

Appendix 4D

Half yearly report

Name of entity

1300SMILES Limited

ABN or equivalent company reference

91 094 508 166

Half year ended ('current reporting period')

31 December 2011

'Previous corresponding period'

31 December 2010

Results for announcement to the market

\$A'000

Revenues from ordinary activities	Up	20%	To	17,410
Profit from ordinary activities after tax attributable to members	Up	27%	To	3,414
Net profit for the period attributable to members	Up	27%	To	3,414
Dividends				
The company has declared a fully franked interim dividend of 8.6 cents per share in relation to the half-year ended 31 December 2011.				
Confirmation of the Interim Dividend details:				
• Dividend amount per security		8.6 cents		
• Franked amount per security		100%		
• Date Interim Dividend declared		16 February 2012		
• Date that the shares (ASX code : ONT) will trade ex-dividend		30 March 2012		
• Record Date for determining entitlement to dividend		5 April 2012		
• Payment Date		12 April 2012		

NTA backing

Net tangible asset backing per ordinary security

Current period	Previous corresponding period
54.9 cents	17.5 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 2011

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholder,

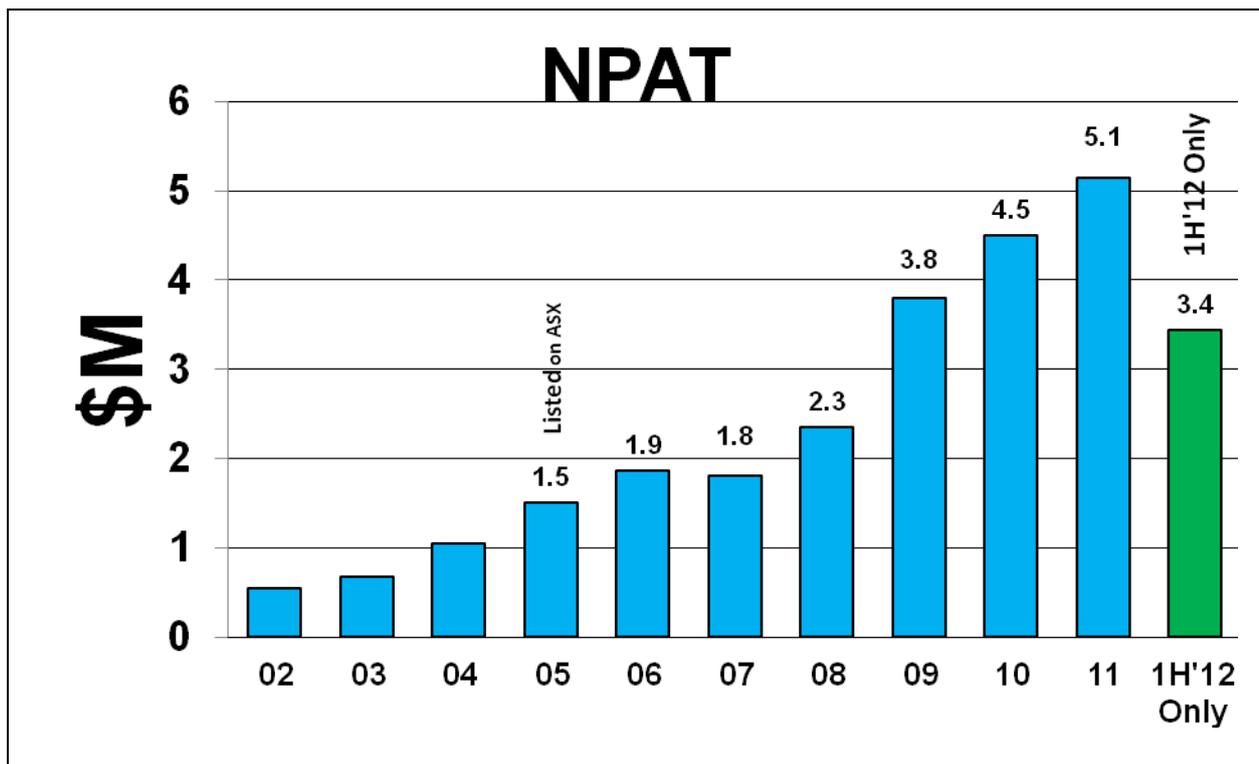
I am pleased to present to you our results for the half-year ended 31 December 2011. The results from the first half of the current year have been pleasingly consistent with those of previous years.

