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 2013	31 December 2012

Results for announcement to the market

				$A'000
Revenues from ordinary activities	Down	30%	To	14,832
Profit from ordinary activities after tax attributable to members	Down	36%	To	2,532
Net profit for the period attributable to members	Down	36%	To	2,532

Dividends

The company has declared a fully franked interim dividend of 6.5 cents per share in relation to the half-year ended 31 December 2013.

Confirmation of the Interim Dividend details:

• Dividend amount per security	6.5 cents
• Franked amount per security	100%
• Date Interim Dividend declared	27 February 2014
• Date that the shares (ASX code : ONT) will trade ex-dividend	1 April 2014
• Record Date for determining entitlement to dividend	7 April 2014
• Payment Date	14 April 2014

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	61.1 cents	64.9 cents

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2013

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

I am pleased to present to you our results for the half year ended 31 December 2013. Managing Directors are not normally pleased to report declines, and I am no different. However, recent industry circumstances have been highly unusual and the underlying result is both unusual and quietly encouraging.

First Half Year Results

Compared to the first half results from the previous year, the results for the six months to 31 December 2013 were as follows:

- Revenue (statutory) down 29.6% to $14.8 million
- NPAT down 36.1% to $2.5 million
- Earnings Per Share down 36.1% to 10.69cps
- Revenue (OTC) down 26.3% to $21.3 million
- EBITDA down 31.0% to $4.7 million
- First half fully franked dividend down 35% to 6.5cps

To explain the unusual underlying result I must first review a little of the recent industry history.

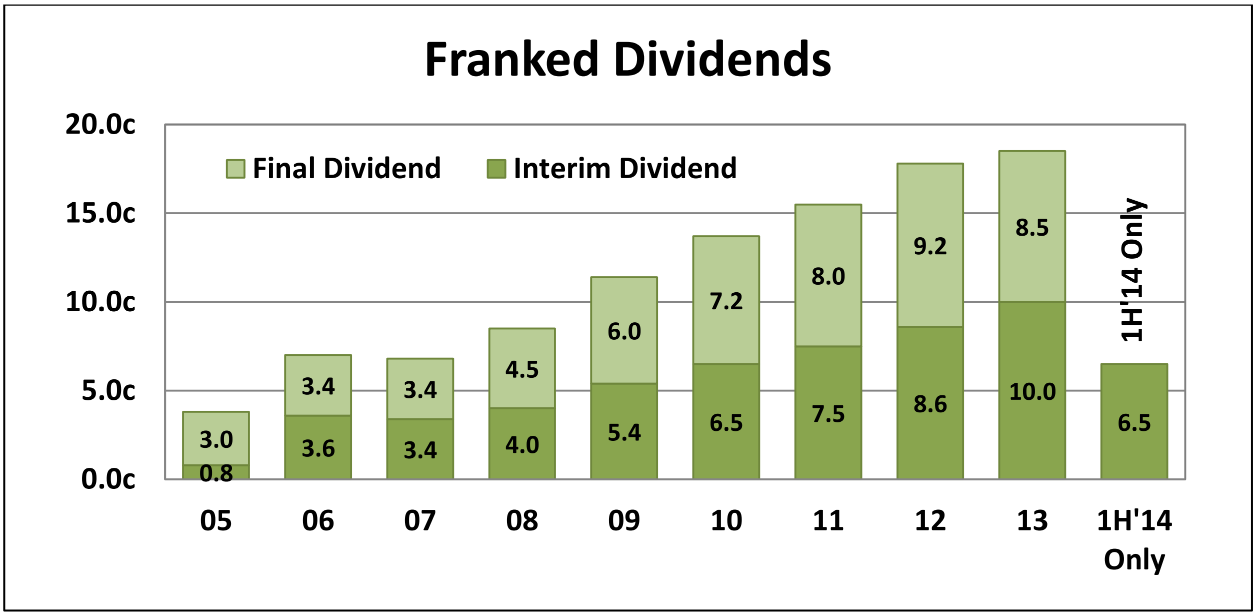
As I have previously covered in significant detail, the entire industry underwent a step-change downward to a significantly reduced size a bit over a year ago, courtesy of the sudden closure of the commonwealth government's Medicare Chronic Disease Dental Scheme (CDDS). The flurry of activity in the first half of the 2013 financial year and the rush to complete treatments before the end of the CDDS produced a significant spike in that half year's Revenue. I forewarned that this half year's Revenue would be lower as a consequence, and that is what we have seen.

Over-the-Counter (OTC) Revenue declined by 26.3% to $21.3 million compared against the artificially high 2013 first half. Statutory Revenue declined by 29.6% to $14.8 million. Because it has the larger decline, I will refer to Statutory Revenue in the remainder of this letter to be conservative, albeit as I have explained in detail in previous shareholder letters I consider OTC Revenue to be the more meaningful measure.

NPAT declined by 36.1% to $2.5 million, again compared against the artificially high 2013 first half. That the company has posted a profit at all, let alone a strong profit, is very pleasing. That NPAT declined by *only* 36.1% is a very pleasing result indeed.

