

Appendix 4D

Half yearly report

Introduced 1/1/2003.

Name of entity

1300SMILES Limited

ABN or equivalent company reference

91 094 508 166

Half year ended
(‘current reporting period’)

31 December 2009

‘Previous corresponding period’

31 December 2008

Results for announcement to the market

\$A'000

| | | | | |
|---|----|------|----|--------|
| Revenues from ordinary activities | Up | 5% | To | 11,601 |
| Profit from ordinary activities after tax attributable to members | Up | 8.6% | To | 2,256 |
| Net profit for the period attributable to members | Up | 8.6% | To | 2,256 |

Dividends

The company has declared a fully franked interim dividend of 6.5 cents per share in relation to the half-year ended 31 December 2009.

Confirmation of the Interim Dividend details:

- Dividend amount per security 6.5 cents
- Franked amount per security 100%
- Date Interim Dividend declared 18 February 2010
- Date that the shares (ASX code : ONT) will trade ex-dividend 9 March 2010
- Record Date for determining entitlement to dividend 15 March 2010
- Payment Date 26 March 2010

NTA backing

Net tangible asset backing per ordinary security

| Current period | Previous corresponding period |
|----------------|-------------------------------|
| 7.8 cents | 10.1 cents |



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

**INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2009**



LETTER FROM THE MANAGING DIRECTOR

Dear Shareholder,

I am pleased to have this opportunity to report and comment on our results for the half-year ended 31 December 2009. Our company has again delivered solid results.

From time to time I take the opportunity to explain to shareholders important differences between the practical experience of operating our business and the accounting results. In this report I will do so again.

Consolidation

Shareholders will recall that the first half of the 2009 year saw some truly spectacular results, with revenue up 58% and NPAT up 83% on the previous period. We went on to deliver similar growth for the 2009 full year, and I have been cautioning ever since that this leap to a new level of revenue and profit would require a spell of consolidation. This is exactly what we've seen in the first half of the 2010 year: the big gains of the previous year have been well and truly incorporated into our ongoing business. It is evident that our new, larger scale is a secure base for further growth.

First half-year results

Compared to the first half results from the previous year, the results for the six months to December 2009 were as follows:

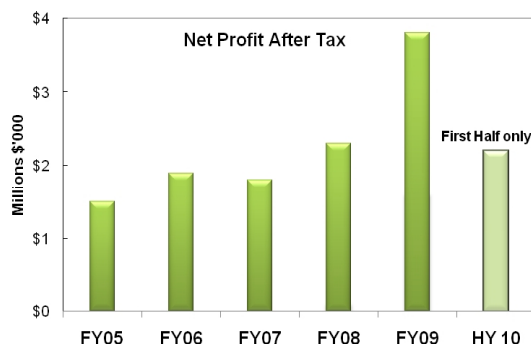
- Revenue up 5% to \$11.6million
- Profit before tax up 15% to \$3.1million
- Debt down 26% to \$3.6million
- EBIT up 9.8% to \$3.2million
- First half fully franked dividend up 20% to 6.5c per share
- Net profit after tax up 8.6% to \$2.3million
- Cashflow from operations up 8% to \$2.5million
- Net Assets up 22.3% to \$10.5million

I will first address the apparently modest growth in our revenue. The 58% revenue growth in the previous year's first half created a very high base figure against which the current half year is measured. Over the two years which have elapsed since the first half of the 2008 year, our revenue has grown by 66%.

Net profit after tax

Our profit before tax for the first half increased by a healthy 15% while our profit after tax grew by a smaller 8.6%. This results from the fact that our effective tax rate in the previous period was quite low, thanks to various one-off tax adjustments. Our effective tax rate for the current half year was 28%, for the previous period it was just 23%.