First half-year results

Compared to the first half results from the previous year, the results for the six months to December 2011 were as follows:

- Revenue up 20% to \$17.4 million
- NPAT up 27% to \$3.4 million
- Earnings Per Share up 14% to 14.4c
- Cash flow from operations up 60%
- First half fully franked dividend up 15% to 8.6c per share
- Profit before tax up 31% to \$4.8 million
- EBITDA up 28% to \$5.7 million
- Interest coverage 47 times on 23% gearing

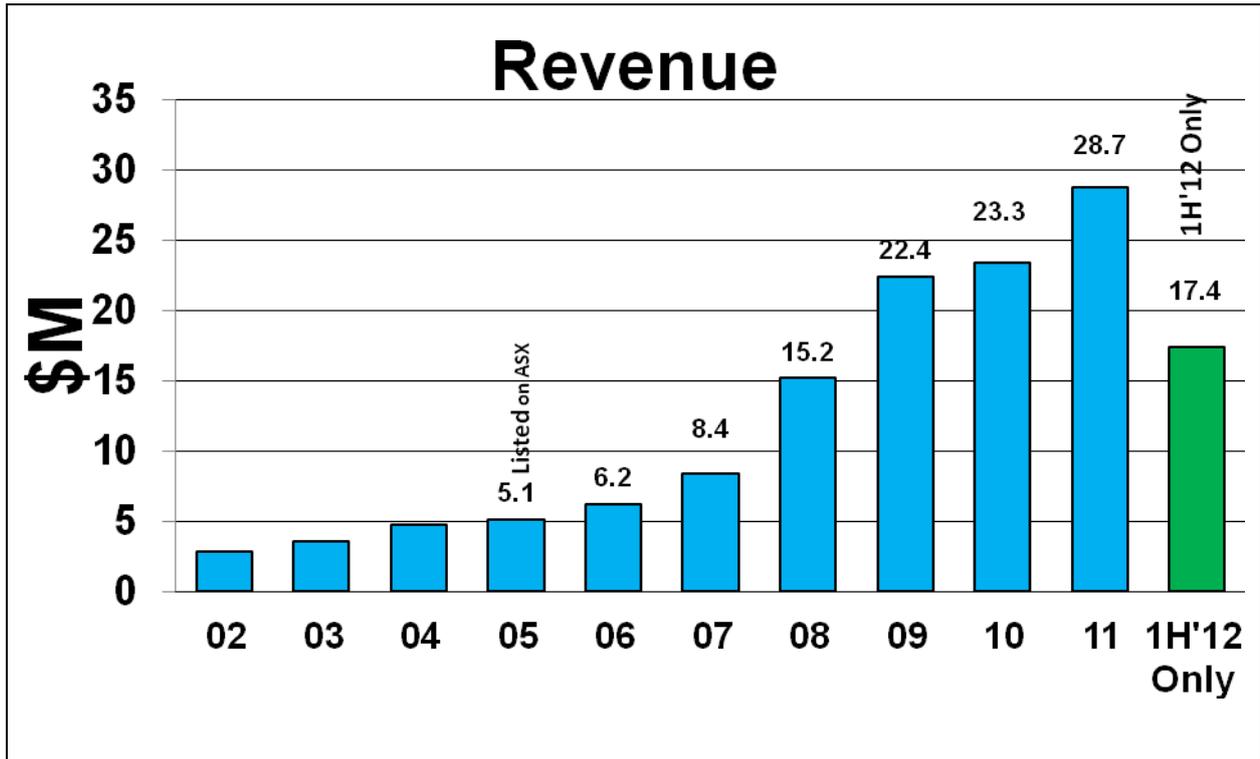
The key conclusion to draw from these results is that the company has once again delivered growth or improvement on every meaningful measurement. We have done so consistently over many years, and the results for the first half of 2012 have set new records for all of the following: Revenue, Net Profit After Tax, EBITDA, Earnings Per Share, and Dividends Per Share.