Over the years shareholders have joined me in looking forward to the steadily growing dividends delivered by our steadily growing and conservatively managed business. For the current half I must ask shareholders to join me in recognising that our dividend ultimately derives from our results. For the reasons discussed at length in this letter, our NPAT for the first half was down by 36.1% compared to the NPAT for the previous year's first half. Shareholders will also recall that last year's interim dividend, at 10c, was the highest ever, reflecting the unusual and artificially high levels of Revenue and NPAT we enjoyed in that period. Compared to that record high dividend, the current year's interim dividend of 6.5c, fully franked, represents a decrease of 35%. Shareholders will be aware that my reward for serving as managing director comes overwhelmingly from my dividends, so you can have no doubt whatever that the dividend reflects the board's willingness to make the hard decisions, and its commitment to responsible financial management for the long term benefit of the company and all shareholders.

Over many years we have made every effort to treat shareholders in 1300SMILES as the true owners of the business. Shareholders have had the experience of running a real, transparent business, and they've known the satisfaction of participating in the company's growth. This year I ask shareholders to participate in the company's effort to build the strongest possible foundation on which to build our business further.



Here is the unusual and quietly encouraging underlying result: in most businesses, a 29.6% decline in Revenue would reduce NPAT by 100% or more. I dare say that all but a tiny fraction of listed companies would deliver a loss if their Revenue declined by 29.6%. In real terms, the 36.1% decline in NPAT off a 29.6% lower Revenue base, remembering that many expenses usually remain fixed or increase, indicates that our underlying NPAT may have grown on a normalised basis, if you were to strip out the distortion of the CDDS.

I will not sugar coat it: the comparative results are clearly down. However, I would suggest that shareholders reflect on the full picture. In these unusual circumstances, the traditional comparison against the previous corresponding period becomes entirely meaningless. The gross results are important. They represent our new baseline and starting point for renewed growth. The period-to-period comparisons are misleading because the previous half year results were achieved in industry circumstances which no longer apply. A significant part of the industry has changed in a fundamental way, yet the strong gross results presented here, achieved in the new industry circumstances, give me comfort that the economics of the industry remain attractive and that our core business remains strong.

I congratulate our management team on successfully navigating our company safely through and now past this unusual period, achieving gross profit margin improvements amidst the turmoil through their discipline and management controls. I cannot imagine ever again applauding anything other than growth, however credit must given where it is due, and it is well due. It is a slow clap but a clap nonetheless. We pride ourselves on growing revenues, earnings and margins, and I am determined that we will resume normal growth in these areas, starting from our new baseline.

The new baseline

So far, the 2014 year has delivered no disruptive changes in government policy, other than a positive development which I will mention shortly in this letter, and it has given us the chance to simply operate our core business to the best of our ability. The first half of the 2014 year represents a half-year of normal operations, and it will become the base against which we will compare future half-yearly results. I would encourage shareholders to look at it this way also, as I believe this will be the most meaningful way of measuring our progress from here.

The first half has the following features:

- No inflated revenue from CDDS.
- Organic and incremental growth.

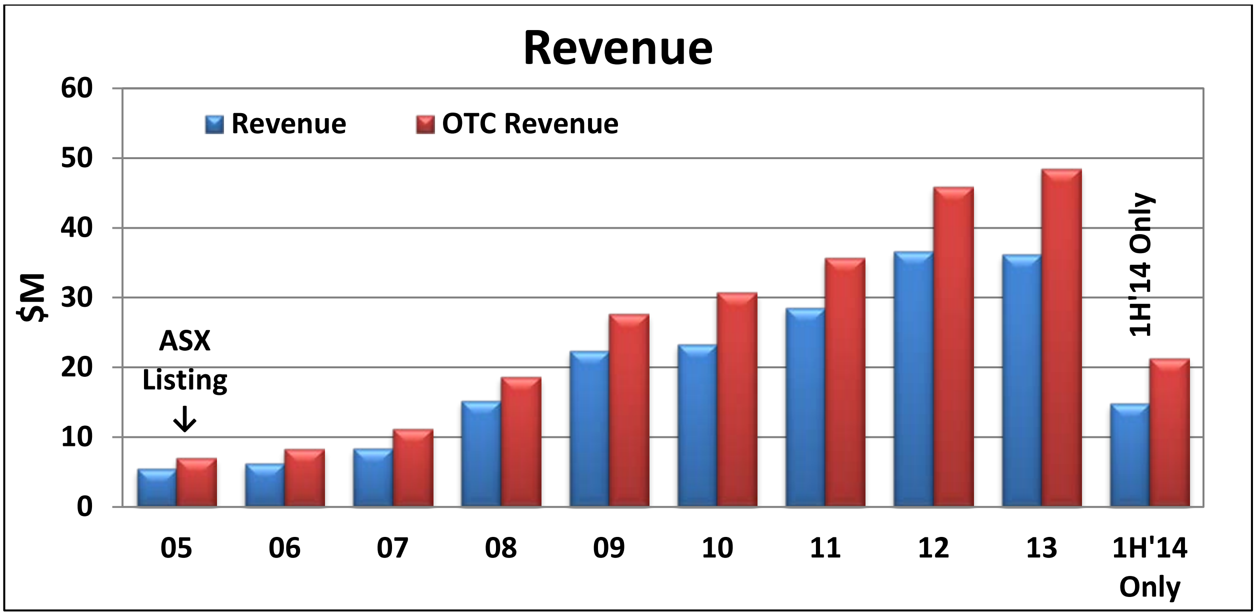
- An early contribution from our $1 a day Dental Care Plan--not yet a big impact on Revenue, but an important additional driver to organic growth.

