

# Appendix 4D

## Half yearly report

Introduced 1/1/2003.

Name of entity

**1300 SMILES Limited**

ABN or equivalent company reference

91 094 508 166

Half year ended  
(‘current reporting period’)

31 December 2007

‘Previous corresponding period’

31 December 2006

### Results for announcement to the market

\$A'000

Revenues from ordinary activities	up	86.4%	to	6,991
Profit from ordinary activities after tax attributable to members	up	22.2%	to	1,136
Net profit for the period attributable to members	up	22.2%	to	1,136

#### Dividends

The company has declared a fully franked interim dividend of 4.0 cents per share in relation to the half-year ended 31 December 2007.

Confirmation of the Interim Dividend details:

- Dividend amount per security 4.0 cents
- Franked amount per security 100%
- Date Interim Dividend declared 22 February 2008
- Date that the shares (ASX code : ONT) will trade ex-dividend 29 February 2008
- Record Date for determining entitlement to dividend 7 March 2008
- Payment Date 14 March 2008

#### NTA backing

Net tangible asset backing per ordinary security

Current period	Previous corresponding Period
19.2 cents	25.1 cents

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**1300 SMILES LIMITED**

**INTERIM FINANCIAL REPORT**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

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## DIRECTORS' REPORT

Your directors present their report for the half-year ended 31 December 2007.

### 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 (appointed 25 September 2007)
Daryl Holmes	Managing Director
William Bass	Non-executive Director
Morris Marrinon	Non-executive Chairman (resigned 25 September 2007)
Guy Drummond	Non-executive Director (retired 28 November 2007)

### RESULTS AND REVIEW OF OPERATIONS

#### Results snapshot

86% increase in revenue to \$6,991,049 for the half year

67% increase in cash flow from operations, to \$1,602,295 for the half year

27% increase in profit before tax to \$1,651,484 for the half year

22% increase in net profit after tax to \$1,136,234 for the half year

22% increase in earnings per share to 5.66c for the half year

18% increase in interim dividend to 4.0c per share, fully franked

#### Review of Operations

The Managing Director's report to shareholders at the Annual General Meeting held on 28 November 2007 noted that the year ended 30 June 2007 was one of consolidation, in which the company delivered substantial revenue growth and greatly expanded its infrastructure, but delivered slightly lower profit than in the previous year. It went on to assure investors that the groundwork laid in the 2007 year would lead quickly to increased profit.

Our report for the half year ended 31 December 2007 shows that we have indeed commenced the process of converting revenue growth to profit growth. Net Profit After Tax for the half year exceeded that of the preceding period by 22%. The growth in NPAT is smaller than the growth in profit before tax as a result of some one-off accounting adjustments. The increase in NPAT is nevertheless gratifying, as it shows that we are increasingly realising the benefits of both economies of scale and of integrating acquired practices into the 1300 SMILES system. We are pleased to increase our interim dividend by 18%, to 4.0 cents per share, fully franked.

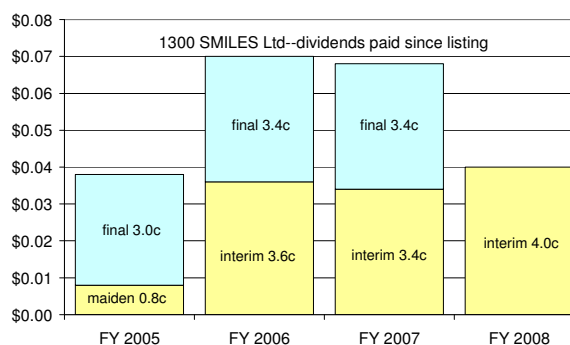
We are also heartened by the strong 67% growth in cash flow from operations. We interpret this as a clear signal that our core operations are sound and strong. Given this strong growth in revenue, cash flow, and profit, we are pleased to note that corporate overheads grew by less than 10%.

In the report to the AGM the Managing Director also noted that the company had completed a number of acquisitions which had only a small impact on the 2007 results but which were expected to make big contributions in 2008. These acquisitions have performed to expectations, contributing to revenue growth of 86% over that of the corresponding period from the previous year. Looking ahead, we intend to continue the process of converting our growing revenue to growing profit. For more detailed discussion please see the section below which addresses the structure of the company's revenue and NPAT.