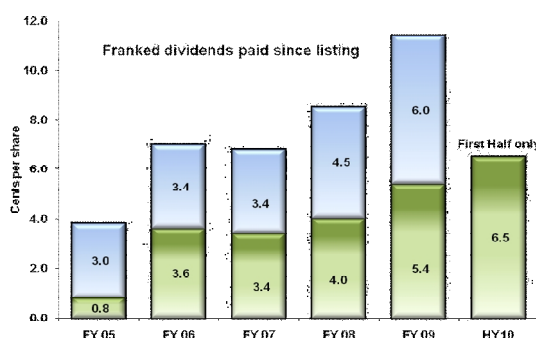
The low tax rate in the first half of the 2009 year was a bit of good fortune but not a long term feature of our business. However, tax rates aside, the first chart shown here reflects the very pleasing fact that our NPAT for the first half of the current year is nearly equal to that of our full year result for 2008.



Dividend

We have always believed that our dividend communicates a great deal about our company's health. I am therefore pleased to advise that the interim dividend has increased by 20% to 6.5c per share. Our aim is to deliver constantly increasing dividends, reflecting the core growth of our business.

We have been able to deliver this solid dividend growth while reducing our core debt, which decreased by 26% to just \$3.6 million. These two good results have been assisted by the fact that our operating expenses increased by just 1.8% over the previous period.





1300SMILES DENTISTS

Global financial crisis

In my last few reports to shareholders I have noted that our company has not suffered any discernible harm arising from the global financial crisis. Perhaps our revenue would have been higher in its absence, but at no point did our revenue decline. Our business model has now been thoroughly tested in quite different economic circumstances, and I believe that shareholders should take confidence from our company's consistent performance in good economic times and bad.

At no time in the past few years have we had any difficulty with access to capital. 1300SMILES has generated positive cash flow in every period, and we have debt facilities in place which will enable us to make any and all suitable acquisitions we identify.

We have focussed on optimising the use of our established dental facilities over the past two years, as this leads to increased revenue and profit with very little capital outlay. We remain enthusiastic about making further acquisitions subject to our very strict and high standards as to the level of return we expect from acquisitions.

Outlook

Our objectives going forward are the same as they have been for some years: we aim to deliver increased revenue, profit, earnings per share, and dividends by doing what we do best:

--organic growth: assisting our dentists to increase their turnover and attracting additional dentists to our established facilities

--acquisition: buying established practices where we can do so on suitable terms

--greenfields: establishing new dental practices both in regions where we have an established presence and in areas not yet served by 1300SMILES.

--management: managing professional facilities not owned by 1300SMILES

We know from experience that we can deliver steady progress via organic growth. We are patient and we do not pursue acquisitions for their own sake. We will commit our capital and our management time only to those situations which lead directly and quickly to increased earnings per share.

It is too early to forecast full year results for 2010, and long term shareholders will recall that I don't routinely make forecasts anyway, but we expect to continue to deliver sustainable growth.

Market presence

1300SMILES Ltd has eighteen established multi-dentist facilities in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, Caloundra, Brisbane, Toowoomba, and the Gold Coast (Tweed Heads). A new facility in Carseldine (Queensland) opened in mid-January 2010. At present we have several new facilities, expansions to existing facilities, and potential acquisitions under way.

Thank you

As always, we thank you, our shareholders, for your support, and we thank our hard-working employees and the growing number of dentists who choose to conduct their practices in our facilities.

Yours faithfully,

Dr Daryl Holmes
Managing Director



ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

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

The services provided by the company allow the dentists to focus on the delivery of dental services rather than on the administrative aspects of carrying on their businesses. The dentists pay fees to the company for the provision of these services under a Dental Service Agreement with the company.

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

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

FUTURE DEVELOPMENTS

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

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

The key drivers for future growth of the company are:

- Increasing the number of dentists who use the company's existing facilities.
- Assisting the dentists who use the company's facilities to increase their turnover.
- Acquiring additional practices in existing and greenfield sites.
- Establishing new practices in existing and new regions.

