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 2014	31 December 2013

Results for announcement to the market

				$A'000
Revenues from ordinary activities	Up	19%	To	17,623
Profit from ordinary activities after tax attributable to members	Up	34%	To	3,384
Net profit for the period attributable to members	Up	34%	To	3,384

Dividends

The company has declared a fully franked interim dividend of 9.0 cents per share in relation to the half-year ended 31 December 2014.

Confirmation of the Interim Dividend details:

• Dividend amount per security	9.0 cents
• Franked amount per security	100%
• Date Interim Dividend declared	19 February 2015
• Date that the shares (ASX code : ONT) will trade ex-dividend	23 March 2015
• Record Date for determining entitlement to dividend	25 March 2015
• Payment Date	1 April 2015

NTA backing	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	37.8 cents	61.1 cents

INTERIM FINANCIAL REPORT

FOR THE HALF-YEAR ENDED
31 DECEMBER 2014

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

It gives me great pleasure to present to you our results for the first half of the 2015 financial year. This year we have the luxury of reporting strongly positive results across the board. I don't need to spend any time explaining disruptions to the industry or any external factors affecting our operations because there weren't any.

In my last few reports to shareholders I have gone to some trouble to explain why the half year to 31 December 2013 is the period against which we will measure our results going forward. That period was the first reporting period which was entirely within the new era for our industry and for our company. My fellow board members and I measure every aspect of our business against this baseline, and for all the reasons I have laid out in previous letters I encourage shareholders to do the same.

Financial results for the half-year ended 31 December 2014

Compared to the half year ended 31 December 2013, our results for the half year to 31 December 2014 were as follows:

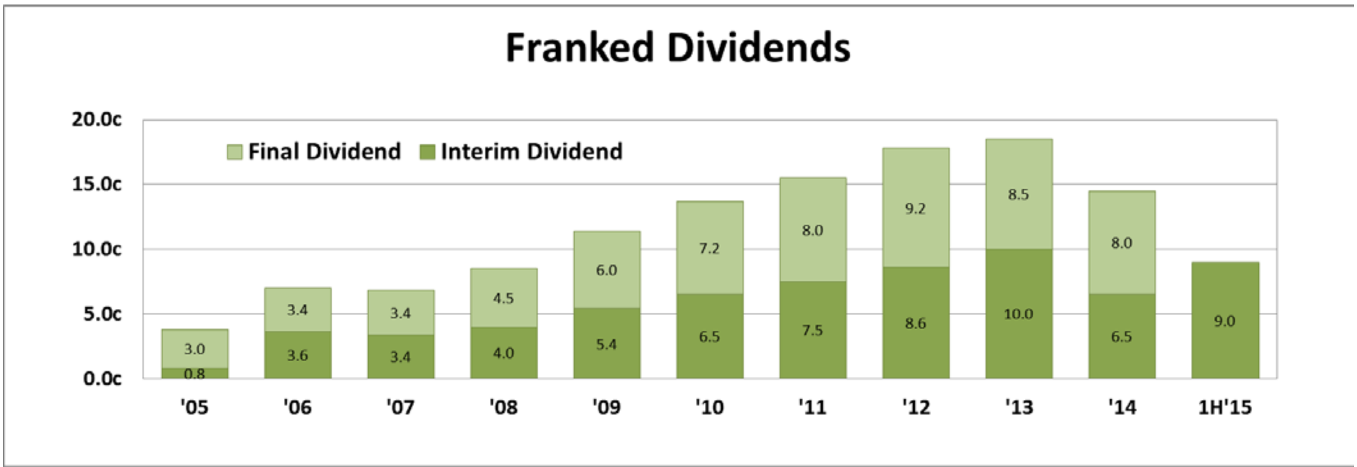
- Revenue (Statutory) up 18.8% to $17.6 million
- Revenue (Over-the-Counter) up 30% to $27.7 million
- Dividend (interim) up 38.5% to 9.0c per share, fully franked
- Bank debt unchanged at $0
- NPAT up 33.6% to $3.4 million
- Earnings Per Share up 33.6% to 14.3c per share
- EBITDA up 35.2% to $6.3 million
- Cashflow from operations up 70% to $4.8 million

Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)

	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	1H'15
OTC Revenue ($m)	7.0	8.3	11.2	18.6	27.6	30.7	35.7	45.9	48.5	44.2	27.7
Less amount retained by self-employed Dentists ($m)	1.6	2.1	2.8	3.4	5.3	6.8	6.9	9.2	12.3	12.4	10.1
Statutory Revenue ($m)	5.4	6.2	8.4	15.2	22.4	23.9	28.7	36.7	36.2	31.8	17.6

Dividend

I am aware that our dividend policy is the glue which secures our relationship with shareholders. It has always been our policy to treat shareholders as the true owners of the business. I believe that this approach has given our company an extra measure of strength, as shareholders know that they participate directly in the good times and the less good times, just as you would if you owned the entire business.



On that basis I am extremely pleased to announce the interim dividend of 9.0c per share, fully franked as always. Nothing communicates as clearly as the dividend, and this interim dividend tells you several important things about our business.

It tells you that our solid year-on-year growth is sustainable, real growth not spurred by any transient factor. It tells you that our balance sheet remains exceptionally strong, with zero bank debt and ample borrowing facilities to accommodate whatever sensible acquisition opportunities arise, regardless of scale. It reflects your board's commitment to achieve steadily increasing dividends as a core objective.

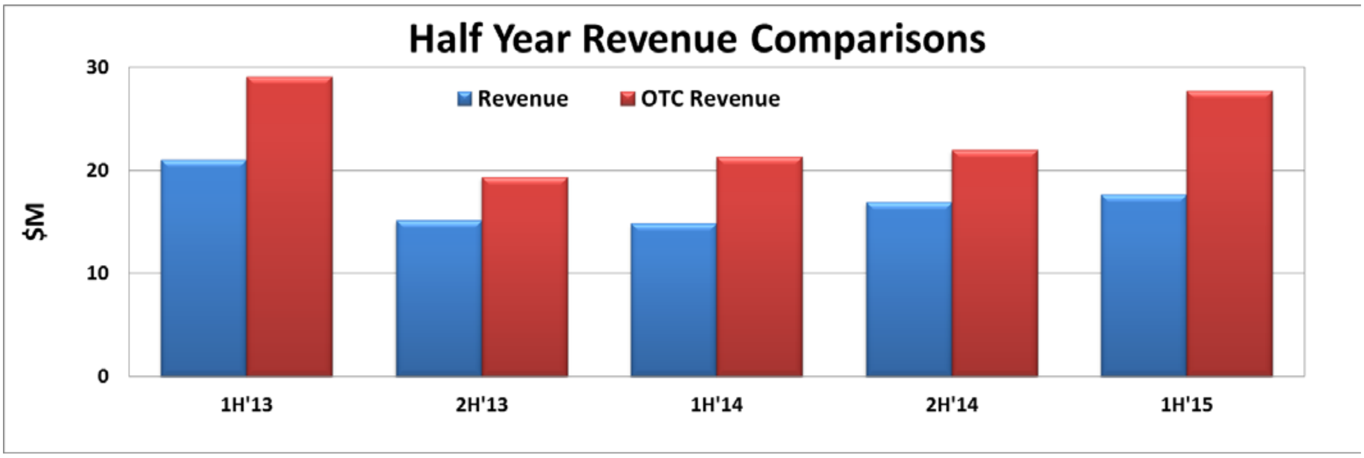
Ongoing growth

These agreeable results were produced by a business which is operating well in all respects. Our strong revenue growth derives from solid progress in all areas:

--organic growth: the never-ending process of increasing the delivery of quality patient services through each of our facilities, accommodating more dentists and assisting all dentists to increase their individual revenue.

--selective acquisition: the first half of the 2015 year is the first full accounting period which includes BOH Dental (located in the Brisbane CBD and acquired in May 2014), which has expanded our share of the market for complex, high-end dentistry and increased the ability of our dentists to provide patients with intra-company referrals.

--our $1-a-day Dental Care Plan: this plan delivers affordable basic dental care to individuals and families at a manageable fixed cost, overcoming the barrier to basic care faced by many people. At the same time, it creates a steady flow of revenue and activity for our dentists, playing a key role in our ongoing organic growth.