Revenue and "Over the Counter" Revenue

The "Revenue" figure in our accounts is the statutory Revenue as defined by the accounting standards. As many shareholders would know, we also track a different figure, which we call "Over the Counter" Revenue. This is the total amount paid by all patients to all of our dentists for services rendered, and we believe that this figure best represents the actual scale of our business and its growth.

In some years the Revenue and Over the Counter Revenue growth have diverged somewhat. For the first half of 2012, however, they have tracked quite closely, with statutory Revenue growth of 19.5% and Over the Counter Revenue growth of 18.4%.



Earnings and Earnings Per Share

Long term shareholders know that protecting and growing Earnings Per Share has always been one of our company's top objectives. Bear with me for a moment while I quote what I said in my letter from the 2011 Annual Report on this topic:

"Enhancing and protecting EPS is our top financial priority. This depends on growing our total Net Profit After Tax, but it also depends on keeping the total number of shares on issue under control. We issue new shares only with great care, and only where we are sure that any expansion of our capital base will in fact deliver benefits on a per-share basis to all shareholders."

I repeat that statement to underscore the fact that the company remains utterly committed to EPS protection and growth as a primary objective. But it's not the only objective, and there are other considerations.

During the first half, 1300SMILES Ltd issued a total of 2,371,284 new shares to a number of institutional investors, as announced to the Australian Stock Exchange on 2 September 2011. These shares were issued at a price of \$3.50 per share, effectively at no discount to the market price at the time. These new shares were not eligible to receive the 8c franked dividend paid in October 2011, so one could take the view that the effective issue price was about \$3.61 after taking into account the value of the dividend and franking credits.

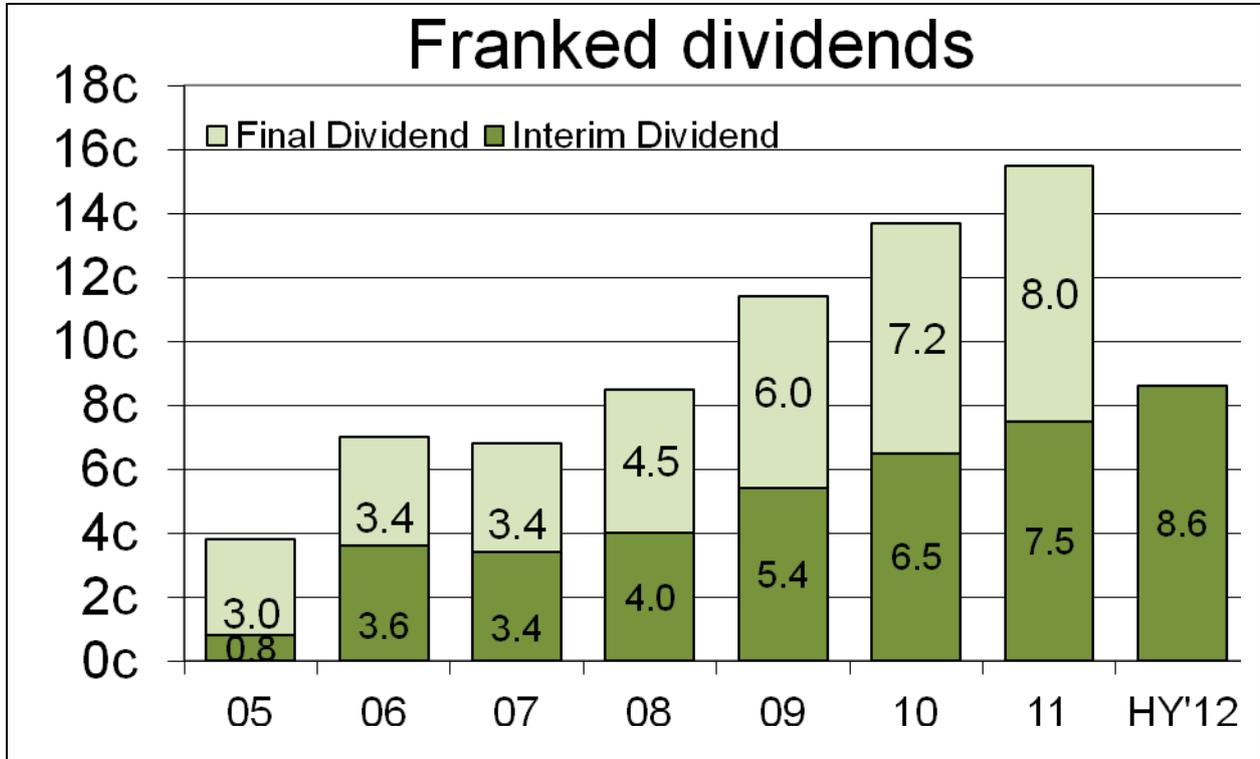
This placement, which increased the number of shares on issue to 23,678,384, did cause some dilution. The effect shows in these first half results: whereas Net Profit After Tax increased by 27.1%, Earning Per Share increased by only 14.3% on the previous half year.

