# Appendix 4D

## Half yearly report

Name of entity

| |
|---|
| **1300SMILES Limited** |

| ABN or equivalent company reference | Half year ended ('current reporting period') | 'Previous corresponding period' |
|---|---|---|
| 91 094 508 166 | 31 December 2012 | 31 December 2011 |

### Results for announcement to the market

| | | | | $A'000 |
|---|---|---|---|---|
| Revenues from ordinary activities | Up | 21% | To | 21,063 |
| Profit from ordinary activities after tax attributable to members | Up | 16% | To | 3,963 |
| Net profit for the period attributable to members | Up | 16% | To | 3,963 |

**Dividends**

The company has declared a fully franked interim dividend of 10.0 cents per share in relation to the half-year ended 31 December 2012.

Confirmation of the Interim Dividend details:

| | |
|---|---|
| • Dividend amount per security | 10.0 cents |
| • Franked amount per security | 100% |
| • Date Interim Dividend declared | 14 February 2013 |
| • Date that the shares (ASX code : ONT) will trade ex-dividend | 15 March 2013 |
| • Record Date for determining entitlement to dividend | 21 March 2013 |
| • Payment Date | 28 March 2013 |

| **NTA backing** | Current period | Previous corresponding period |
|---|---|---|
| Net tangible asset backing per ordinary security | 64.9 cents | 54.9 cents |

# INTERIM FINANCIAL REPORT

# FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

## LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

I am pleased to present to you our results for the half year ended 31 December 2012. I think you'll agree that these results are good indeed. I do hope you'll take the time to read this report thoroughly, however, because our industry faces a number of major changes at the moment and I believe that shareholders would be well-advised to understand these changes.

Normally companies have to spend a lot more time explaining bad results than good ones, as good results tend to speak for themselves. In this case, however, I will explain the background to our solid half year results in some detail.