DENTIST ENQUIRIES

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

Qualified dentists who wish to know more about joining one of our established facilities are also encouraged to contact Dr. Holmes directly, or email dentistrecruitment@1300SMILES.com.au.



1300SMILES DENTISTS

DIRECTORS' REPORT

The directors present their report together with the financial statements of 1300SMILES Limited for the half year ended 31 December 2009 and independent review report thereon. This financial report has been prepared in accordance with Australian equivalents of International Financial Reporting Standards.

DIRECTORS

The names of the directors in office at any time during or since the end of half year are:

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

CORPORATE INFORMATION

Corporate structure

1300SMILES Limited is a company limited by shares that is incorporated and domiciled in Australia.

Employees

As at 31 December 2009, the Company employed 106 full-time equivalent employees (excluding the Directors), (2008: 110 full-time employees).

REVIEW OF FINANCIAL CONDITION

Capital structure

At 31 December 2009, and at the date of this report, the Company had 20,433,608 ordinary shares on issue.

Treasury policy

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

Liquidity and funding

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

Result

Detailed comments on the profit after tax of \$2,256,000 are included in the letter from the Managing Director.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

PRINCIPAL ACTIVITIES

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

DIVIDENDS

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

| | |
|--|-----------|
| Final ordinary dividend in relation to the-year ended 30 June 2009 of 6.0 cents (2008: 4.5 cents) per fully paid share paid on 15 th September 2009. | 1,226,016 |
| Interim ordinary dividend in relation to the half-year ended 31 December 2009 of 6.5cents (2008: 5.4 cents) declared per fully paid share on 18 th February 2010. | 1,328,184 |



DIRECTORS' REPORT (continued)

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditors' Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

This report is made in accordance with a resolution of directors

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

Daryl Holmes
Director
Townsville
18 February 2010



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

In relation to our review of the financial report of 1300SMILES Limited for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Brad Tozer'.

Brad Tozer
Partner
18 February 2010



STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

| Notes | December 2009 \$'000 | December 2008 \$'000 |
|--|----------------------------|----------------------------|
| Continuing operations | | |
| Revenue | 11,601 | 11,045 |
| Direct cost of sales | (1,588) | (1,360) |
| Employee benefits expense | (4,751) | (5,011) |
| Depreciation and amortisation expense | (467) | (450) |
| Property expenses | (654) | (600) |
| Operating expenses | (800) | (529) |
| Corporate and administration expenses | (123) | (164) |
| Finance costs | (97) | (219) |
| Profit from continuing operations before income tax | 3,121 | 2,712 |
| Income tax expense | (865) | (635) |
| Profit from continuing operations after income tax | 2,256 | 2,077 |
| Other comprehensive income | - | - |
| Total comprehensive income for the period | 2,256 | 2,077 |
| Profit and total comprehensive income for the period attributable to members of 1300SMILES Limited | 2,256 | 2,077 |
| Earnings per share | Cents | Cents |
| Basic and diluted earnings per share | 10.84 | 10.31 |

The accounts should be read in conjunction with the 30 June 2009 Annual report.



STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

| | Note | As at 31 December 2009 \$'000 | As at 30 June 2009 \$'000 |
|--------------------------------------|------|-------------------------------------|---------------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | | 872 | 1,807 |
| Trade and other receivables | | 443 | 393 |
| Other current assets | | 509 | 295 |
| TOTAL CURRENT ASSETS | | 1,824 | 2,495 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 5,522 | 5,669 |
| Intangible assets | 6 | 8,777 | 7,986 |
| Investments | | 10 | 10 |
| Deferred tax asset | | 120 | 111 |
| Other non current assets | | 31 | - |
| TOTAL NON-CURRENT ASSETS | | 14,460 | 13,776 |
| TOTAL ASSETS | | 16,284 | 16,271 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 1,618 | 1,743 |
| Current tax liabilities | | 422 | 234 |
| Provisions | | 118 | 139 |
| Financial liabilities | | 48 | 1,557 |
| TOTAL CURRENT LIABILITIES | | 2,206 | 3,673 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | | 53 | 50 |
| Financial liabilities | | 3,539 | 3,340 |
| TOTAL NON CURRENT LIABILITIES | | 3,592 | 3,390 |
| TOTAL LIABILITIES | | 5,798 | 7,063 |
| NET ASSETS | | 10,486 | 9,208 |
| EQUITY | | | |
| Share capital | | 5,018 | 4,770 |
| Retained earnings | | 5,468 | 4,438 |
| TOTAL EQUITY | | 10,486 | 9,208 |