We made the decision to accept these new funds and issue the new shares in order to fund opportunities, and thereby make our returns to shareholders more secure in the long term. Also, we believe that the best time to raise money is before you need it. In the last Annual Report I advised shareholders that the increasing scale of the 1300SMILES business made the company's earnings (and its dividends) more secure than ever before. The recent capital raising allows me to report that the company's financial position and the security it offers going forward have been further enhanced.

One benefit arising from this careful expansion of our capital base is that the total market capitalisation of 1300SMILES has increased to just below \$100 million. Reaching a market capitalisation of greater than \$100 million is a secondary objective, but we do believe that it is in the interests of shareholders to do so. A total company value at this level, we believe, would make shares in our company eligible for inclusion in a larger range of investment portfolios, many of which simply exclude small-cap stocks and use \$100 million as a cut off point.

Dividends

Because we believe the outlook for the company's ongoing growth remains extremely favourable, we have set the interim dividend at 8.6c per share (fully franked). This is an increase of 14.7% on the previous year, which means the increase in the dividend is only slightly less than the increase in EPS. This reflects our belief that the ongoing growth in our NPAT and EPS will not be interrupted, and that the growth in our dividend will be comfortably supported by the growth of our business and EPS over the medium term.



Balance Sheet Effects

Our company's balance sheet has always been conservative by most standards. The new capital flowing from the share placement has reinforced our financial structure even further. Gearing has decreased from 34% in the previous year's accounts to 23% now. The company has no net debt. 1300SMILES now stands on an extremely solid base. At the core we have a solid, growing, defensive business. We have immediately available funds for expansion and acquisition. We have the luxury of choosing how much bank debt we take on, and when. We think that this could have real value to us in the coming years, as the banks sort out how they will adjust to the higher cost of funding they will all face.

Growth and Expansion

During the first half of the 2012 year, the company negotiated the acquisition of existing operations in Caloundra and Warana in southeast Queensland, bringing the company to a total of twenty-three multi-dentist locations in Queensland and northern New South Wales. These acquisitions were completed just after the end of the period, in January 2012.

A beautiful and greatly expanded flagship facility in the Carindale Shopping Centre (Brisbane) opened in August 2011, replacing the two separate facilities the company had in that centre for historical reasons.

Looking ahead, 1300SMILES Ltd sees numerous opportunities to continue expanding its operations. We are considering numerous acquisitions at the moment, although it is never certain that any of these will meet our requirements. We work constantly to recruit additional dentists to base their practices within our facilities, and we design all new and renovated facilities to incorporate extra surgeries and facilities to enable this ongoing growth within established sites.

We believe that our strengthened capital position puts us in a good position to maintain our growth trajectory despite any changes which might arise in the business banking sector. Our relationships with our banks remain solid, and we have significant credit available to us, but if the last five years have taught us anything, it is that anything can happen and a belts-and-braces approach makes sense.

Staffing and Awards

In my report from a year ago at this time I noted that new award conditions were having a transitory impact on our business and that we were in the midst of re-organising our staffing procedures to best cope with the new conditions. In last year's half-yearly report I noted that the growth in our NPAT had lagged behind the growth in our Revenue, at 19% v. 25%, largely as a result of a spike in staffing costs in that period.

Since that time we have streamlined and coordinated operations as we had planned, and this is reflected in the current half-year figures. This year we see that NPAT has grown 27.1% on Revenue growth of 19.5%. Managing costs is just as important as growing revenue, of course, and I think this half-year's results suggest that we are on the right track.