## Dividends

1300 SMILES Ltd has a policy of paying generous dividends. Since listing in March 2005 we have consistently met our target of paying 40-80% of after tax profit as dividends. Your directors have every confidence that we can maintain this practice whilst continuing to deliver high rates of growth.

In respect of the December 2007 half year, the company has declared a dividend of 4.0c per share, fully franked, which represents 71% of net profit after tax.



## Share Capital

The company's approach to managing its share capital is closely linked to its dividend policy. In order to pay significant and growing dividends, the company must do two things: grow its business and profit *and* keep the number of issued shares under control. During the half year to December 2007 there was no change to the total number of issued shares in the company. There is only one class of shares on issue.

The company may choose to issue additional shares where such an issue would assist the company to achieve its objectives, but we would note that unlike some players in the market we do not seek to trade shares in the company for ownership of dental practices. All acquisitions completed since listing have been settled with cash.

## No debt

As we have noted previously, the company has no net debt. (It has minor equipment leasing commitments, mainly in place within acquired practices, which will be allowed to run their course.)

The company is prepared to use debt for further acquisitions where appropriate. The company has significant undrawn credit facilities in place, ensuring that it is in position to complete attractive acquisitions as they arise.

## Events subsequent to balance date

1300 SMILES Limited continues to grow both by attracting individual dentists to base their practices within established company facilities and by acquiring existing practices. Since the end of December the company has entered into a conditional contract to acquire a long-established practice in Toowoomba (a regional centre about two hours inland from Brisbane), giving us another important position and building our expanding presence in southern Queensland.

In January we announced the final settlement of our acquisition in Rockhampton. This facility is about an hour's drive from our surgery in Gladstone, giving residents of both cities and the surrounding townships easy access to our dentists.

The latest major expansion to our Mackay facility is within weeks of completion. Shareholders will recall that we built a large new facility in Mackay just over a year ago. The present project aims to double the capacity of this centre again to accommodate the significant demand for dental services in that city.

In February a long-established Townsville dentist decided to bring his entire practice and patients to one of our brand-new facilities. This dentist is at the peak of his career, and can be expected to continue providing high quality service to his patients for many years. He has elected to sell his building into the booming Townsville property market, sell his practice to 1300 SMILES Ltd (for cash) and carry on working at his accustomed level of income. By freeing up the capital value of both his building and his practice while retaining his earning power, this dentist reckons he's worked out all of his remaining financial challenges in one easy step. As at the date of this report the company has entered into a conditional contract to acquire this practice, subject to due diligence.

## **A note on the structure of our revenue and NPAT**

Dentists work within the 1300 SMILES system in one of two ways. Most commonly, they act as independent business proprietors who operate their practices from within a 1300 SMILES facility. Under this arrangement, dentists pay fees to the company for the facilities and staff services provided; these fees are then counted as revenue to the company. Note that the percentage profit on this revenue is high because the dentist's personal income is not included in the revenue figure. Company revenue only captures the fee paid by the dentist to the company. The dentist's patients pay more than this amount, but the dentist effectively retains the excess as his income.

In some cases, dentists are employed by 1300 SMILES Ltd. This is usually a transitional situation in which dentists work as employees until such time as they are able to enter into the more normal status of independent practitioner. The accounting treatment of employed dentist revenue is quite different from that of the independent dentists, however. For an employed dentist, all of the fees paid by patients are included as company revenue, while all of the salary and other expense relating to the dentist are treated as an expense to the company. The accounting result is that the profit margin, in percentage terms, looks much smaller for employed dentists than for independent dentists. In dollar terms, however, both employed and independent dentists make good contributions to our company's earnings, and we are happy to work with dentists in whichever relationship suits them.

Dental therapists and hygienists are generally employed by the company, and the contribution made by these professionals to our financial results is growing. As with employed dentists, it doesn't matter if the revenue from these activities delivers a lower profit margin in percentage terms, as the contribution, in dollar terms, is strongly positive.