- A growing contribution from our public private partnerships with the Queensland government, which form part of our organic growth but without creating any dependence on a big market-distorting government scheme.

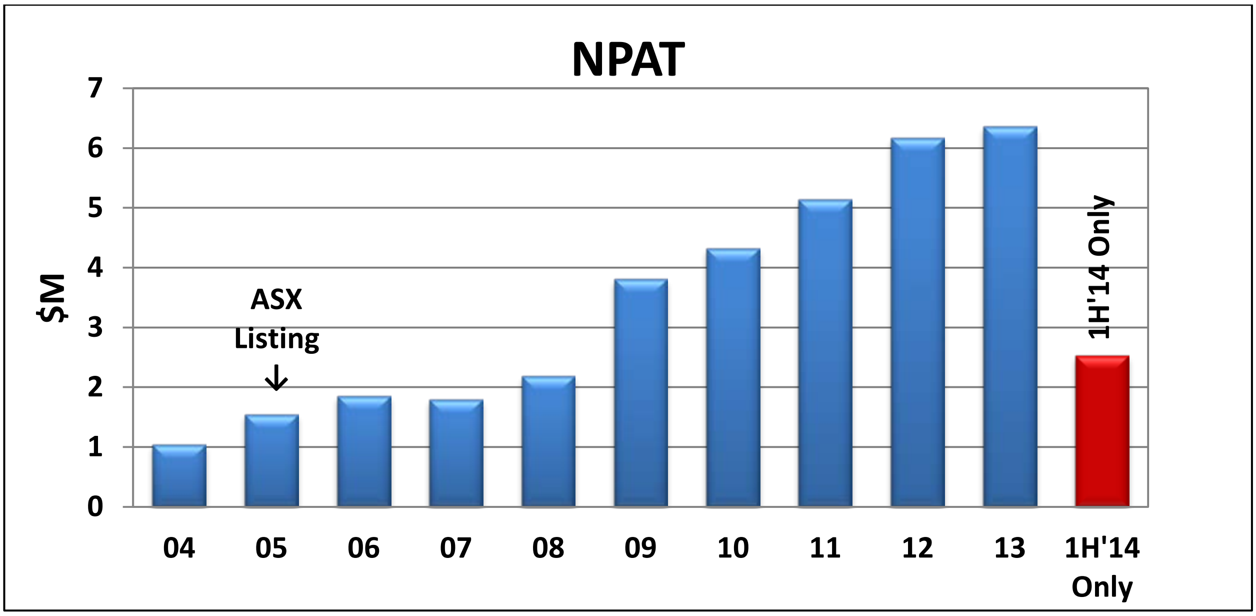
- Generous latent capacity within our surgeries, supporting our organic growth.

Alert readers will notice the emphasis on organic growth above. Careful followers of our company will by now be well aware that the attention we pay to organic growth is perhaps our company's greatest strength (behind our people, of course). Our excess surgery capacity costs extremely little to carry and gives our company the ability to add dentists and through them additional revenue and profit at little capital cost. We continue to build in additional capacity to ensure our supply can always meet demand.

We have a clear new baseline, and our clear task and responsibility is to now grow the company off this baseline as effectively as we have in the past for the benefit of shareholders. Whilst our past track record is strong, and we are equipped with great people ready for the challenge that lies ahead, there is no place for complacency.