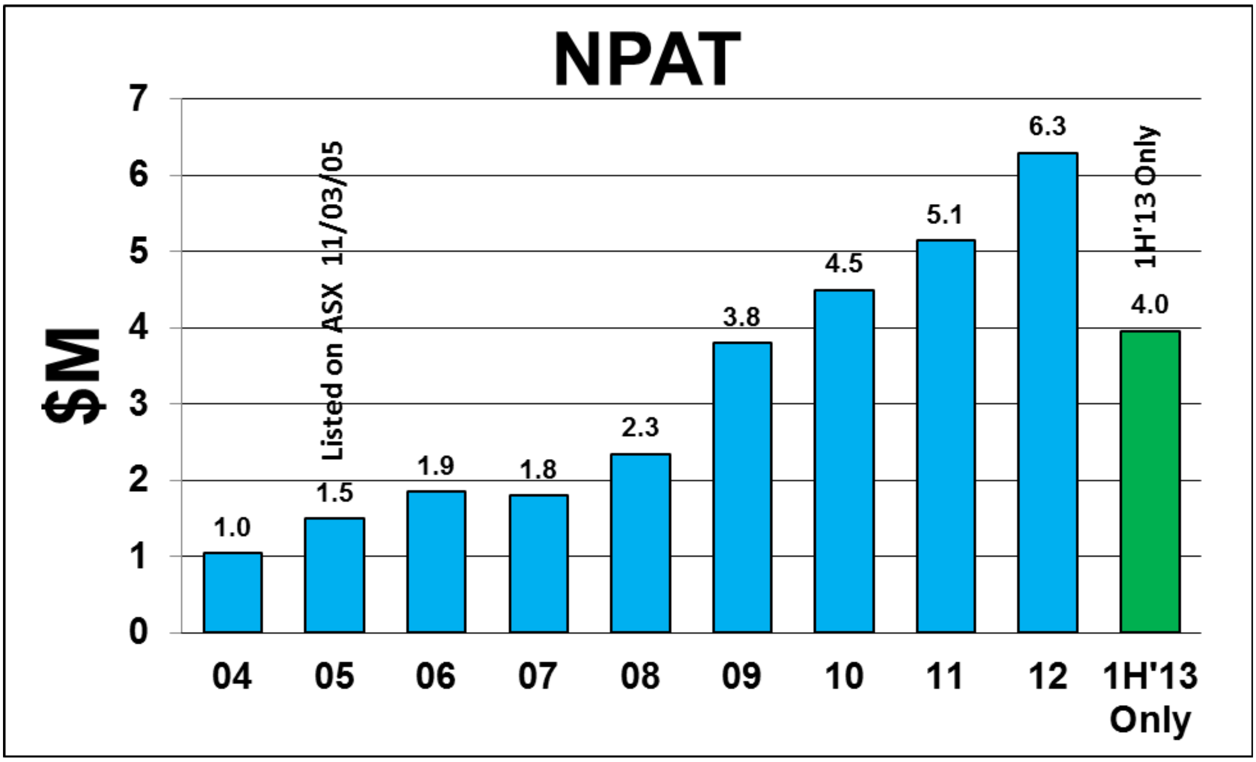
**First Half Year Results**

Compared to the first half results from the previous year, the results for the six months to 31 December 2012 were as follows:

- Revenue (statutory) up 20.9% to $21.1 million
- Revenue (OTC) up 34.4% to $29.1 million
- NPAT up 16.1% to $4.0 million
- Profit before tax (NPBT) up 18.7% to $5.6 million
- Earnings Per Share up 16.1% to 16.7cps
- Cash-flow from operations up 21.8% to $6.3 million
- First half fully franked dividend up 16% to 10cps
- EBITDA up 19.2% to $6.9 million

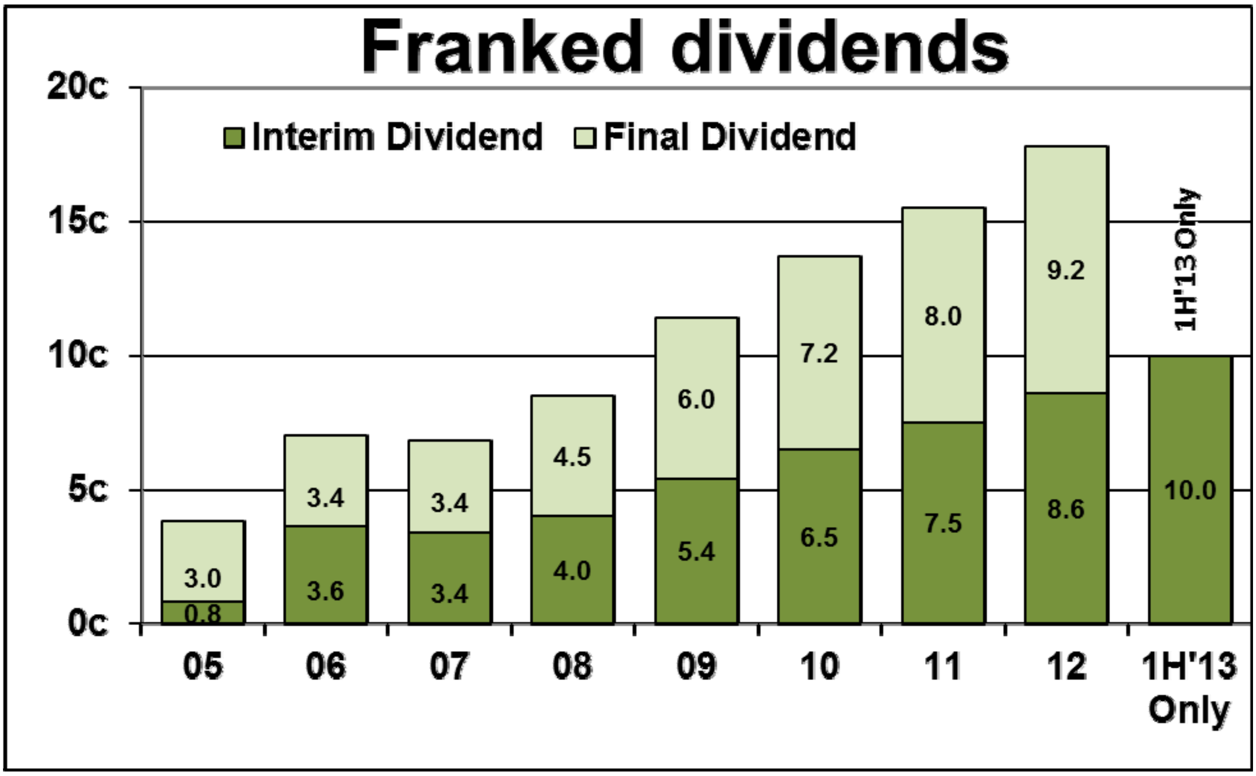
The company enjoyed continuing growth in Revenue in the first half year. This, combined with an ongoing focus on cost control, delivered growth in Profit Before Tax of 18.7% and Net Profit After Tax of 16.1%. The difference between those two growth figures is a topic to which I shall return.