In the half year ended 31 December 2007 the company had an unusually large proportion of employed dentists, hygienists, and therapists, which resulted in much higher growth in revenue than profit. The employed dentists normally work their way through the system toward an independent relationship with the company, so the division of revenue between that derived from employed and independent dentists will continue to ebb and flow. As long as the total number of dentists affiliated with the company in either capacity continues to grow, we believe company earnings will continue to grow also.

## **Imitators in the dental market**

1300 SMILES Ltd remains the only listed company which delivers services to dentists and dental patients.

We are aware of proposals by different parties to create dental businesses based on the roll-up model. These companies aim to acquire existing practices, paying either with shares in a not-yet-listed company or with cash to be procured in a not-yet-underwritten public offer. We understand that at least one of these companies has entered into deals to acquire numerous dental practices but has not yet, many months later, succeeded in settling any of these acquisitions.

We would encourage dentists who have dealings with one of these new players to consider whether such speculative new ventures are likely to procure the funding they require, from either the public markets or the private equity sector, in the current economic climate. We would encourage those dentists further to compare our record of stability, growth, profitability, and dividends--as well as our record of acquiring practices for cash, with prompt settlement--with the airy promises of those companies which apparently seek to imitate the success of 1300 SMILES without actually doing the hard work of creating value-adding infrastructure and support for the dental practices involved.

## **Queensland Health and the School Dental Service**

Shortly before we released these results, Queensland Health announced major changes to the School Dental Service. The details are not yet complete, but it would appear that the School Dental Service will no longer treat dental problems, although it is intended that school children will still have their teeth examined for referral to private dentists for any work required. Queensland families have for generations relied on the School Dental Service and we would expect this change to cause significant controversy.

Going forward, we would simply note that within Queensland our company has 16 multiple-dentist facilities located in 9 different population centres, which means that a large percentage of all Queensland school children live within reasonable range of our surgeries. We have offered to assist Queensland Health with this issue and will advise the market when and if there is something of substance to report.

## Thank you

I extend my personal thanks to our hard-working employees and the growing number of dentists who choose to operate their practices from within our facilities. I also thank our long-term shareholders and welcome those who have joined us more recently.

Signed for and on behalf of the Directors by:

Daryl Holmes  
Managing Director

22 February 2008

## Overview of the Company's business

The company principally 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 multiple locations including Townsville, Cairns, Mackay, Rockhampton, Gladstone, Caloundra, Brisbane, Toowoomba and the Gold Coast. The head administrative office is in Townsville.

The services provided by the company allow 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 Services 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 endodontic, oral surgery, 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 licensing 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 whilst providing a rewarding environment for our staff and 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 of 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 new regions;
- Establishing new practices in existing and new regions.

## DENTIST ENQUIRIES

Qualified dentists who wish to know more about joining one of our established facilities or about establishing a new facility are invited to contact Dr. Daryl Holmes, Managing Director, on 07 4721 1238 or on [md@1300SMILES.com.au](mailto:md@1300SMILES.com.au).



Chartered Accountants  
& Business Advisers

### AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of 1300 SMILES Limited

As lead engagement partner for the review of 1300 SMILES Limited for the half year ended 31 December 2007, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

**PKF**  
Chartered Accountants

**K L Colyer**  
Partner

Dated at Brisbane this 22<sup>nd</sup> day of February 2008.

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**1300 SMILES Limited**

**CONDENSED INCOME STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	<b>Consolidated</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Revenue	6,991,049	3,750,848
Direct costs of sales	(858,291)	(513,714)
Employee benefits expense	(3,233,733)	(1,147,813)
Depreciation and amortisation expense	(253,484)	(47,657)
Equipment rental expense	-	(84,385)
Property expenses	(335,211)	(226,452)
Operating expenses	(458,167)	(238,335)
Corporate and administration expenses	(199,268)	(181,855)
Finance costs	(1,411)	(8,229)
Profit before income tax	1,651,484	1,302,408
Income tax expense	(515,250)	(372,576)
Profit for the period	1,136,234	929,832
Earnings per share		
Basic Earnings Per Share	5.66	4.64
Diluted Earnings Per Share	5.66	4.64