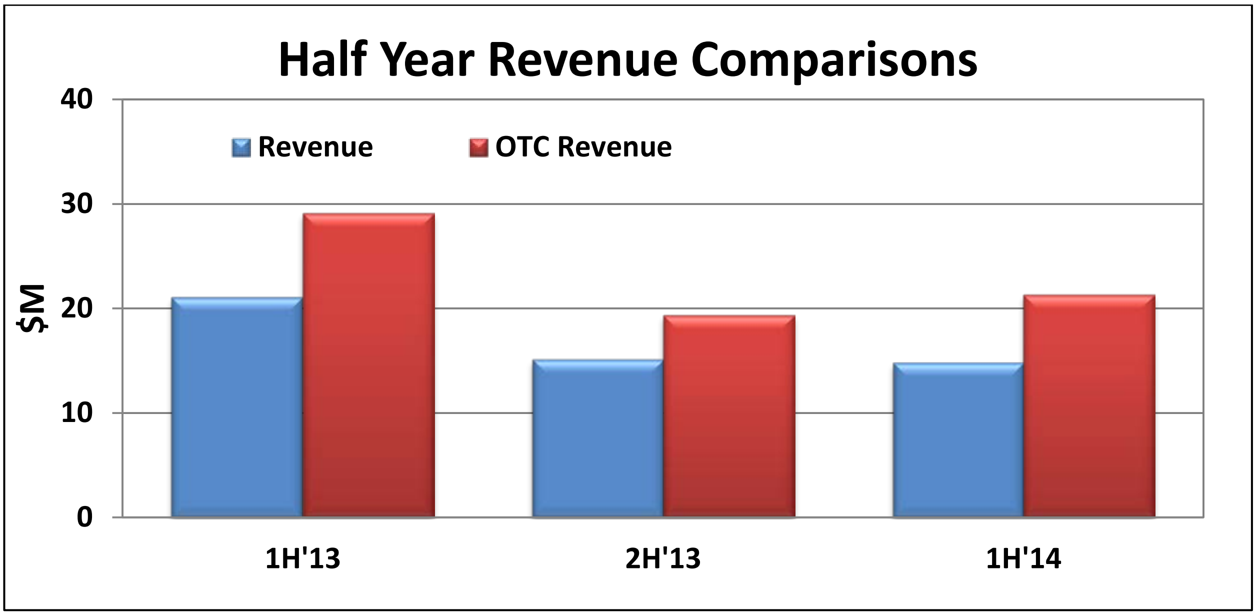


Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue (per Financial Statements)	'05	'06	'07	'08	'09	'10	'11	'12	'13	1H'14
OTC Revenue ($m)	**7**	**8.3**	**11.2**	**18.6**	**27.6**	**30.7**	**35.7**	**45.9**	**48.5**	**21.3**
Less amount retained by self-employed Dentists ($m)	1.9	2.1	2.8	3.4	5.2	7.4	7	9.2	12.3	6.5
Statutory Revenue ($m)	**5.1**	**6.2**	**8.4**	**15.2**	**22.4**	**23.3**	**28.7**	**36.7**	**36.2**	**14.8**



First Half Year 2014 Results compared to Second Half Year 2013 Results

As shareholders would know, the 2013 full year comprised an inflated first half and a subdued second half. In that second half we saw the full impact of the end of the CDDS and the beginnings of several new initiatives, the most notable of which is our $1 a day Dental Care Plan. While the full year results for 2013 were acceptable, all things considered, the second half of that year was notably weak, and probably the bottom for both our company and for the dental industry generally. This is illustrated by a comparison between the first half of the 2013 year, the last half of the 2013 year and the first half of the 2014 year.



Compared to the preceding six month period, the first half of 2014 saw a Statutory Revenue decrease of 1.9% (an OTC Revenue increase of 10.6%), an EBITDA increase of 9.6%, and a Net Profit After Tax (and Earnings Per Share) increase of 5.3%.

I continue to regard the first half of 2014 as the hard deck baseline against which our future performance should be measured, even though the adoption of the second half of 2013 as the baseline would make for more eye-catching future comparisons. I do, however, draw confidence from this early evidence that our results are headed in the right direction. The positive start to the second half of 2014, and the early results from a new government scheme which I will mention shortly, give me comfort that that confidence is well founded.

Benefits from losing a billion dollars

The CDDS was by far the largest single buyer of dental services in Australia, paying about one billion dollars to the industry annually, but it is now history.

I disagree strongly with the policy position taken by the former commonwealth government. It is short sighted, has set back the cause of good oral health in this country by years, and has health implications reaching well beyond dental health. Investors who wish to understand the implications in greater depth should refer to my previous shareholder reports, including my letter this time last year. My letters and addresses are available on our company web site.

However, I have to concede that the closure of the CDDS does create benefits and opportunities for a business such as ours. For example:

- We are unlikely to see a single buyer of dental services gain such prominence any time soon, and that helps to improve the defensiveness of our business.

- We are likely to see former CDDS patients and new patients through our public private partnerships with the Queensland government.

- The CDDS has been partially replaced by the new Child Dental Benefits Schedule (CDBS). The CDBS is the positive development which I alluded to earlier in this letter. The CDBS is said to cover 3.4 million eligible children aged from 2 to 17 years, funding up to $1,000 worth of treatment over 2 years. The CDBS commenced on 1 January 2014, so the first half result includes no revenue from it at all. I will be in a better position to report on results from the CDBS at the end of the full year, although I can say that it has gotten off to a surprisingly fast start.

- We are likely to continue seeing strong demand for our $1 a day Dental Care Plans as more people look for an affordable way of caring for their dental health.

- We are likely to see more mortgagee and other distressed sales of dental practices, and again that too helps a business such as ours. As I indicated above, a Revenue decline such as that which we have experienced would result in a loss for most businesses. Many dental practices around Australia have experienced exactly that. Unlike our company, many of those businesses carry debt. Their owners will have to make some hard decisions or others will make the hard decisions for them. Our name is our phone number, so it will be easy for owners or their banks to reach us when they are ready. To paraphrase a former prime minister: my name is Daryl, I am from Queensland, and I am here to help.

- The closure of the CDDS and the influx of new graduates fresh out of the dental schools have combined to create a more difficult job market for dentists. That is a happy situation for our company. More dentists have seen our company as a safe harbor and the best opportunity for their practices, which has helped our ongoing recruitment drive. The tougher job market is also delivering more dentists who are not just excellent clinicians, but who are also highly skilled at quickly growing their patient base and practice. For example, our January 2014 starters boast 55 years of clinical experience among them. It is lovely to be able to pick and choose from a deep talent pool. These factors all combine to help our organic growth.

We will be doing our best to make the most of these benefits and opportunities, and other initiatives which I will cover later in this letter, in the current half and future periods to help us move forward off our new baseline.

Good things come to those who wait

I have commented in earlier correspondence that there are aspects of our business which are old-fashioned. We endeavour to control costs while delivering the best possible service. We have a simple capital structure and a transparent business. We carry no debt. We make money, pay the tax due, and pass franked dividends to our shareholders.

We also make use of the timeless virtue of patience in our business strategy in a particular way: we combine it with impatience.

We are *impatient* for growth in profit and the other financial measures of importance to most shareholders, but *patient* for growth in practice numbers. I will take one high-profit practice any day ahead of 100 stragglers (although owners and receivers of good businesses that have fallen on difficult times should please note that I enjoy a challenge).

