



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:

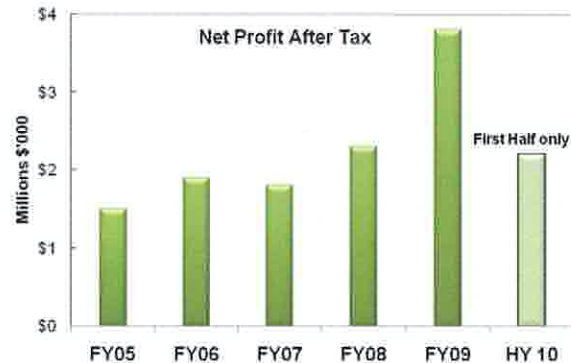
- Revenue up 5% to \$11.6million
- Profit before tax up 15% to \$3.1million
- Debt down 26% to \$3.6million
- EBIT up 9.8% to \$3.2million
- First half fully franked dividend up 20% to 6.5c per share
- Net profit after tax up 8.6% to \$2.3million
- Cashflow from operations up 8% to \$2.5million
- Net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

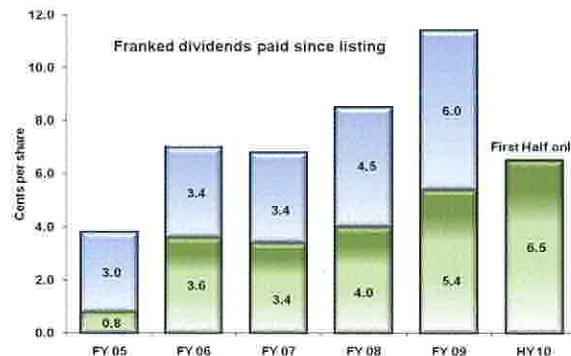
The low tax rate in the first half of the 2009 year was a bit of good fortune but not a long term feature of our business. However, tax rates aside, the first chart shown here reflects the very pleasing fact that our NPAT for the first half of the current year is nearly equal to that of our full year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





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