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

**1300 SMILES Limited****CONDENSED BALANCE SHEET  
AS AT 31 DECEMBER 2007**

		<b>Consolidated</b>		
	<b>Note</b>	<b>As at 31 December 2007</b>	<b>As at 30 June 2007</b>	<b>As at 31 December 2006</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		579,189	1,931,533	4,673,095
Trade and other receivables		312,820	213,968	159,936
Inventories		161,313	207,178	189,955
Other financial assets		597	597	597
Other current assets		106,270	59,681	66,182
<b>TOTAL CURRENT ASSETS</b>		<b>1,160,189</b>	<b>2,412,957</b>	<b>5,089,765</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		3,940,529	2,899,472	1,184,072
Intangible assets	6	2,511,082	1,470,170	691,144
Deferred tax asset		-	-	39,606
<b>TOTAL NON-CURRENT ASSETS</b>		<b>6,451,611</b>	<b>4,369,642</b>	<b>1,914,822</b>
<b>TOTAL ASSETS</b>		<b>7,611,800</b>	<b>6,782,599</b>	<b>7,004,587</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables		948,002	512,982	524,933
Current tax liabilities		123,692	93,761	499,270
Provisions		80,779	95,758	71,447
Financial liabilities		65,656	102,828	117,019
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,218,129</b>	<b>805,329</b>	<b>1,212,669</b>
<b>NON-CURRENT LIABILITIES</b>				
Trade and other payables		-	32,500	12,500
Financial liabilities		-	-	50,040
Deferred tax liabilities		21,484	26,803	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>21,484</b>	<b>59,303</b>	<b>62,540</b>
<b>TOTAL LIABILITIES</b>		<b>1,239,613</b>	<b>864,632</b>	<b>1,275,209</b>
<b>NET ASSETS</b>		<b>6,372,187</b>	<b>5,917,967</b>	<b>5,729,378</b>
<b>EQUITY</b>				
Share capital		3,991,716	3,991,716	3,991,716
Retained earnings		2,380,471	1,926,251	1,737,662
<b>TOTAL EQUITY</b>		<b>6,372,187</b>	<b>5,917,967</b>	<b>5,729,378</b>

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

**1300 SMILES Limited**

**CONDENSED STATEMENTS OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	Share Capital \$	Retained Earnings \$	Total \$
<b>2006</b>			
Balance at 1 July 2006	3,991,716	1,489,844	5,481,560
Net profit	-	929,832	929,832
Dividends recognised	-	(682,014)	(682,014)
Balance at 31 December 2006	<u>3,991,716</u>	<u>1,737,662</u>	<u>5,729,378</u>
<b>2007</b>			
Balance at 30 June 2007	3,991,716	1,926,251	5,917,967
Net profit	-	1,136,234	1,136,234
Dividends recognised	-	(682,014)	(682,014)
Balance at 31 December 2007	<u>3,991,716</u>	<u>2,380,471</u>	<u>6,372,187</u>

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

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**1300 SMILES Limited****CONDENSED CASH FLOW STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

	<b>CONSOLIDATED</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers (inclusive of goods and services tax)	6,877,936	3,789,604
Payments to suppliers and employees (inclusive of goods and services tax)	(4,724,309)	(2,558,221)
Interest received	34,612	154,041
Interest and other costs of finance paid	(884)	(7,844)
GST Recovered/(Paid)	(60,119)	(81,698)
Income tax paid	(524,941)	(336,450)
<b>Net cash flows from operating activities</b>	<b>1,602,295</b>	<b>959,432</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of plant and equipment	(942,921)	(416,835)
Payment for the purchase of dental practices (net of cash equivalents)	(1,292,532)	(66,420)
<b>Net cash flows used in investing activities</b>	<b>(2,235,453)</b>	<b>(483,255)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of borrowings	(37,172)	(64,547)
Dividends paid	(682,014)	(682,014)
<b>Net cash flows used in financing activities</b>	<b>(719,186)</b>	<b>(746,561)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,352,344)</b>	<b>(270,384)</b>
Cash and cash equivalents at beginning of the period	1,931,533	4,943,479
<b>Cash and cash equivalents at end of the period</b>	<b>579,189</b>	<b>4,673,095</b>

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

## 1300 SMILES Limited

### NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

#### 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 2007 Annual Report and any public announcements made by the 1300 SMILES 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

Subsequent to year end the Company acquired a practice for \$350,000.