Access to Dental Care

As I have noted before, governments at all levels are struggling with the need to make dental care more widely available. In Queensland the issue is especially acute and very much in the news, with many stories of people waiting years for routine dental care, by which time their problems have become grave.

1300SMILES will continue to work with governments and other institutions wherever it makes sense to do so. Waiting lists extending out many years demonstrate that the Queensland public oral health system is in crisis. We believe there is a simple solution: we believe there is capacity within the private dental sector to satisfy much of the presently-unmet demand for dental services. As the largest provider of dental services in Queensland we would expect to be able to make a significant contribution. We hope that the new government takes up our offer to help.

We believe that our company plays a key role in making dental care available, thanks to our policies of availability, accessibility, and affordability.

Available--we offer flexible and extended hours wherever and whenever we can.

Accessible--our twenty-three multi-dentist practices serve a broad geographical range.

Affordable--we work with a number of major health funds while allowing each of our dentists the option of choosing whether or not to do health fund work as preferred providers. Services are available to health fund members at every one of our twenty-three practices.

YWAM Medical Ship

1300SMILES maintains a close and fruitful relationship with the Medical Ship operations of Youth With A Mission. The Medical Ship offers medical and dental services to remote villages in Papua New Guinea and elsewhere in the Pacific. Many of our dentists (myself included) and staff have volunteered time aboard the ship, and we actively support the involvement of the entire 1300SMILES community in supporting YWAM's efforts. Our website has a link to the YWAM Medical Ship's site and I would encourage you to have a look.

Market presence

1300SMILES Ltd has twenty-three established multi-dentist facilities in Cairns, Townsville, Mackay, Rockhampton, Gladstone, Bundaberg, the Sunshine Coast, several locations in greater Brisbane, the Gold Coast (at Tweed Heads), and Toowoomba.

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 LIMITED

OVERVIEW OF THE COMPANY'S BUSINESS

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

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

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

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

FUTURE DEVELOPMENTS

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

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

The key drivers for future growth of the company are:

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

DENTIST ENQUIRIES

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

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

DIRECTORS' REPORT

The directors present their report together with the financial statements of 1300SMILES Limited and its subsidiary for the half-year ended 31 December 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

RESULT

Detailed comments on the profit after tax of \$3.41 million are included in the letter from the Managing Director.

PRINCIPAL ACTIVITIES

During the half-year the principal continuing activity of the company was to provide dental and management services in Australia.

DIVIDENDS

Dividends paid 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 2011 of 8.0 cents (2010: 7.2 cents) per fully paid share paid on 12 October 2011.	\$1,695,811
Interim ordinary dividend in relation to the half-year ended 31 December 2011 of 8.6 cents (2010: 7.5 cents) per fully paid share expected to be paid on 12 April 2012.	\$2,036,341

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (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.

Signed in accordance with a resolution of directors.

On behalf of the Directors



Daryl Holmes
 Director
 Townsville
 16 February 2012

DECLARATION OF INDEPENDENCE BY ANTHONY J WHYTE TO THE DIRECTORS OF 1300SMILES LIMITED

As lead auditor for the review of 1300Smiles Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 1300Smiles Limited and the entities it controlled during the period.

BDO Audit (QLD) Pty Ltd



A J Whyte

Director

Brisbane: 16 February 2012

Consolidated statement of comprehensive income for the half-year ended 31 December 2011

Note	Half year ended 31 December 2011 \$'000	Half year ended 31 December 2010 \$'000
Revenue	17,410	14,569
Expenses		
Employee benefits expense	(7,439)	(6,160)
Consumables, lab fees and other supplies	(2,449)	(1,986)
Operating expenses	(834)	(997)
Property expenses	(742)	(786)
Depreciation and amortisation expense	(742)	(589)
Corporate and administration expenses	(198)	(164)
Finance costs	(259)	(264)
Profit before income tax	4,747	3,623
Income tax expense	(1,333)	(936)
Profit after income tax	3,414	2,687
Other comprehensive income	-	-
Total comprehensive income for the period	3,414	2,687
Earnings per share	Cents	Cents
Basic and diluted earnings per share	14.42	12.61