Outlook

As we approach our tenth anniversary as an ASX-listed company, I can report to you that the outlook for the future of our company is at least as good now as it has ever been before. We see a clear path to profitable growth of the established sorts (organic growth, selective acquisition, and the Dental Care Plan) and we are also working hard on a number of new opportunities which I hope to tell you about in future reports.

Shareholders can rest assured that any such new activities will have to meet our exceptionally strict criteria, as always.

Over the ten years since listing our company's relationship with shareholders has been consistently open and forthright. I hope that after ten years shareholders have grown accustomed to our complete reporting on the state of your company. We've always told the whole story in those times which have been a bit difficult, particularly around the events affecting the 2013 financial year, and we've always been happy to tell you when our results have been good.

As we approach the tenth anniversary of listing I am pleased to acknowledge that our company's performance over its first ten years has been good indeed. From where I sit, the ten years ahead are at least as promising as the ten years behind us.

A year of anniversaries

While our 2014 annual report was our tenth annual report as a listed company, we're still approaching the tenth anniversary of our actual listing date. 1300SMILES Ltd first traded on the ASX on 11 March 2005. As a matter of nostalgia, I'll remind you that our shares, issued at 80c, first traded and closed the first day at 99c.

Shareholders would be aware that shares in our company have recently traded at around $6.00. That represents share price growth of 650% from the 80c issue price over ten years, delivering compound annual growth of 22.3% per annum over a full decade. Even that cheerful figure excludes the $1.265 in franked dividends paid along the way.

Thank you

I have been thanking our staff, dentists, and shareholders for so many years that you might suspect that it's something I repeat automatically. It's not. Our company's good performance is delivered by our people working hard, at every level and in every facility, to deliver the best possible patient care while operating the best possible business. We'll never be finished making this business better, but when I say thank you to everyone who has helped us get this far, you can be sure I mean it.

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 New South Wales, South Australia, and 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 www.dentalcareersaustralia.com.au.

1300 SMILES Dentists

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of 1300SMILES Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

DIRECTORS

The following persons were directors of 1300SMILES Limited during the whole of the half-year and up to the date of this report:

Robert Jones	Chairman
Dr Daryl Holmes	Managing Director
William Bass	Non-Executive Director

REVIEW OF OPERATIONS

The profit for the group after providing for income tax amounted to $3,384,000 (31 December 2013: $2,532,000).

Detailed comments on operations up to the date of this report are included separately in the Interim Financial Report. Please refer to the Letter from the Managing Director.

FY2015 OUTLOOK

Likely developments and expected results of operations include:

- Ongoing opportunistic acquisitions
- Continued organic growth of existing practices
- Ongoing investigation of Greenfield sites for new practices

We see a clear path to profitable growth of the established sorts (organic growth, selective acquisition, and the Dental Care Plan) and we are also working hard on a number of new opportunities.

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 6.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of directors.

Dr. Daryl Holmes
Director

Townsville
19 February 2015

Auditor's Independence Declaration

As lead auditor for the review of 1300SMILES Limited for the half-year ended 31 December 2014, 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 entities it controlled during the period.

Steven Bosiljevac
Partner
PricewaterhouseCoopers

Brisbane
19 February 2015

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	Notes	Half-year 2014 $'000	2013 $'000
Revenue from continuing operations			
Services	6	**17,396**	14,254
Other revenue	6	**223**	401
		17,619	14,655
Other income	6	**4**	177
		17,623	14,832
Expenses			
Employee benefits		**(5,655)**	(5,448)
Consumables, lab fees and other supplies		**(1,944)**	(1,710)
Operations		**(2,078)**	(1,429)
Property		**(1,305)**	(1,147)
Depreciation and amortisation		**(1,441)**	(1,061)
Business growth and development		**(37)**	(213)
Corporate and administration		**(249)**	(156)
Finance costs		**-**	-
Share of the net loss of joint ventures accounted for using the equity method		**(29)**	(51)
Profit before income tax		**4,885**	3,617
Income tax expense		**(1,501)**	(1,085)
Profit for the half-year		**3,384**	2,532
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the half year		**3,384**	2,532
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share		**14.29**	10.69
Diluted earnings per share		**14.29**	10.69
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share		**14.29**	10.69
Diluted earnings per share		**14.29**	10.69