In the context of our investment in Dental Members Australia, we are *patient* for profit but *impatient* for growth in members. I am pleased to note that the number of members on active care or treatment plans grew by more than 100% over the first half. The fees paid by members are now a useful revenue stream in their own right.

As an aside, the success of the care and treatment plans is also proving to be very helpful in attracting dentists to 1300SMILES. The plans are now playing an important role in the Snowball Effect we observe, wherein more members (or patients) attract more dentists; more dentists bring different skills and special interests, which gives their colleagues the opportunity to further develop their own skills and interests; many dentists like to work alongside the very best, so the deeper the skill base the more that dentists are keen to join 1300SMILES; the depth of high quality dentists attracts more patients; more patients attract more dentists; and so on.

Shareholders

We celebrate a minor milestone this half year in passing 2,000 shareholders. Our shareholders cover the full spectrum from very young children to grandparents, along with institutions and other professional investors. We are honoured that you have placed your faith in us. We take your faith very seriously, and will continue to do our best to create value for you. I like to occasionally remind our staff that their grandparents might be relying on them for their dividends. I swear they always walk a little taller and faster afterward.

We could, of course, easily expand the number of shareholders by issuing more shares, however we prefer to keep the share register tight. We issued no new shares during the half year.

Future developments

As mentioned earlier in this letter, the CDBS commenced at the start of the second half, so will be a factor in future periods which will be compared to the first half and later full year baselines. Based on our early results and industry research, we think it's likely that this side of our business will grow at a surprising pace.

At our AGM I also hinted at an example of world class thinking from our people. The details are still coming together, however this is too exciting an idea to keep secret any longer. I am delighted to reveal that we will soon be attempting to set a new world record at 1300SMILES Stadium. There has been enormous interest in this initiative, and we expect significant national exposure for our company out of the attempt. If you are planning a trip to north Queensland some time this year, please time it to coincide, if you can, so that you can do your bit in securing the world record. More details will be revealed, along with the exact record in question and the date, as soon as the logistics have been ironed out.

Corporate Social Responsibility

There is a very serious side to our world record attempt. Even more important than the record is the opportunity, through the attempt, to promote awareness of the importance of oral health. We acquired the naming rights to 1300SMILES Stadium in part for that purpose, and we look forward to making progress on that objective and participating in the community discussions that this latest initiative will prompt.

We are determined to make a positive difference to oral health in Australia and beyond. This is too important to leave to chance. Despite the positive start to the CDBS, we cannot rely on the government of the day or others to provide the solution. We have to be a part of the solution, and to that end the next initiative we will shortly be rolling out is the provision of mouth guards to school-aged children through our network of practices at no out-of-pocket cost. Watch this space.

Long-term shareholders will be aware that we are a committed participant and supporter in the activities of the YWAM Medical Ship, run by Youth With A Mission. Vital medical and dental services are delivered on the Medical Ship directly to high need remote villages in Papua New Guinea. I continue to encourage 1300SMILES staff and dentists to join me in volunteering for rotations on board. The work is important and life changing for patients and volunteers alike.

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 its sites in the ten major population centres in Queensland and also in Adelaide, South Australia. 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 2013. 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

Compared to the first half results from the previous year, the results for the six months to 31 December 2013 were as follows:

- Revenue (statutory) down 29.6% to $14.8 million
- NPAT down 36.1% to $2.5 million
- Earnings Per Share down 36.1% to 10.69 cps
- First half fully franked dividend down 35% to 6.5cps
- Profit before tax (NPBT) down 35.7% to $3.6 million
- Cash-flow from operations down 54.9% to $2.8 million
- EBITDA down 31.0% to $4.7 million

Statutory Revenue declined by 29.6% to $14.8 million. The closure of the federal government's Medicare Chronic Disease Dental Scheme (CDDS) in November 2012 was the primary cause of the Revenue decline as it produced a significant spike in the Revenue for the first half of 2013. Revenue in the first half of 2014 was down as a consequence, in line with expectations.

NPAT declined by 36.1% to $2.5 million, again compared against the artificially high 2013 first half. The Directors consider the decline in NPAT to be a favourable outcome in the context of the decline in Revenue.

The first half of the 2014 year represents a half-year of normal operations, and is the baseline against which the company will compare future half-yearly results.

The first half has the following features:

- No revenue from the CDDS.
- Organic growth.
- An early contribution from our $1 a day Dental Care Plan.
- A growing contribution from our public private partnerships with the Queensland government.
- Latent capacity within our surgeries, supporting our organic growth.
- Increased corporate advisory costs attributable to a number of sizable Merger and Acquisition opportunities pursued by the company. The company incurred costs of approximately $213,000 in relation to these opportunities.

FY2014 OUTLOOK

The CDDS has been partially replaced by the new Child Dental Benefits Schedule (CDBS). The CDBS commenced at the start of the second half, and therefore will be a factor in future periods. Early results exceed expectations.

There has been an upturn in enquiries from dentists seeking to operate their practices from our facilities.

Overall, there is evidence of growth from the new baseline through existing and new initiatives and programs.

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 2013 of 8.5 cents (2012: 9.2 cents) per fully paid share paid on 9 October 2013.	$2,012,661
Interim ordinary dividend in relation to the half-year ended 31 December 2013 of 6.5 cents (2012:10 cents) per fully paid share expected to be paid on 14 April 2014.	$1,539,095

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 11.