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

Consolidated statement of financial position as at 31 December 2011

	Note	31 December 2011 \$'000	30 June 2011 \$'000
Assets			
Current assets			
Cash and cash equivalents		13,246	4,663
Trade and other receivables		387	1,134
Other		415	307
Total current assets		14,048	6,104
Non-current assets			
Receivables		1,650	1,644
Property, plant and equipment		9,243	8,510
Intangible assets	5	11,645	10,670
Deferred tax		616	474
Other		32	32
Total non-current assets		23,186	21,330
Total assets		37,234	27,434
Liabilities			
Current liabilities			
Trade and other payables		3,438	2,767
Income tax		532	418
Provision – employee benefits		259	186
Deferred settlement		-	631
Total current liabilities		4,229	4,002
Non-current liabilities			
Borrowings		7,500	7,500
Provisions		233	242
Total non-current liabilities		7,733	7,742
Total liabilities		11,962	11,744
Net assets		25,272	15,690
Equity			
Contributed equity	7	15,370	7,506
Retained profits		9,902	8,184
Total equity		25,272	15,690

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2011

2011	Contributed equity \$'000	Retained profits \$'000	Total \$'000
Balance at 1 July 2011	<u>7,506</u>	<u>8,184</u>	<u>15,690</u>
Other comprehensive income for the period, net of tax	-	-	-
Net profit for the half year	-	<u>3,414</u>	<u>3,414</u>
Total comprehensive income for the period	-	<u>3,414</u>	<u>3,414</u>
<i>Transactions with owners in their capacity as owners:</i>			
Shares issued	<u>8,299</u>	-	<u>8,299</u>
Share issue costs	<u>(435)</u>	-	<u>(435)</u>
Dividends recognised during the half-year	-	<u>(1,696)</u>	<u>(1,696)</u>
Balance at 31 December 2011	<u>15,370</u>	<u>9,902</u>	<u>25,272</u>

2010	Contributed equity \$'000	Retained profits \$'000	Total \$'000
Balance at 1 July 2010	<u>6,842</u>	<u>6,171</u>	<u>13,013</u>
Other comprehensive income for the period, net of tax	-	-	-
Net profit for the half year	-	<u>2,687</u>	<u>2,687</u>
Total comprehensive income for the period	-	<u>2,687</u>	<u>2,687</u>
<i>Transactions with owners in their capacity as owners:</i>			
Shares issued	<u>508</u>	-	<u>508</u>
Share issue costs	<u>(3)</u>	-	<u>(3)</u>
Dividends recognised during the half-year	-	<u>(1,529)</u>	<u>(1,529)</u>
Balance at 31 December 2010	<u>7,347</u>	<u>7,329</u>	<u>14,676</u>

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

Consolidated statement of cash flows for the half-year ended 31 December 2011

	Half year ended 31 December 2011 \$'000	Half year ended 31 December 2010 \$'000
	Note	
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	18,714	14,724
Payments to suppliers and employees (inclusive of GST)	(12,288)	(10,124)
	6,426	4,600
Interest received	383	265
Interest and other finance costs paid	(259)	(261)
Income taxes paid	(1,361)	(1,368)
Net cash from operating activities	5,189	3,236
Cash flows from investing activities		
Payments for property, plant and equipment	(1,475)	(1,576)
Payments for intangible assets	(975)	-
Payment for the purchase of businesses, net of cash acquired	-	(1,094)
Payment of deferred settlement relating to acquisitions	(324)	-
Net (increase)/repayment of share loans	-	245
Net cash used in investing activities	(2,774)	(2,425)
Cash flows from financing activities		
Repayment of borrowings	-	(21)
Proceeds from share issue	8,299	302
Payment for costs associated with share issue	(435)	(3)
Dividends paid	(1,696)	(1,529)
	4	
Net cash from/(used in) financing activities	6,168	(1,251)
Net increase/(decrease) in cash and cash equivalents	8,583	(440)
Cash and cash equivalents at beginning of the period	4,663	4,955
Cash and cash equivalents at the end of the period	13,246	4,515

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

**Notes to the consolidated half-year financial statements
For the half year ended 31 December 2011**

Note 1: Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements should be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by 1300SMILES Limited (the company) during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies and methods of computation are consistent with those of the previous annual financial statements.