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

	Notes	31 December 2014 $'000	30 June 2014 $'000
Assets			
Current assets			
Cash and cash equivalents		**4,969**	1,369
Trade and other receivables	7	**2,015**	1,468
Inventories		**28**	30
Other		**74**	76
Total current assets		**7,086**	2,943
Non-current assets			
Loans receivable		**739**	2,137
Investment accounted for using the equity method	8	**240**	269
Property, plant and equipment	9	**10,942**	11,990
Intangible assets	10	**21,096**	20,989
Deferred tax assets		**665**	472
Other		**6**	6
Total non-current assets		**33,688**	35,863
Total assets		**40,774**	38,806
Liabilities			
Current liabilities			
Trade and other payables		**6,172**	5,786
Current tax liability		**986**	858
Provisions		**544**	575
Other liabilities		**150**	150
Total current liabilities		**7,852**	7,369
Non-current liabilities			
Trade and other payables		**1,511**	1,511
Provisions		**296**	301
Other liabilities		**406**	406
Total non-current liabilities		**2,213**	2,218
Total liabilities		**10,065**	9,587
Net assets		**30,709**	29,219
Equity			
Contributed equity		**15,501**	15,501
Retained profits		**15,208**	13,718
Total equity		**30,709**	29,219

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

2013	**Notes**	**Contributed equity $'000**	**Retained profits $'000**	**Total $'000**
Balance at 1 July 2013		15,501	12,451	27,952
Profit for the half year		-	2,532	2,532
Other comprehensive income		-	-	-
Total comprehensive income for the half-year		-	2,532	2,532
Transactions with owners in their capacity as owners:				
Shares issued		-	-	-
Share issue costs		-	-	-
Dividends paid during the half-year	5	-	(2,013)	(2,013)
Balance at 31 December 2013		15,501	12,970	28,471

2014	**Notes**	**Contributed equity $'000**	**Retained profits $'000**	**Total $'000**
Balance at 1 July 2014		**15,501**	**13,718**	**29,219**
Profit for the half year		**-**	**3,384**	**3,384**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive income for the half-year		**-**	**3,384**	**3,384**
Transactions with owners in their capacity as owners:				
Shares issued		**-**	**-**	**-**
Share issue costs		**-**	**-**	**-**
Dividends paid during the half-year	5	**-**	**(1,894)**	**(1,894)**
Balance at 31 December 2014		**15,501**	**15,208**	**30,709**

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 2014

	Notes	Half-year 2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**18,357**	15,179
Payments to suppliers and employees (inclusive of GST)		**(12,097)**	(11,386)
		6,260	3,793
Insurance claims refund and other income		**-**	265
Interest received		**67**	194
Income taxes paid		**(1,566)**	(1,451)
Net cash from operating activities		**4,761**	2,801
Cash flows from investing activities			
Proceeds on sale of assets		**86**	-
Repayments of investment share loans		**1,714**	-
Investments in share loans		**(303)**	-
Payments for property plant and equipment		**(356)**	(282)
Payments for intangible assets		**(408)**	(428)
Net cash from / (used) in investing activities		**733**	(710)
Net cash from financing activities			
Dividends paid		**(1,894)**	(2,006)
Net cash used in financing activities		**(1,894)**	(2,006)
Net increase in cash and cash equivalents		**3,600**	85
Cash and cash equivalents at beginning of the half year		**1,369**	8,051
Cash and cash equivalents at end of the half-year		**4,969**	8,136

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 2014

Note 1: Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2014 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by 1300SMILES Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

(a) New, and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period, however, the group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There will be some changes to the disclosures in the 30 June 2015 annual report as a consequence of these amendments.

Note 2: Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affected the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and no other various factors, including expectations of future events which management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next calendar year are discussed below.

Current Asset Deficiency
The company acquired BOH Dental in June 2014 from current cash reserves. Immediately prior to this transaction the Company held a significant net current asset surplus.

As at 31 December 2014, the Company has a current assets deficiency of $766,000, a reduction through operating cash flows from the deficiency of $4,426,000 at 30 June 2014 following the acquisition.