The accounts should be read in conjunction with the 30 June 2009 Annual report



STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

| 2009 | Share Capital \$'000 | Retained Earnings \$'000 | Total \$'000 |
|--|---------------------------------|---|-------------------------|
| Balance from 30 June 2009 | 4,770 | 4,438 | 9,208 |
| Net profit | - | 2,256 | 2,256 |
| Shares issued associated with a business combination | 248 | - | 248 |
| Dividends recognised during the half year | - | (1,226) | (1,226) |
| Balance at 31 December 2009 | 5,018 | 5,468 | 10,486 |

| 2008 | Share Capital \$'000 | Retained Earnings \$'000 | Total \$'000 |
|---|---------------------------------|---|-------------------------|
| Balance from 30 June 2008 | 3,991 | 2,628 | 6,619 |
| Net profit | - | 2,077 | 2,077 |
| Shares issued in a business combination | 779 | - | 779 |
| Dividends recognised during the half year | - | (902) | (902) |
| Balance at 31 December 2008 | 4,770 | 3,803 | 8,573 |

The accounts should be read in conjunction with the 30 June 2009 Annual report



CASH FLOW STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

| | Note | December 2009 \$'000 | December 2008 \$'000 |
|---|------|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers (inclusive of goods and services tax) | | 11,810 | 11,224 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (8,546) | (8,366) |
| Interest received | | 23 | 16 |
| Interest and other costs of finance paid | | (97) | (169) |
| Income tax paid | | (695) | (447) |
| GST paid | | (30) | 14 |
| Net cash flows from operating activities | | 2,465 | 2,272 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of property, plant and equipment | | - | (8) |
| Acquisition of plant and equipment | | (320) | (695) |
| Payment for the purchase of associate | | - | (10) |
| Payment for Goodwill other | 6 | (540) | (28) |
| Net cash flows used in investing activities | | (860) | (741) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds/(repayment) of borrowings | | (1,311) | (935) |
| Payment for costs associated with share issue | | (2) | (4) |
| Dividends paid | | (1,226) | (901) |
| Net cash flows from/(used in) financing activities | | (2,539) | (1,840) |
| Net decrease in cash and cash equivalents | | (935) | (309) |
| Cash and cash equivalents at beginning of financial year | | 1,807 | 715 |
| Cash and cash equivalents at end of financial year | | 872 | 406 |



NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 1: BASIS OF PREPARATION OF THE FINANCIAL REPORTS

This interim financial report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and is to be read in conjunction with the 30 June 2009 Annual Report and any public announcements made by 1300SMILES Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period.

Apart from those listed below, the accounting policies and methods of computation have been consistently applied by 1300SMILES Limited and are consistent with those presented in the comparative financial information in the financial report.

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2009.

AASB 8 Operating Segments effective 1 January 2009

The standard introduces the “management approach” to segment reporting. AASB 8 requires the disclosure of segment information based on the internal reports regularly reviewed by 1300SMILES Limited management to assess each segment’s performance. Currently 1300SMILES Limited presents segment information in respect of its geographical segments (refer Note 4).

AASB101 Presentation of Financial Statements (revised 2007) effective 1 January 2009

The standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASB’s. It does alter the way in which results are presented.