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
27 February 2014

Auditor's Independence Declaration

As lead auditor for the review of 1300SMILES Limited for the half-year ended 31 December 2013, 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.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Townsville
27 February 2014

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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 2013

	Note	Half year ended 31 December 2013 $'000	Half year ended 31 December 2012 $'000
Revenue from continuing operations	5	**14,317**	20,648
Other revenue	5	**338**	410
		14,655	21,058
Other income	5	**177**	5
		14,832	21,063
Expenses			
Employee benefits		**(5,448)**	(8,173)
Consumables, lab fees and other supplies		**(1,710)**	(3,623)
Operations		**(1,429)**	(1,367)
Property		**(1,147)**	(883)
Depreciation and amortisation		**(1,061)**	(1,110)
Business growth & development		**(213)**	(19)
Corporate and administration		**(156)**	(146)
Finance costs		**-**	(106)
Share of the net loss of joint ventures accounted for using the equity method		**(51)**	(3)
Profit before income tax		**3,617**	5,633
Income tax expense		**(1,085)**	(1,670)
Profit for the half-year after income tax		**2,532**	3,963
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the half year		**2,532**	3,963
Earnings per share			
Basic and diluted earnings per share		**10.69**	16.74

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 2013

	Note	31 December 2013 $'000	30 June 2013 $'000
Assets			
Current assets			
Cash and cash equivalents		**8,136**	8,051
Trade and other receivables	6	**1,249**	795
Other		**341**	202
Total current assets		**9,726**	9,048
Non-current assets			
Receivables		**1,831**	1,827
Investment accounted for using the equity method	7	**282**	333
Property, plant and equipment	8	**8,075**	8,747
Intangible assets	9	**13,501**	13,314
Deferred tax		**505**	546
Other		**31**	31
Total non-current assets		**24,225**	24,798
Total assets		**33,951**	33,846
Liabilities			
Current liabilities			
Trade and other payables		**4,320**	4,178
Income tax		**479**	886
Provision – employee benefits		**36**	36
Other liabilities		**-**	154
Total current liabilities		**4,835**	5,254
Non-current liabilities			
Provisions		**293**	290
Other liabilities		**352**	350
Total non-current liabilities		**645**	640
Total liabilities		**5,480**	5,894
Net assets		**28,471**	27,952
Equity			
Contributed equity		**15,501**	15,501
Retained profits		**12,970**	12,451
Total equity		**28,471**	27,952

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 2013

2013	**Note**	**Contributed equity $'000**	**Retained profits $'000**	**Total $'000**
Balance at 1 July 2013		**15,501**	**12,451**	**27,952**
Other comprehensive income for the period, net of tax		**-**	**-**	**-**
Net profit for the half year		**-**	**2,532**	**2,532**
Total comprehensive income for the period		**-**	**2,532**	**2,532**
Transactions with owners in their capacity as owners:				
Shares issued		**-**	**-**	**-**
Share issue costs		**-**	**-**	**-**
Dividends recognised during the half-year	4	**-**	**(2,013)**	**(2,013)**
Balance at 31 December 2013		**15,501**	**12,970**	**28,471**

2012	**Note**	**Contributed equity $'000**	**Retained profits $'000**	**Total $'000**
Balance at 1 July 2012		15,370	10,643	26,013
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

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 2013

	Note	Half year 31 December 2013 $'000	31 December 2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**15,179**	21,727
Payments to suppliers and employees (inclusive of GST)		**(11,386)**	(14,727)
		3,793	7,000
Insurance claims refund and other income		**265**	
Interest received		**194**	355
Interest and other finance costs paid		**-**	(106)
Income taxes paid		**(1,451)**	(930)
Net cash from operating activities		**2,801**	6,319
Cash flows from investing activities			
Payments for property plant and equipment		**(282)**	(471)
Payments for software		**(149)**	(3)
Payments for patient acquisition costs		**(279)**	-
Net cash used in investing activities		**(710)**	(474)
Net cash from financing activities			
Repayment of borrowings		**-**	(7,500)
Dividends paid		**(2,006)**	(2,197)
Net cash from/(used in) financing activities		**(2,006)**	(9,697)
Net increase/(decrease) in cash and cash equivalents		**85**	(3,852)
Cash and cash equivalents at beginning of the period		**8,051**	13,471
Cash and cash equivalents at end of the period		**8,136**	9,619

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

Notes to the financial statements for the half year ended 31 December 2013

Note 1: Basis of preparation of half year report

These general purpose financial statements for the interim half-year reporting period ended 31 December 2013 have been prepared in accordance with the *Corporations Act 2001* and AASB 134 *'Interim Financial Reporting'*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34: Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report 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 adopted in the half-year financial report are consistent with those adopted and disclosed in the company's 2013 annual financial report for the financial year ended 30 June 2013 and corresponding interim reporting period, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(a) New, revised or amending Accounting Standards and Interpretations adopted

New and amended standards early adopted by the Group in prior reporting periods

The following standards were early adopted in the financial report for the year ended 30 June 2013:

- AASB 10 *'Consolidated Financial Statements'*
- AASB 11 *'Joint Arrangements'*
- AASB 12 *'Disclosure of Interests in Other Entities'*
- AASB 2011-7 '*Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards'*
- AASB 127 *'Separate Financial Statements'*
- AASB 128 *'Investments in Associates and Joint Ventures'*

New and amended standards adopted by the Group in the current period

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.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

Impact of the application of AASB 13

The company has applied AASB 13 *'Fair Value Measurement'* and AASB2011-8 *'Amendments to Australian Accounting Standards arising from AASB13'* for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB13 apply to both financial instrument items and non-financial instrument items for which other AASB's require or permit fair value measurements and disclosures about fair value measurements, except for share-based transactions that are within the scope of AASB 2 *'Share-Based Payment'*, leasing transactions that are within the scope of AASB 117 *'Leases'*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2012 comparative period and the application of AASB 13 has not made any material impact on the amounts recognised in the consolidated financial statements.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Group. There are no standards that are not yet effective and that are expected to have a material impact on the company in future reporting periods and on foreseeable future transactions.