1300SMILES issued no new shares during the half year, so the growth in Earnings Per Share matched the growth in NPAT at 16.1%.



Those investors who wish to understand the current state of the dental services industry fully should refer to my address to the Annual General Meeting in November 2012. In that address I discussed the end of the Chronic Disease Dental Scheme (CDDS). The termination of this program remains the biggest single factor affecting dentistry in Australia. My discussion at the AGM is available on the 1300SMILES web site and should be available on any good company information site.

The current half year results don't reflect the end of the CDDS, as that program ran until the end of November. As shareholders would know, however, 1300SMILES has mounted a vigorous response to the end of this program and we aim to finish the 2013 year in a stronger market position than ever before.




**Our evolving business**

The most striking aspect of the market for dental services in Australia is this: seventy percent of all Australians simply never go to a dentist until they are forced to do so by unendurable pain. This is a national embarrassment, in my mind, and it has effects far beyond dentistry.

Those people who leave dental problems untreated are likely to turn up in considerable pain at hospital emergency rooms, adding to the congestion and delay already clogging that part of the health system.

Once such people finally get treatment, they need far more treatment and far more expensive treatment than they would have needed had their dental health needs been met by routine preventative care over the years.

The strain on the health system arising from poor dental health doesn't end there, however. Poor periodontal (gum) health is associated with other serious systemic illnesses, up to and including serious heart disease in which the heart itself is infected with some of the same pathogens present in infected gums. The cost of two checkups each year for life is far less than the cost of treating one heart disease sufferer.