Gentle Dental Pty Ltd (a wholly owned subsidiary of the parent entity), was deregistered on 18 January 2008. This was a result of its sole practice being relocated into Cairns Central during the period.

There have been no other events since 31 December 2007 that impact upon the financial report as at 31 December 2007.

#### 3. SEGMENT INFORMATION

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

#### 4. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

No contingent assets or liabilities were reportable in the Annual Report for the year ended 30 June 2007. There have been no changes in the contingent assets and contingent liabilities of the Group in the period 30 June 2007 to 31 December 2007.

#### 5. DIVIDENDS

	Consolidated Entity	
	6 months to 31 December 2007 \$	6 months to 31 December 2006 \$
<u>Dividends declared and paid</u>		
Fully franked final dividend of 3.4 cents (2006: 3.4 cents) per share for the half-year ended 30 June 2006 paid 17th September 2007.	682,014	682,014
<u>Dividends declared</u>		
On 22 February 2008, the company declared a fully franked interim dividend of 4.0 cents per share for the December 2007 half-year to be paid in March 2008.	802,369	682,014

## 1300 SMILES Limited

### NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Consolidated Entity	
	31 December 2007 \$	30 June 2007 \$
<b>6. INTANGIBLE ASSETS</b>		
Goodwill at cost	2,511,082	1,470,170
<b>Movements during the period</b>		
Opening balance	1,470,170	614,724
Acquisitions through business combinations	1,040,912	855,446
	2,511,082	1,470,170

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

#### Cash generating unit (dental practice)

Mackay	20,173	20,173
Belgian Gardens	135,000	135,000
Fulham Road	40,109	40,109
The City	106,233	106,233
Upper Ross	83,750	83,750
Chevron Island	71,727	71,727
Minnie Street	66,613	66,613
Gladstone	127,935	127,935
Carindale	818,630	818,630
Caloundra	1,034,412	-
Other	6,500	-
	2,511,082	1,470,170

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 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 practices' contribution to the Company's profit:*

1300 SMILES 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.

*Significant acquisitions during the period:*

#### 2007

Dental Practice	Consideration paid or payable \$	Net fair value of assets acquired \$	Goodwill arising on acquisition \$
Caloundra	1,386,032	351,620	1,034,412

## **1300 SMILES Limited**

### **NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2007**

#### **6. INTANGIBLE ASSETS (continued)**

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

#### **7. WORKING CAPITAL**

At 31 December 2007 the Consolidated Entity had a deficit in working capital of \$57,940. The Consolidated Entity has unused borrowing facilities of \$6,000,000 which will be utilised to address any working capital shortfalls if required. The Directors are confident that the consolidated entity has adequate working capital capacity and reserves to meet current and expected needs.

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**1300 SMILES LIMITED**

**DIRECTORS' DECLARATION**

In the directors' opinion:

- (1) the financial statements and notes to the financial statements of 1300 SMILES Limited are in accordance with the Corporations Act 2001 including that they:
  - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
  - (ii) giving a true and fair view of the financial position as at 31 December 2007 and of its performance for the half-year ended on that date of 1300 SMILES Limited and consolidated entity; and
- (2) at the date of this statement, there are reasonable grounds to believe that the consolidate entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors and is signed for and on behalf of the Directors by:

**Daryl Holmes**  
Director

Dated at Townsville this 22<sup>nd</sup> day of February 2008.

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Chartered Accountants  
& Business Advisers

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of 1300 SMILES Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of 1300 SMILES Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising 1300 SMILES Limited and the entities it controlled at 31 December 2007 or from time to time during the half year ended on that date.

#### *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 designing, implementing and maintaining internal control 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 an Interim Financial Report 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 2007 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, 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.

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*Independence*

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

*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:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

**PKF**  
Chartered Accountants

**K L Colyer**  
Partner

Dated at Brisbane this 22<sup>nd</sup> day of February 2008.

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