

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 2008

‘Previous corresponding period’

31 December 2007

Results for announcement to the market

\$A000

Revenues from ordinary activities	Up	58%	To	11,045
Profit from ordinary activities after tax attributable to members	Up	83%	To	2,077
Net profit for the period attributable to members	Up	83%	To	2,077

Dividends

The company has declared a fully franked interim dividend of 5.4 cents per share in relation to the half-year ended 31 December 2008.

Confirmation of the Interim Dividend details:

- Dividend amount per security 5.4 cents
- Franked amount per security 100%
- Date Interim Dividend declared 20 February 2009
- Date that the shares (ASX code : ONT) will trade ex-dividend 3 March 2009
- Record Date for determining entitlement to dividend 9 March 2009
- Payment Date 20 March 2009

NTA backing

Net tangible asset backing per ordinary security

Current period	Previous corresponding period
10.1 cents	19.2 cents



ABN 91 094 508 166

1300SMILES LIMITED

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

1300SMILES Limited

DIRECTORS' REPORT

Your directors present their report for the half-year ended 31 December 2008.

DIRECTORS

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

Robert Jones	Non-executive Chairman
Daryl Holmes	Managing Director
William Bass	Non-executive Director

RESULTS AND REVIEW OF OPERATIONS

- Revenue up 58% to \$11.0 million
- NPAT up 83% to \$2.1 million
- EBITDA up 77% to \$3.4 million
- Earnings per share up 82% to 10.31c per share
- First half fully franked dividend up 35% to 5.4c per share
- Cash flow from operations up 41% to \$2.2 million

Our growth and focus for the 2009 year to date, as in previous years, has been on the integration and consolidation of acquisitions, and internal, organic growth namely recruiting additional dentists to run their practices from within our established facilities. Both of these sources of growth remain our focus, now and in the future.

1300SMILES Ltd has seventeen multi-dentist facilities in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, Caloundra, Brisbane, Toowoomba, and the Gold Coast, where we've recently opened a new practice at Tweed Heads (NSW) to meet an obvious market need.

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 the following page.

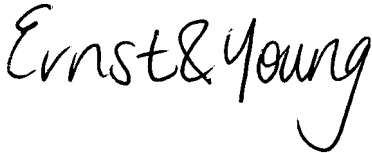
On behalf of the Board

Dr. Daryl Holmes
Managing Director

20 February 2009

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 31 December 2008, 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.



Ernst & Young



Alison de Groot
Partner
20 February 2009

1300SMILES Limited

CONDENSED INCOME STATEMENT FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Consolidated	
	Dec 2008 \$	Dec 2007 \$
Revenue	11,045,071	6,991,049
Direct costs of sales	(1,359,522)	(858,291)
Employee benefits expense	(5,010,567)	(3,233,733)
Depreciation and amortisation expense	(450,434)	(253,484)
Property expenses	(600,168)	(335,211)
Operating expenses	(528,857)	(458,167)
Corporate and administration expenses	(163,951)	(199,268)
Finance costs	(219,253)	(1,411)
Profit before income tax	2,712,319	1,651,484
Income tax expense	(634,946)	(515,250)
Profit for the period	2,077,373	1,136,234
Earnings per share		
Basic and Diluted Earnings Per Share	10.31 cents	5.66 cents