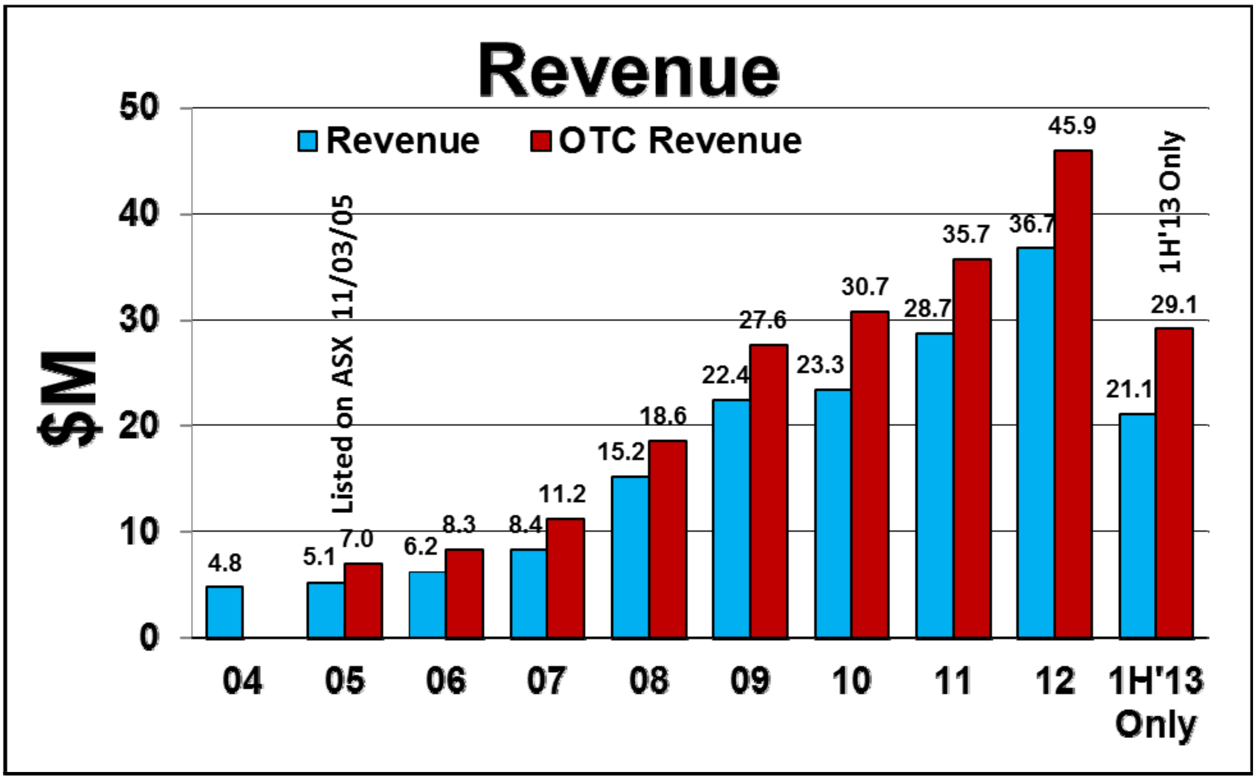
No matter how you look at it, it's obvious that a society in which people get regular preventative dental care is healthier and better than one in which they don't. I'm proud to report that we're doing our best to make regular preventative dental care accessible to as many people as possible.

Our key initiative in this area is the 1300SMILES Dental Care Plan. Under this plan, patients pay $14.99 per fortnight for a full year's worth of preventative care, which includes two complete examinations, x-rays (if and as required), two scale and cleanings and two fluoride treatments. In addition, plan members enjoy a 10% discount on any further work which may be required, and they can choose to extend their payments under our interest-free payment plan.

The initial response to the 1300SMILES Dental Care Plan has been extremely gratifying. Hundreds of patients have already had their first check-ups and cleans under the Plan. These include many existing patients of our various dentists, of course, but also a large number of people who were not previously receiving regular dental care at all. As importantly, many patients, new and old, have been able to proceed with more extensive treatment thanks to the reduced cost and extended interest-free payment terms available under the 1300SMILES Dental Care Plan.

**Head office efficiency**

The board and management of 1300SMILES remain at all times focused on efficiency and cost control. Our aim is to deliver superior services to our dentists and their thousands of patients. We have always been careful to keep our head office operation lean at the same time, and I am happy to report that the total number of employees in our head office has decreased while our over-the-counter revenue has increased by 34% to more than $29 million. That's almost two-thirds of last year’s total annual revenue, and not far short of our total annual revenue in the 2010 year. There's still plenty of work to do at the corporate level, but with each passing year we strive to deliver head office services with ever-greater efficiency. I believe that our head office operation and capability is now the best it has ever been, and it continues to improve.




**Accounting**

Shareholders have heard me comment once or twice before on the complexity of the accounting rules which afflict every listed company. We accept that these rules will always be complex and that we just have to deal with them. From time to time, however, the accounting rules require us to report results which look either a little better or a little worse than the real results which are most meaningful to the owners of a business.

In this period the curious effect to which I draw your attention is an almost $1 million reduction of our statutory revenue, largely as an accrued provision. This relates to future bonus payments (refunds of service fees) the company may be required to make to certain dentists if they meet or surpass their agreed revenue targets. Of this amount, some $300,000 has already been paid out with a balance of around $700,000 to potentially be paid. I emphasise that I will be extremely happy to see these payments made in full, because our aim is to help all our dentists maximise their productivity. If the dentists earn these extra payments, it means they're also helping 1300SMILES to improve its profitability.