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: Income taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated annual average tax rate used for the half year to 31 December 2013 is 30% (the estimated tax rate for the financial year ending 30 June 2014 is 30%).

Note 4: Dividends

	31 December 2013 $'000	31 December 2012 $'000
(a) Dividends provided for or paid during the half year		
Fully franked final dividend of 8.5 cents (2012: 9.2 cents) for the year ended 30 June 2013 paid on 9 October 2013	**2,013**	2,197
(b) Dividends not recognised at the end of the half year		
In addition to the above dividends, since the end of the half year, the Board have approved the payment of an interim dividend of 6.5 cents per fully paid ordinary share (2012: 10 cents per share), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 14 April 2014 out of retained earnings at 31 December 2013, but not recognised as a liability at the end of the half year is	**1,539**	2,368

Note 5: Revenue and other income

	31 December 2013 $'000	31 December 2012 $'000
(a) Sales revenue from continuing operations		
Services	**14,254**	20,581
Sale of goods	**63**	67
	14,317	20,648
(b) Other revenue		
DMA introduction fee	**112**	12
Rents and sub-lease rentals	**28**	24
Interest revenue	**194**	355
Other revenue	**4**	19
	338	410
(c) Other income		
Rebates - training	**32**	-
Gain on de-recognition of contingent consideration payable	**25**	-
Insurance recoveries	**120**	5
	177	5

Note 6: Trade and other receivables

	31 December 2013 $'000	30 June 2013 $'000
Trade receivables*	**744**	517
Membership and treatment plan receivables**	**505**	278
	1,249	795

* $182,000 (30 June 2013 $204,000) of the $744,000 (30 June 2013 $517,000) trade receivables was received from Oral Health Services (Queensland Government) subsequent to the respective balance date.

** Membership and treatment plan receivables are recognised in the accounting period in which the dental services are provided. The instalments receivable under these plans are allocated over pre-specified time periods which are usually within twelve months. Of the $505,000 (30 June 2013 $278,000) membership and treatment plan receivables at 31 December, the full balance is not due for settlement and will be collected within twelve months of the reporting date. The quantum of membership and treatment plan receivables has significantly increased in the six months to 31 December 2013 due to the large growth in active care plans numbers, up > 200%.

Impairment of receivables
The Group has not recognised any loss in the statement of comprehensive income in respect of impairment of receivables in the current or prior periods.

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $369,000 as at 31 December 2013 ($338,000 as at 30 June 2013). These past due debtors were all 1 to 3 months overdue. The Group considered there to be no credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

Note 7: Investment accounted for using the equity method

	31 December 2013 $'000	30 June 2013 $'000
Shares in Dental Members Australia Pty Ltd (ownership interest 33%)	**282**	333

The Group acquired a 33% interest in Dental Members Australia Pty Ltd on 17 August 2012, a company incorporated and domiciled in Australia. DMA has share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interest is the same as the proportion of voting rights held. The key decisions of the governing body of Dental Members Australia Pty Ltd require unanimous consent from all shareholders and accordingly the investment is classified as a joint venture. Dental Members Australia Pty Ltd provides the only dental plan that caters for all routine oral hygiene visits as well as high value treatments, offering patients interest-free dental solutions and discounted dental treatment. The table below provides summarised financial information for the joint venture. The information disclosed reflects the amounts presented in the financial statements of the joint venture and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including modifications for differences in accounting policy and fair value adjustments. The Group's share of losses from its equity accounted investment for the half year was $(51,000) (2012 $ nil). The Group did not receive any dividends from its equity accounted investment during the half year.

	31 December 2013 $'000	30 June 2013 $'000
Investment in joint venture		
Opening balance	**333**	-
Investment in joint venture	**-**	330
Share of profit/ (loss) from investment in joint venture	**(51)**	3
Other comprehensive income	**-**	-
Dividends paid	**-**	-
	282	333

Note 8: Property, plant and equipment

	31 December 2013 $'000	30 June 2013 $'000
Leasehold improvements – at cost	**4,924**	4,924
Less: Accumulated depreciation	**(2,492)**	(2,147)
	2,432	2,777
Plant and equipment – at cost	**11,097**	10,680
Less: Accumulated depreciation	**(5,454)**	(4,710)
	5,643	5,970
	8,075	8,747

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Capital works $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Balance at 1 July 2013	-	5,970	2,777	8,747
Capitalised	-	-	-	-
Additions	-	282	-	282
Disposals	-	(7)	-	(7)
Transfers	-	-	-	-
Depreciation expense	-	(602)	(345)	(947)
Balance at 31 December 2013	-	5,643	2,432	8,075
Balance at 1 July 2012	116	6,190	3,384	9,690
Capitalised	(116)	116	-	-
Additions	-	507	165	672
Additions through business combinations	-	305	45	350
Transfers	-	97	(97)	-
Depreciation expense	-	(1,245)	(720)	(1,965)
Balance at 30 June 2013	-	5,970	2,777	8,747