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

1300SMILES Limited**CONDENSED BALANCE SHEET
AS AT 31 DECEMBER 2008**

Note	Consolidated		
	As at 31 December 2008	As at 30 June 2008	As at 31 December 2007
	\$	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	406,448	714,586	579,189
Trade and other receivables	349,426	349,406	312,820
Inventories	82,740	175,896	161,313
Current tax assets	274,386	98,726	-
Other current assets	358,956	175,645	106,270
TOTAL CURRENT ASSETS	1,471,956	1,514,259	1,159,592
NON-CURRENT ASSETS			
Property, plant and equipment	5,835,067	5,591,122	3,940,529
Intangible assets	7,935,016	9,134,863	2,511,082
Investments in associates	10,597	597	597
Other financial assets	-	-	-
Deferred tax asset	73,861	38,412	-
TOTAL NON-CURRENT ASSETS	13,854,541	14,764,994	6,452,208
TOTAL ASSETS	15,326,497	16,279,253	7,611,800
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	1,390,811	1,438,697	948,002
Current tax liabilities	-	-	123,692
Provisions	114,805	96,995	80,779
Financial liabilities	1,568,640	2,369,336	65,656
TOTAL CURRENT LIABILITIES	3,074,256	3,905,028	1,218,129
NON-CURRENT LIABILITIES			
Provisions	50,552	32,143	-
Financial liabilities	3,628,550	5,722,569	-
Deferred tax liabilities	-	-	21,484
TOTAL NON-CURRENT LIABILITIES	3,679,102	5,754,712	21,484
TOTAL LIABILITIES	6,753,358	9,659,740	1,239,613
NET ASSETS	8,573,139	6,619,513	6,372,187
EQUITY			
Share capital	4,770,634	3,991,716	3,991,716
Retained earnings	3,802,505	2,627,797	2,380,471
TOTAL EQUITY	8,573,139	6,619,513	6,372,187

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

1300SMILES Limited**CONDENSED STATEMENTS OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

	Share Capital \$	Retained Earnings \$	Total \$
2007			
Balance at 30 June 2007	3,991,716	1,926,251	5,917,967
Net profit	-	1,136,234	1,136,234
Dividends recognised during the period	-	(682,014)	(682,014)
Balance at 31 December 2007	<u>3,991,716</u>	<u>2,380,471</u>	<u>6,372,187</u>
2008			
Balance at 30 June 2008	3,991,716	2,627,797	6,619,513
Net profit	-	2,077,373	2,077,373
Shares issued in a business combination	778,918	-	778,918
Dividends recognised during the period	-	(902,665)	(902,665)
Balance at 31 December 2008	<u>4,770,634</u>	<u>3,802,505</u>	<u>8,573,139</u>

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

1300SMILES Limited**CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 30 DECEMBER 2008**

	CONSOLIDATED	
	Dec 2008	Dec 2007
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (inclusive of goods and services tax)	11,224,016	6,877,936
Payments to suppliers and employees (inclusive of goods and services tax)	(8,366,240)	(4,724,309)
Interest received	15,849	34,612
Interest and other costs of finance paid	(168,653)	(884)
GST Recovered/(Paid)	14,036	(60,119)
Income tax paid	(447,474)	(524,941)
Net cash flows from operating activities	2,271,534	1,602,295
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments associated with the sale of property, plant & equipment	(7,500)	-
Payment for the purchase of associate	(10,000)	-
Acquisition of plant and equipment	(694,379)	(942,921)
Payment for the purchase of dental practices (net of cash equivalents)	-	(1,292,532)
Payment for Goodwill other	(28,072)	-
Net cash flows used in investing activities	(739,951)	(2,235,453)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	(934,871)	(37,172)
Payment of issue costs	(3,606)	-
Dividends paid	(901,244)	(682,014)
Net cash flows used in financing activities	(1,839,721)	(719,186)
Net increase/(decrease) in cash and cash equivalents	(308,138)	(1,352,344)
Cash and cash equivalents at beginning of the period	714,586	1,931,533
Cash and cash equivalents at end of the period	406,448	579,189

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

1300SMILES Limited

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

1. BASIS OF PREPARATION OF THE FINANCIAL REPORTS

This interim consolidated financial report has been prepared in accordance with Accounting Standard AASB 134 and is to be read in conjunction with the 30 June 2008 Annual Report and any public announcements made by the 1300SMILES Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

Notes of a type normally included in an annual financial report are not included.

The accounting policies and methods of computation have been consistently applied by the entities in the consolidated group and are consistent with those presented in the comparative financial information in the financial report.

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

2. SUBSEQUENT EVENTS

A fully franked interim dividend of 5.4 cents per share has been declared and is payable in March 2009.