Having made such a provision, however, we have to actually take the provided amount right off the profit figures we report, even though we haven't paid this amount yet and eventually we may not have to pay all of it.

This has the curious effect of creating a bit of a buffer for our profit results. If the various dentists involved continue to charge ahead and increase their revenue, then 1300SMILES will pay them the $700,000. The company has already accounted for this amount anyway.

If, on the other hand, those dentists do not enjoy the continuing business growth for which we're all striving--perhaps as an effect of the changed post-CDDS environment or some other factor--then some part of that $700,000 will come back into the company's profit account. That's not the result we want, but it does stand to act as a buffer to protect the company's profit against any disruption in the market over the next several months.

Another accounting issue which arises from year to year is the effect of slight variations in the company's overall tax rate from one year to the next. The effective tax rate varies in the normal course of business from around 26% to 30% of Net Profit Before Tax, but the tax we actually report in a given accounting period relates, at least partly, to the amount paid in respect of the previous period's tax liability.

As our annualised Net Profit Before Tax for the current period is now over $11 million, a one percent difference in the effective tax rate makes a difference of more than $110,000 to our reported Net Profit After Tax. In the current period the effective tax rate faced by 1300SMILES has swung toward the higher end of the range, with the effect that our reported Net Profit After Tax has been suppressed by an amount we would estimate to be about $100,000. This does no lasting harm, as this effect will swing the other way in some future reporting period, but I offer this extra detail in order to help shareholders understand our results in somewhat more depth.

**Dentistry as a consumer service in a broader market**

For a variety of reasons, dentistry has always been a reasonably high-margin business. As we've seen, however, this has meant that regular dental care has only been enjoyed by thirty percent of the population.

1300SMILES believes that it's time to expand the market for dental services to the rest of the population. Over time we expect that our revenue will continue to increase rapidly, and that revenue growth in percentage terms will be greater than profit growth. This is by no means a bad thing, as our company aims to maximise Earnings Per Share above all other measures. In the first half of the current year, for example, 1300SMILES delivered growth in Revenue of 20.9% and growth in both NPAT and EPS of 16.1%. Shareholders are entitled to ask why NPAT has grown to a lesser extent than Revenue, and whether this divergence will continue.

The board of 1300SMILES Limited believes that Revenue will continue to grow somewhat faster than NPAT for the foreseeable future. This results partly from the changing dynamics of the market, and partly from our company's determination to deliver dental services to a wider and deeper population than ever before.

I invite shareholders to imagine how the grocery business would be different if Woolworths and Coles were happy to accept a situation in which only thirty percent of people ever shopped in grocery stores. It's likely they would sell rather fancier products at rather higher margins, but they'd never deliver total profits on the scale they achieve by making grocery shopping accessible to virtually 100% of the population.

Dentistry is and will remain a professional service delivered by highly qualified and highly trained individual practitioners. That much is non-negotiable. But this doesn't mean that we can't take steps to deliver these professional services to a broader market, to those dental patients who might have avoided treatment because of the perceived cost. We are determined to expand the 1300SMILES Dental Care Plan and to deliver services to many new patients. From an accounting point of view, success in this effort may in fact lead to faster growth in Revenue than in NPAT. But we expect growth in NPAT (and in Earnings Per Share) to remain strong. We expect that the 1300SMILES Dental Care Plan will deliver positive results for shareholders as well as dental patients.

**Share activity**

1300SMILES Ltd does not have any control over its share price and never attempts to influence that price other than by running the business as well as possible.

Influences outside the control of 1300SMILES come into play from time to time. Most recently a major stockbroking firm, Ord Minnett, produced a substantial research piece addressing all aspects of the company and its markets. The release of this document coincided with a spell of increased trading in the shares of 1300SMILES. You can see a link to this report on the 1300SMILES web site or you can contact Ord Minnett directly.

