribas Nominees Pty Ltd	164,764	0.70%
Mr Kent Gush	101,364	0.43%
Gang-Gang Pty Ltd	78,875	0.33%
Mr Bradley John Holmes + Mrs Seiko Holmes	71,932	0.30%
Mr Nicholas Mole	60,000	0.25%
Mr David Solomons	57,306	0.24%
Nigel's Investments Pty Ltd	56,435	0.24%
ANCAM Pty Ltd	50,000	0.21%
Mr Keith Sorrentino	45,390	0.19%
Easy Investing Pty Ltd	45,000	0.19%
Tomman (NQ) Pty Ltd	45,000	0.19%
	19,780,310	83.54%

There are no unquoted equity securities.

For personal use only

Shareholder information
30 June 2020

Substantial holders

Substantial holders in the Company are set out below:

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

*Dr Daryl Holmes shareholding is held in his personal name and in the name of other related parties

Voting rights

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

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

There are no other classes of equity securities.

Restricted securities

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

	2020	2021	2022	2023	2024
January	-	-	-	-	-
February	-	-	-	-	-
March	-	-	-	-	-
April	-	-	-	-	-
May	-	-	-	-	-
June	2,170	2,170	2,170	2,169	-
July	-	-	-	-	-
August	-	-	-	-	-
September	64,929	64,929	64,929	64,929	64,929
October	-	-	-	-	-
November	-	-	-	-	-
December	-	-	-	-	-
Annual total	67,099	67,099	67,099	67,098	64,929
Overall total					333,324

For personal use only

Corporate directory

For personal use only

Directors

Robert Jones, Chairman
Dr Daryl Holmes, Managing Director
Jason Smith, Non-Executive Director
Evonne Collier, Non-Executive Director (resigned 6 April 2020)

Company secretary

Patrick Wyatt

Registered office and principal business office

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

Auditor

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

Country of incorporation

Australia

Stock exchange listing

Australian Securities Exchange Limited
ASX Code: ONT

Australian business number (ABN)

91 094 508 166

Share register

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

Legal advisers

Thomson Geer Lawyers
Level 28 Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Broadley Rees Hogan
24/111 Eagle Street
Brisbane QLD 4000

Wilson Ryan Grose Lawyers
51 Sturt Street
Townsville QLD 4810

For personal use only

1300 SMILES Dentists

ywam medicalships