The board and senior management meet monthly and review in detail the current cash position and cash flow forecasts. The directors are confident that the company can meet working capital requirements from operating cash flows. However, the Company has a number of options available to it to continue to ensure it has sufficient reserves to meet its obligations as and when they fall due. These options include but are not limited to, the sale of surplus assets and overhead cost reductions. Subsequent to the end of the half year, the Company entered into a banking facility which provides adequate lines of credit to support our future growth strategies and working capital needs if and as required.

The directors are confident that all current liability commitments will continue to be met from operating cash generated in the normal course of business without drawing on available finance facilities and as such the financial report has been prepared on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 3: Segment information

Description of 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 4: Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 31 December 2014 is 30%, compared to 30% for the six months ended 31 December 2013.

Note 5: Dividends

	Half-year	
	2014	**2013**
	$'000	**$'000**
(a) Dividends provided for or paid during the half year		
Fully franked final dividend of 8.0 cents (2013: 8.5 cents) for the year ended 30 June 2014 paid on 15 October 2014.	**1,894**	2,013
(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 directors have recommended the payment of an interim dividend of 9.0 cents per fully paid ordinary share (2013: 6.5 cents per share), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 1 April 2015 out of retained earnings at 31 December 2014, but not recognised as a liability at the end of the half year, is	**2,131**	1,539

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 6: Revenue and other income

	Half-year 2014 $'000	Half-year 2013 $'000
(a) Sales revenue from continuing operations		
Service fees	**17,396**	14,254
(b) Other revenue		
Interest revenue	**67**	194
Other revenue	**156**	207
	223	401
(c) Other income		
Other income	**4**	177

Note 7: Trade and other receivables

	31 December 2014 $'000	30 June 2014 $'000
Trade receivables	**1,340**	770
Membership and treatment plan receivables*	**675**	698
	2,015	1,468

** Membership and treatment plan receivables are recognised in the accounting period in which the dental services are provided. Of the $675,000 (30 June 2014: $698,000) membership and treatment plan receivables at 31 December, the full balance is not due for settlement and will be collected within twelve months from reporting date.

Impairment of receivables
The Group has not recognised any loss in profit or loss 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 $309,000 as at 31 December 2014 ($444,000 as at 30 June 2014). 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 8: Investment accounted for using the equity method

	31 December 2014 $'000	30 June 2014 $'000
Shares in Dental Members Australia Pty Ltd (ownership interest 33%)	**240**	269

Dental Members Australia Pty Ltd ('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 DMA require unanimous consent from all shareholders and accordingly the investment is classified as a joint venture. 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 $29,000 (31 December 2013 $51,000). The Group did not receive any dividends from its equity accounted investment during the half year.

	31 December 2014 $'000	30 June 2014 $'000
Investment in joint venture		
Opening balance	**269**	333
Investment in joint venture	**-**	-
Share of profit/ (loss) from investment in joint venture	**(29)**	(64)
Other comprehensive income	**-**	-
Dividends paid	**-**	-
	240	269

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 9: Property, plant and equipment

	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
At 30 June 2014			
Cost or fair value	15,489	5,309	20,798
Accumulated depreciation	(5,999)	(2,809)	(8,808)
Net book amount	9,490	2,500	11,990
At 31 December 2014			
Cost or fair value	15,502	5,169	20,671
Accumulated depreciation	(6,729)	(3,000)	(9,729)
Net book amount	8,773	2,169	10,942

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
At 1 July 2013	-	5,970	2,777	8,747
Additions	246	1,152	207	1,605
Additions through business combinations	-	3,617	-	3,617
Transfers	-	69	(69)	-
Disposals	-	(29)	-	(29)
Depreciation expense	-	(1,289)	(661)	(1,950)
At 30 June 2014	246	9,490	2,254	11,990
At 1 July 2014	246	9,490	2,254	11,990
Additions	-	253	103	356
Transfers	(246)	46	200	-
Disposals	-	(188)	-	(188)
Depreciation expense	-	(828)	(388)	(1,216)
At 31 December 2014	-	8,773	2,169	10,942