**Responsibility to our community**

1300SMILES remains an enthusiastic participant and supporter in the activities of the YWAM Medical Ship, run by Youth With A Mission and based in Townsville, from where it delivers medical and dental services directly to remote villages in Papua New Guinea and elsewhere in the near Pacific. The Medical Ship delivers invaluable service to people who need it most. The ship is staffed by volunteers and delivers more service per dollar than any organisation I've ever seen. We continue to encourage 1300SMILES staff and dentists to volunteer for rotations on the ship and we support YWAM's operations at a corporate level.

**Thank you**

As always, we thank all 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-four 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 also 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 2012. 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 $3.96 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 2012 of 9.2 cents (2011: 8.0 cents) per fully paid share paid on 10 October 2012. | $2,197,368 |
| Interim ordinary dividend in relation to the half-year ended 31 December 2012 of 10.0 cents (2011: 8.6 cents) per fully paid share expected to be paid on 28 March 2013. | $2,367,839 |

## 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 10.

## 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
14 February 2013

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# Auditor's Independence Declaration

As lead auditor for the review of 1300SMILES Limited for the half year ended 31 December 2012, 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 2001 in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 1300SMILES Limited and the entity it controlled during the period.

P Clarke

Philip Clarke
Partner
PricewaterhouseCoopers

Townsville
14 February 2013

***PricewaterhouseCoopers, ABN 52 780 433 757***
*51 Sturt Street, PO Box 1047, TOWNSVILLE QLD 4810, Australia*
*T: +61 7 4721 8500, F: +61 7 4721 8599, www.pwc.com.au*

## Consolidated statement of comprehensive income for the half-year ended 31 December 2012

| | Note | Half year ended 31 December 2012 $'000 | Half year ended 31 December 2011 $'000 |
|---|---|---|---|
| **Revenue** | | **21,063** | 17,410 |
| **Expenses** | | | |
| Employee benefits | | **(8,173)** | (7,439) |
| Consumables, lab fees and other supplies | | **(3,623)** | (2,449) |
| Operations | | **(1,367)** | (834) |
| Property | | **(883)** | (742) |
| Depreciation and amortisation | | **(1,110)** | (742) |
| Corporate and administration | | **(165)** | (198) |
| Finance costs | | **(106)** | (259) |
| Share of the profit or loss of associates and joint ventures accounted for using the equity method | | **(3)** | - |
| **Profit before income tax** | | **5,633** | 4,747 |
| Income tax expense | | **(1,670)** | (1,333) |
| **Profit after income tax** | | **3,963** | 3,414 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income for the period** | | **3,963** | 3,414 |
| **Earnings per share** | | **Cents** | Cents |
| Basic and diluted earnings per share | | 16.74 | 14.42 |

*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 2012

| | Note | 31 December 2012<br>$'000 | 30 June 2012<br>$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **9,619** | 13,471 |
| Trade and other receivables | | **406** | 356 |
| Other | | **247** | 382 |
| **Total current assets** | | **10,272** | 14,209 |
| **Non-current assets** | | | |
| Receivables | | **1,720** | 1,702 |
| Investment accounted for using the equity method | | **327** | - |
| Property, plant and equipment | | **9,286** | 9,899 |
| Intangible assets | 5 | **11,986** | 12,042 |
| Deferred tax | | **423** | 635 |
| Other | | **31** | 32 |
| **Total non-current assets** | | **23,773** | 24,310 |
| **Total assets** | | **34,045** | 38,519 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **4,564** | 3,849 |
| Borrowings | | **-** | 7,500 |
| Income tax | | **1,047** | 519 |
| Provision – employee benefits | | **359** | 356 |
| Contingent settlement | | **25** | 25 |
| **Total current liabilities** | | **5,995** | 12,249 |
| **Non-current liabilities** | | | |
| Provisions | | **271** | 257 |
| **Total non-current liabilities** | | **271** | 257 |
| **Total liabilities** | | **6,266** | 12,506 |
| **Net assets** | | **27,779** | 26,013 |
| **Equity** | | | |
| Contributed equity | | **15,370** | 15,370 |
| Retained profits | | **12,409** | 10,643 |
| **Total equity** | | **27,779** | 26,013 |