Other than the event mentioned above, there have been no events since 31 December 2008 that impact upon the interim financial report for the half year ended 31 December 2008.

3. SEGMENT INFORMATION

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

4. DEFERRED SETTLEMENT LIABILITIES

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

A contingent liability of \$1,457,413 exists in relation to previous acquisitions. This balance has not been recorded on the balance sheet as at 31 December 2008. The directors do not believe the payment of the deferred settlement liabilities is probable. The liability was previously recorded as a non-current financial liability at 30 June 2008 at a discounted value of \$1,086,345. The corresponding decrease to this liability is goodwill (refer to note 6).

5. DIVIDENDS

	Consolidated Entity	
	6 months to 31 Dec 2008	6 months to 31 Dec 2007
	\$	\$
<u>Dividends declared and paid</u>		
Fully franked final dividend of 4.5 cents (2007:3.4 cents) per share for the year ended 30 June 2008 paid 17th September 2008.	902,665	682,014
<u>Dividends declared</u>		
On 20 February 2009, the company declared a fully franked interim dividend of 5.4 cents (2007:4.0 cents) per share for the December 2008 half-year to be paid in March 2009.	1,098,387	802,369

1300SMILES Limited

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Consolidated Entity	
	31 December	30 June
	2008	2008
	\$	\$
6. INTANGIBLE ASSETS		
Goodwill at cost	7,935,016	9,134,863
Movements during the period		
Opening balance	9,134,863	1,470,170
Acquisitions through business combinations	-	7,747,193
Reductions from the changes in contingent consideration paid	-	(82,500)
De-recognition of Goodwill acquired through business combinations	(1,227,919)	-
Miscellaneous expenditure	28,072	-
	<u>7,935,016</u>	<u>9,134,863</u>

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

Cash generating unit (dental practice)		
Belgian Gardens	146,185	145,000
Fulham Road	40,109	40,109
The City	107,265	106,233
Upper Ross	83,750	83,750
Mackay	20,173	20,173
Chevron Island	-	71,727
Cairns Central	66,613	66,613
Gladstone	107,935	107,935
Carindale	756,130	756,130
Caloundra	1,049,412	1,049,412
Rockhampton	228,730	214,042
Toowoomba	1,734,948	2,169,721
Bundaberg	3,512,734	4,302,818
Other	6,722	1,200
Tweed Heads	74,310	-
	<u>7,935,016</u>	<u>9,134,863</u>

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. During the current period each dental practice's net cash flows exceeded the goodwill value allocated to the relevant cash generating unit. The Company forecasts similar performance from each cash generating unit in coming periods and consequently no impairment losses have been recognised.

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.

1300SMILES Limited

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

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 \$2.3 million, repaid debt of \$934,000 and paid dividends of \$902,665 during the period.

At 31 December 2008 the Company had a deficit in working capital of \$1,602,300. The deficiency includes deferred settlement liabilities in respect of practices acquired of \$1,500,125. (2007 - \$2,282,649) The Company has unused borrowing facilities of \$6,000,000 which will be utilised to address any working capital shortfalls if required.

8. CORRECTION OF ERRORS AND REVISIONS OF ACCOUNTING ESTIMATES

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

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

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

The errors have been corrected by restating each of the affected financial statement line items for the prior year, as described above.

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was a reduction of 0.8 cents for the year ended 30 June 2008.

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 2008 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



Daryl Holmes
Director
Townsville, 20 February 2009

To the members of 1300SMILES Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half year financial report of 1300SMILES Limited, which comprises the condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

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 consolidated entity's financial position as at 31 December 2008 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 1300SMILES Limited and the entities it controlled during the half year, 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.

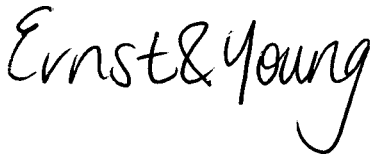
Independence

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 included in 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 interim financial report of 1300SMILES Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half year ended on that date; and
- ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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

Ernst & Young

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

Alison de Groot
Partner
Brisbane
20 February 2009