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 10: Intangible assets

Consolidated	Software*	Goodwill $'000	Intellectual property* $'000	Other intangible assets* $'000	Total $'000
At 1 July 2013	325	11,807	874	308	13,314
Additions	309	-	-	694	1,003
Additions through business combinations	-	7,129	-	-	7,129
Amortisation charge	(167)	-	(47)	(114)	(328)
Contingent consideration	-	(129)	-	-	(129)
At 30 June 2014	467	18,807	827	888	20,989
At 1 July 2014	467	18,807	827	888	20,989
Additions	11	-	-	396	407
Amortisation charge	(78)	-	(24)	(123)	(225)
Disposals	-	(75)	-	-	(75)
At 31 December 2014	400	18,732	803	1,161	21,096

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

	31 December 2014 $'000	30 June 2014 $'000
Intangible assets		
Cost	**21,941**	21,610
Accumulated amortisation	**(845)**	(621)
	21,096	20,989

Note 11: Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments since the last annual financial report.

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the group's financial liabilities measured and recognised at fair value at 31 December and 30 June 2014 on a recurring basis:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 11: Fair value measurement of financial instruments (continued)

(a) Fair value hierarchy (continued)

	31 December 2014 $'000	30 June 2014 $'000
Other liabilities		
Contingent consideration payable	**556**	556

The Group did not measure any financial assets or financial liabilities on a non-recurring basis as at 31 December 2014.

(b) Valuation techniques used to determine fair values

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marketed price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.
- The fair value of the remaining financial instruments is determined using discounted cash flow analysis.

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

The following table presents the changes in level 3 instruments for the half-year ended 31 December 2014:

	31 December 2014 $'000
Opening balance 30 June 2014	556
Gain taken to goodwill	-
Losses/(gains) recognised in other income	-
Closing balance 31 December 2014	556

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 11: Fair value measurement of financial instruments (continued)

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

(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:

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 (5%) • Forecast EBITDA margin (5%) • Discount rate (4%)	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

(ii) Valuation processes

The finance department of the group includes a team that performs the valuations of non-property assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the General Manager - Operations & Finance (GMOF) and the Board of Directors (BOD). Discussions of valuation processes and results are held between the GMOF, BOD and the valuation team at least once every six months, in line with the group's half-yearly reporting periods.

The main level 3 inputs used by the group in measuring the fair value of financial instruments are derived and evaluated as follows:

- Discount rates for financial assets and financial liabilities are determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset.
- Contingent consideration payable – expected cash flows: these are estimated based on the terms of the sale contract, the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in level 3 fair values are analysed at the end of each reporting period during the half-yearly valuation discussion between the GMOF, BOD and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

(d) Fair values of other financial instruments (unrecognised)

The group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short term in nature. There were no significant differences identified at 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Note 12: Interest in joint arrangement

	31 December 2014 $'000	30 June 2014 $'000
(a) Loan payable to joint venture		
Opening balance	**17**	220
Loan advanced from joint venture	**-**	-
Repayment of loan to joint venture	**(17)**	(203)
Closing balance	**-**	17
(b) Trade balances		
Trade receivables	**-**	42
Trade payables	**-**	-
(c) Transactions with joint venture		
Commission revenues *	**26**	110
Acquisition of future maintainable revenue stream	**396**	694

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

Note 13: 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 14: Related party transactions

During the half-year ended 31 December 2014, the company did not enter into any significant transactions with related parties.

Note 15: Events occurring after balance sheet date

Subsequent to the end of the half year, the Company entered into a banking facility which provides adequate lines of credit to support our future growth strategies and working capital needs as required. There have been no other 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 directors' opinion:

(a) The financial statements and notes set out on pages 5 to 19 are in accordance with the *Corporations Act 2001*, including:

   i) Complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
   ii) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date and;

(b) There are reasonable grounds to believe that 1300SMILES Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Dr. Daryl Holmes
Director

Townsville
19 February 2015

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 consolidated balance sheet as at 31 December 2014, the consolidated income statement, 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 1300SMILES (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that 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 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 consolidated entity's financial position as at 31 December 2014 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*.

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 2014 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 2014 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

Steven Bosiljevac
Partner

Brisbane
19 February 2015