*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 2012

| **2012** | **Note** | **Contributed equity $'000** | **Retained profits $'000** | **Total $'000** |
|---|---|---|---|---|
| Balance at 1 July 2012 | | **15,370** | **10,643** | **26,013** |
| Other comprehensive income for the period, net of tax | | **-** | **-** | **-** |
| Net profit for the half year | | **-** | **3,963** | **3,963** |
| Total comprehensive income for the period | | **-** | **3,963** | **3,963** |
| *Transactions with owners in their capacity as owners:* | | | | |
| Shares issued | | **-** | **-** | **-** |
| Share issue costs | | **-** | **-** | **-** |
| Dividends recognised during the half-year | **4** | **-** | **(2,197)** | **(2,197)** |
| Balance at 31 December 2012 | | **15,370** | **12,409** | **27,779** |

| **2011** | | **Contributed equity $'000** | **Retained profits $'000** | **Total $'000** |
|---|---|---|---|---|
| Balance at 1 July 2011 | | 7,506 | 8,184 | 15,690 |
| Other comprehensive income for the period, net of tax | | - | - | - |
| Net profit for the half year | | - | 3,414 | 3,414 |
| Total comprehensive income for the period | | - | 3,414 | 3,414 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Shares issued | | 8,299 | - | 8,299 |
| Share issue costs | | (435) | - | (435) |
| Dividends recognised during the half-year | 4 | - | (1,696) | (1,696) |
| Balance at 31 December 2011 | | 15,370 | 9,902 | 25,272 |

*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 2012

| | Note | Half year ended 31 December 2012 $'000 | Half year ended 31 December 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | **21,727** | 18,714 |
| Payments to suppliers and employees (inclusive of GST) | | **(14,727)** | (12,288) |
| | | **7,000** | 6,426 |
| Interest received | | **355** | 383 |
| Interest and other finance costs paid | | **(106)** | (259) |
| Income taxes paid | | **(930)** | (1,361) |
| Net cash from operating activities | | **6,319** | 5,189 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(474)** | (1,475) |
| Payments for intangible assets | | **-** | (975) |
| Payment of deferred settlement relating to acquisitions | | **-** | (324) |
| Net cash used in investing activities | | **(474)** | (2,774) |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | **(7,500)** | - |
| Proceeds from share issue | | **-** | 8,299 |
| Payment for costs associated with share issue | | **-** | (435) |
| Dividends paid | 4 | **(2,197)** | (1,696) |
| **Net cash from/(used in) financing activities** | | **(9,697)** | 6,168 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(3,852)** | 8,583 |
| Cash and cash equivalents at beginning of the period | | **13,471** | 4,663 |
| **Cash and cash equivalents at the end of the period** | | **9,619** | 13,246 |

*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 2012**

## Note 1: Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2012 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 2012 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 except in respect of the early adoption of standards as noted below.

### 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 2012 other than those noted as early adoption of standards below.

**Changes in accounting policy and disclosures**
***Early adoption of standards***

The group has elected to apply AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures (as amended in 2011)*, AASB 127 *Separate Financial Statements* (as amended in 2011) and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* from July 2012, because the new accounting policies provide more reliable and relevant information for users to assess the composition of the group and the amounts, timing and uncertainty of future cash flows. Comparative figures have not been restated as comparative amounts were not affected by the changes. See the notes below for further details on the effect of the change in accounting policies on the accounting for an associate.

*AASB 10 – Consolidated Financial Statements*
AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation – Special Purpose Entities.* The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Adoption of this standard resulted to a change in the definition of subsidiaries used in the principals of consolidation as follows:

*Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.*

The adoption of this standard had no other effect on the group’s financial statements.