Note 9: Intangible assets

Consolidated	Software*	Goodwill $'000	Intellectual property* $'000	Other intangible assets* $'000	Total $'000
Balance at 1 July 2013	325	11,807	874	308	13,314
Additions	151	-	-	279	430
Amortisation charge	(77)	-	(24)	(13)	(114)
Adjustment to opening goodwill	-	(129)	-	-	(129)
Balance 31 December 2013	399	11,678	850	574	13,501
Balance at 1 July 2012	209	11,121	921	-	12,251
Additions	219	-	-	313	532
Additions through business combinations	-	686	-	-	686
Amortisation charge	(103)	-	(47)	(5)	(155)
Balance at 30 June 2013	325	11,807	874	308	13,314

*Software, intellectual property and other intangible assets are separately acquired

	31 December 2013 $'000	30 June 2013 $'000
Intangible assets		
Cost	**13,911**	13,607
Accumulated amortisation	**(410)**	(293)
	13,501	13,314

Note 10: Fair value measurement of financial instruments

(a) Fair value hierarchy

AASB13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy.

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2)
(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December and 30 June 2013 on a recurring basis.

Note 10: Fair value measurement of financial instruments (continued)

	31 December 2013 $'000	30 June 2013 $'000
Other liabilities		
Contingent consideration payable	**350**	504

The Group did not measure any financial assets or financial liabilities on a non-recurring basis as at 31 December 2013.

(b) Valuation techniques used to derive level 3 fair values

The fair value of financial instruments not traded is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Discounted cash flow analysis is used to determine the fair value of contingent consideration payable.

(c) Fair value measurements using significant unobservable inputs (level 3)

	31 December 2013 $'000
Opening balance 30 June 2013	504
Gain taken to goodwill	(129)
Losses/(gains) recognised in other income	(25)
Closing balance 31 December 2013	350

(i) Valuation inputs and relationship to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements

The contingent consideration liability arose from the acquisition of The Dental Practice on King William Street located in Adelaide. The following table shows the valuation technique and the key unobservable inputs used in the determination of fair value of the contingent consideration liability.

Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
The fair value is determined considering the expected payment, discounted to present value using a risk adjusted discount rate. The expected payment is determined by considering the possible scenarios of forecast EBITDA, the amount to be paid under each scenario and the probability of each scenario.	• Forecast annual revenue growth rate (3% to 8%) • Forecast EBITDA margin (5% to 10%) • Risk adjusted discount rate (10.5%)	The estimated fair value would increase if: • The annual revenue growth rate was higher • The EBITDA margin was higher • The risk adjusted discount was lower

Note 10: Fair value measurement of financial instruments (continued)

(c) Fair value measurements using significant unobservable inputs (level 3) (continued)

Changing one or more of the significant unobservable inputs to reasonably possible alternative assumptions in the determination of fair value of contingent consideration liability would have the following effects. These effects have been calculated by recalibrating the values from the valuation technique using alternative estimates of unobservable inputs that might reasonably have been considered by a market participant to price the contingent consideration at the end of the interim reporting period. Any interrelationship between the unobservable inputs is not considered to have a significant impact within the range of reasonably possible assumptions.

	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss
Annual revenue growth rate	0.5%	-
	(0.5%)	-
EBITDA margin	0.3%	-
	(0.3%)	-
Risk adjusted discount rate	1%	-
	(1%)	-

Note 11: Interest in joint arrangement

	31 December 2013 $'000	30 June 2013 $'000
(a) Loan payable to joint venture		
Opening balance	**220**	-
Loan advanced from joint venture	**-**	330
Repayment of loan to joint venture	**(103)**	(110)
Closing balance	**117**	220
(b) Trade balances		
Trade receivables	**21**	-
Trade payables	**(128)**	-
(c) Transactions with joint venture		
Commission revenues *	**112**	12
Acquisition of future maintainable revenue stream	**279**	313

* The Group introduces and refers new members to the dental plans offered by Dental Members Australia Pty Ltd in return for commission.

Note 12: 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 13: Comparatives

Comparative information in the consolidated statement of comprehensive income has been reclassified to more appropriately represent the current expense categories of the Group.

Note 14: Related party transactions

During the half-year ended 31 December 2013, 1300Smiles Ltd entered into a Lease of Chattels contract on normal terms and conditions with Central Dentists Tingalpa Pty Ltd. Dr. Souzani is a Director of Central Dentists Tingalpa Pty Ltd and also a Director of our joint venture company Dental Members Australia Pty Ltd. The contract is valued at $280,000.

Note 15: Events occurring after balance sheet date

There have been no matters or circumstances not otherwise dealt with in this report that will significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

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 2013 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
27 February 2014

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 (the Company), which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration on pages 12 – 26.

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 Australian 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 entity's financial position as at 31 December 2013 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*.

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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 entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half-year ended 31 December 2013 included on 1300SMILES Limited's web site. The company's directors are responsible for the integrity of the 1300SMILES Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Steven Bosiljevac

Steven Bosiljevac
Partner

Townsville
27 February 2014