New, revised or amending Accounting Standards and Interpretations adopted

The group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. The adoption of these new and revised standards and interpretations did not have any material financial impact on the amounts recognised in the financial statements of the company for the current or prior periods.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2011.

Note 2: Operating segments

Identification of reportable operating segments

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

Each operating segment derives revenue from dental and management services within a particular geographic area. Each operating segment is aggregated into the one reportable segment as the long term financial performance and economic characteristics of each operating segment are similar.

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

Note 3: Contingencies and commitments

There were no material changes in the contingent liabilities or contingent assets since the end of the last annual reporting period.

Notes to the consolidated half-year financial statements
For the half year ended 31 December 2011

Note 4: Dividends

	Half year ended 31 December 2011 \$'000	Half year ended 31 December 2010 \$'000
Dividends declared and paid	1,696	1,529
Fully franked final dividend of 8.0 cents (2010: 7.2 cents) for the year ended 30 June 2011 paid 12 October 2011		
Dividends declared	2,036	1,602
On 16 February 2012 the company declared a fully franked interim dividend of 8.6 cents (2010: 7.5 cents) for the half-year ended 31 December 2011 payable in April 2012		

Note 5: Intangible assets

	31 December 2011 \$'000	30 June 2011 \$'000
Goodwill at cost	10,700	10,670
Intellectual property at cost	945	-
	11,645	10,670
Goodwill - movements during the period		
Opening balance	10,670	9,708
Additions through business combinations	30	962
Closing balance	10,700	10,670

Notes to the consolidated half-year financial statements
For the half year ended 31 December 2011

Note 5: Intangible assets (continued)

Goodwill at cost (continued)

	31 December 2011 \$'000	30 June 2011 \$'000
North Queensland	502	472
Central Queensland	5,148	5,148
South East Queensland	2,902	2,902
Toowoomba	2,148	2,148
	10,700	10,670

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 the consolidated entity's CGUs. Future cash flows are projected over a 5 year period and are discounted using the consolidated entity's weighted average cost of capital of 12% (June 2011: 12%). Future cash flows are based on historical results extrapolated using historical growth rates of 3% (June 2011: 3%).

Intellectual property at cost

	31 December 2011 \$'000	30 June 2011 \$'000
Intellectual property - movements during the period		
Opening balance	-	-
Acquisition of Intellectual property	945	-
Closing balance	945	-
Intellectual property	945	-

Note 6: Business combinations

(a) Summary of acquisition

2011

There were no acquisitions during the current interim period.

During the current interim reporting period an earn-out payment of \$175,000 was made pursuant to the Bray Park acquisition and \$456,000 was made pursuant to the Bundaberg acquisition.

These earn-out payments are recorded against the deferred settlement liability.

**Notes to the consolidated half-year financial statements
For the half year ended 31 December 2011**

Note 7: Contributed equity

2011

During the current interim reporting period, the company issued the following ordinary shares:

- i) Private placement of 2,371,284 ordinary shares for \$8,299,494.

2010

During the previous interim reporting period, the company issued the following ordinary shares:

- ii) 110,000 ordinary shares for \$302,300; and
- iii) 77,942 ordinary shares for \$206,032 being the settlement of an earn-out payment pursuant to the Bundaberg acquisition agreement.

Note 8: Subsequent events

A fully franked interim dividend of 8.6 cents per share has been declared and is payable on 12 April 2012.

On 16 January 2012 the company completed and paid \$838,000 for the acquisition of two dental practices on the Sunshine Coast, north of Brisbane.

Other than the events mentioned above, there have been no events since 31 December 2011 that impact upon the interim financial report for the half-year ended 31 December 2011.

1300SMILES LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors:

- (a) The attached 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 2011 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii) Complying with Accounting Standard 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.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Daryl Holmes
Director
Townsville
16 February 2012

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of 1300Smiles Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of 1300Smiles Limited, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

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 a 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 half-year 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 2011 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of 1300Smiles Limited, would be in the same terms if given to the directors as at the time of this auditor's 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 1300Smiles 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 2011 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*.

BDO Audit (QLD) Pty Ltd

BDO



A J Whyte

Director

Brisbane: 16 February 2012