**Notes to the consolidated half-year financial statements**
**For the half year ended 31 December 2012**

Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 127.

*AASB 11 – Joint Arrangements*,
AASB 11 replaces AASB 131 *Interests in Joint Ventures* and UIG-113 *Jointly controlled Entities – Non-monetary Contributions by Ventures.* AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the parties a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the parties a right to the net assets is accounted for using the equity method. The adoption of this standard had no effect on the group's financial statements as the group does not hold any joint arrangements.

Consequential amendments were also made to other standards *via AASB 2011-7* and amendments to AASB 128*.*

AASB 12 – *Disclosure of Interests in Other Entities*
AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about certain joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 128 – *Investments in Associates and Joint Ventures (as amended in 2011)*
AASB 128 defines associates and prescribes the circumstances in which investors must use the equity method of accounting for investments in associates. Effectively, it describes when the relationship between an investor and an investment reflects an investor/associate relationship. The standard prescribes the accounting treatment investors shall apply to their investments in associates and the required disclosures.

An associate is an investee where an investor has significant influence, but not control or joint control, over the financial and operating policy decisions of the investee. There is a rebuttable presumption that an investor holding, either directly or indirectly, 20% or more of the investee's voting power has significant influence over the investee. If the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless it is clearly demonstrated otherwise.
The early adoption of AASB 128 had the following effect on the group:

*Accounting policy - Associates*
Associates are all entities over which the group has significant influence but not control or joint control generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The group's investment in associates includes goodwill identified on acquisition

The group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long‐ term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

**Notes to the consolidated half-year financial statements**
**For the half year ended 31 December 2012**

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

## 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 reporting 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.

## Note 4: Dividends

| | Half year ended 31 December 2012 $'000 | Half year ended 31 December 2011 $'000 |
|---|---|---|
| **Dividends declared and paid** | **2,197** | 1,696 |
| Fully franked final dividend of 9.2 cents (2011: 8.0 cents) for the year ended 30 June 2012 paid 10 October 2012 | | |
| **Dividends declared** | **2,368** | 2,036 |
| On 14 February 2013 the company declared a fully franked interim dividend of 10.0 cents (2011: 8.6 cents) for the half-year ended 31 December 2012 payable on 28 March 2013 | | |

| | Goodwill $'000 | Intellectual property $'000 | Total $'000 |
|---|---|---|---|
| **Note 5. Non-current assets - intangibles** | | | |
| *Consolidated* | | | |
| **At 1 July 2011** | | | |
| Cost and net book amount | 10,670 | - | 10,670 |
| Additions through business combinations | 451 | - | 451 |
| Acquisition of intellectual property | - | 945 | 945 |
| Amortisation charge | - | (24) | (24) |
| **At 30 June 2012** | 11,121 | 921 | 12,042 |
| | | | |
| **At 30 June 2012** | 11,121 | 921 | 12,042 |
| Amortisation charge | - | (24) | (24) |
| Other | (32) | - | (32) |
| **At 31 December 2012** | 11,089 | 897 | 11,986 |
| | | | |
| Cost | 11,121 | 945 | 12,066 |
| Accumulated amortisation | - | (48) | (48) |
| Other | (32) | - | (32) |
| | 11,089 | 897 | 11,986 |

**Note 6: Subsequent events**

A fully franked interim dividend of 10.0 cents per share has been declared and is payable on 28 March 2013.

Other than the events mentioned above, there have been no events since 31 December 2012 that impact upon the interim financial report for the half-year ended 31 December 2012.

**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 2012 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
14 February 2013

# 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 consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the 1300SMILES Limited (the consolidated entity). The consolidated entity comprises both 1300SMILES Limited (the company) and the entity it controlled during the half year.

*Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 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 2012 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*.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*51 Sturt Street, PO Box 1047, TOWNSVILLE QLD 4810, Australia*
*T: +61 7 4721 8500, F: +61 7 4721 8599, www.pwc.com.au*

*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 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Philip Clarke
Partner

14 February 2013