The company has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

NOTE 2: SUBSEQUENT EVENTS

A fully franked interim dividend of 6.5 cents per share has been declared and is payable in March 2010.

1300SMILES Limited has also entered into a financing arrangement with Commonwealth Bank for funding up to \$7.8 million to replace and increase the current Suncorp Metway facility.

A large, modern, new dental facility (Greenfield site) was opened in January 2010 in Northern Brisbane at Carseldine to cater for the demand in the south east Queensland region.

Other than the events mentioned above, there have been no events since 31 December 2009 that impact upon the interim financial report for the half year ended 31 December 2009.



NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 3: DEFERRED SETTLEMENT LIABILITIES

A contingent liability of \$955,309 exists in relation to previous acquisitions. This balance has not been recorded on the balance sheet as at 31 December 2009. The directors do not believe the payment of the deferred settlement liabilities is probable.

NOTE 4: OPERATING SEGMENTS

Identification of reportable segments

The company has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors and management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the practices are regionally located. Discrete financial information about each of these operating businesses is reported to the Board of Directors, by the management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the locality of the practices throughout Queensland and New South Wales.

Each practice's discrete financial information is reported in the following regions:

Northern Region:

Cairns
Townsville
Mackay

Southern Region:

Rockhampton
Gladstone
Bundaberg

Toowoomba
Caloundra
Carindale

Tweed Heads

Accounting policies and inter-segment transactions

The accounting policies used by the company in reporting segments internally is the same as those contained in note 1 to the accounts and in the prior period except as detailed below:

Corporate charges

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis linked to segment so as to determine a segmental result.

Income tax expense

Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2008: 30%). No effect is given for taxable or deductible temporary differences.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Dividend revenue
- Interest Income
- Finance costs



NOTES TO THE HALF YEAR FIANNCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 4: OPERATING SEGMENTS (continued)

The following table presents revenue and profit information for reportable segments for the half-years ended 31 December 2009 and 31 December 2008.

| | Northern Region \$'000 | Southern Region \$'000 | Total \$'000 |
|---|------------------------------|------------------------------|-----------------|
| Half-Year ended 31 December 2009 | | | |
| Revenue | | | |
| Sales to external customers | 5,602 | 5,998 | 11,600 |
| Total segment revenue | 5,602 | 5,998 | 11,600 |
| Other revenue | | | 1 |
| Total revenue per the statement of comprehensive income | | | <u>11,601</u> |
| Result | | | |
| Segment result | 1,118 | 1,246 | 2,364 |
| Reconciliation of segment net profit after tax to net profit/loss before tax | | | |
| Income tax expense at 30% | | | 1,013 |
| Unallocated expenses | | | (159) |
| Finance costs | | | (97) |
| Net Profit before tax per the statement of comprehensive income | | | <u>3,121</u> |
| Segment Assets | | | |
| Segment operating assets | 2,953 | 11,346 | 14,299 |
| Unallocated assets | | | 1,985 |
| Total assets from continuing operations per the statement of financial position | | | <u>16,284</u> |



NOTES TO THE HALF YEAR FIANNICAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

| | Northern Region \$'000 | Southern Region \$'000 | Total \$'000 |
|---|------------------------------|------------------------------|----------------------|
| For the Half-Year ended 31 December 2008 | | | |
| Revenue | | | |
| Sales to external customers | 5,522 | 5,416 | 10,938 |
| Total Segment revenue | 5,522 | 5,416 | 10,938 |
| Other Revenue | | | 107 |
| Total revenue per the statement of comprehensive income | | | <u>11,045</u> |
| Result | | | |
| Segment result | 1,125 | 1,090 | 2,215 |
| Reconciliation of segment net profit after tax to net profit/loss before tax | | | |
| Income tax expense at 30% (2008: 30%) | | | 949 |
| Unallocated expenses | | | (233) |
| Finance costs | | | (219) |
| Net profit before tax per the statement of comprehensive income | | | <u>2,712</u> |
| Segment Assets | | | |
| Segment Operating assets | 3,149 | 10,620 | 13,769 |
| Unallocated assets | | | 1,557 |
| Total assets from continuing operations per the statement of financial position | | | <u>15,326</u> |



NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 5: DIVIDENDS

| | 6 Months to 31 December 2009 \$'000 | 6 Months to 31 December 2008 \$'000 |
|--|---|---|
| <u>Dividends declared and paid</u> | | |
| Fully franked final dividend of 6.0 cents (2008 4.5) for the year ended 30 June 2009 paid 15 th September 2009 | 1,226 | 903 |
| <u>Dividends declared</u> | 1,328 | 1,099 |
| On 18 February 2010 the company declared a fully franked interim dividend of 6.5 cents (2008 5.4) for the half year ended 31 December 2009 payable in March 2010 | | |

NOTE 6: INTANGIBLE ASSETS

| | 31 December 2009 \$'000 | 30 June 2009 \$'000 |
|---|-------------------------------|---------------------------|
| Goodwill at cost | 8,777 | 7,986 |
| Movements during the year | | |
| Opening balance | 7,986 | 9,135 |
| De-recognition of Goodwill acquired through business combinations | - | (1,228) |
| Miscellaneous expenditure | - | 79 |
| Acquisitions through business combinations | 791 | |
| | 8,777 | 7,986 |
| Cash generating unit (dental practice) | | |
| Belgian Gardens | 146 | 146 |
| Fulham Road | 40 | 40 |
| The City | 107 | 107 |
| Upper Ross | 84 | 84 |
| Mackay | 21 | 21 |
| Cairns Central | 67 | 67 |
| Gladstone | 108 | 108 |
| Carindale | 759 | 759 |
| Caloundra | 1,049 | 1,049 |
| Rockhampton | 259 | 259 |
| Toowoomba | 2,148 | 1,735 |
| Bundaberg | 3,907 | 3,529 |
| Tweed Heads | 75 | 75 |
| Other | 7 | 7 |
| | 8,777 | 7,986 |



NOTES TO THE HALF YEAR FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2009

NOTE 6: INTANGIBLE ASSETS (Continued)

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

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

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

No dental practices were acquired during the half year ended 31 December 2009 (31 December 2008: Nil).

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

- [i] 43,003 ordinary shares at \$2.90
- [ii] 50,000 ordinary shares at \$2.50 – to be held in voluntary escrow over 3 years
- [iii] Cash of \$125,000

During the period an earn out payment of \$413,000 was made pursuant to the Toowoomba acquisition agreement.

The payments were both recorded against the goodwill associated with the acquisitions.

NOTE 7: ABILITY TO PAY DEBTS

The directors have determined that the Company is a going concern and can pay its debts as and when they fall due.

The company has made a surplus of operating cash flows of \$2.5 million and paid dividends of \$1.2million during the period.

At 31 December 2009 the Company had a deficit in working capital of \$382K. The Company had unused Borrowing facilities of \$3.5 million which will be utilised to address any working capital shortfalls if required.



1300SMILES LIMITED

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of 1300SMILES Limited, I state that:

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) Giving a true and fair view of the financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity.
 - ii) Complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

- (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.

On behalf of the Board

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

Daryl Holmes
Director
Townsville
18 February 2010



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To the members of 1300SMILES Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of 1300 SMILES Limited ("the company"), which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 1300 SMILES Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

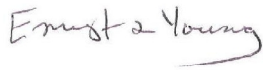
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

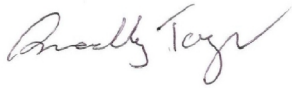
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of 1300 SMILES Limited is not in accordance with the *Corporations Act 2001* including:

- i giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance for the six months ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Brad Tozer'.

Brad Tozer
Partner
Brisbane
18 February 2010