Appendix 4D

Half yearly report

Name of Entity	**1300SMILES Limited**
ABN	91 094 508 166
Half year ended ('current reporting period')	31 December 2018
Previous Corresponding Period	31 December 2017

Results for Announcement to the Market

	$'000	**Percentage increase/ (decrease) over previous corresponding period**
Revenue from ordinary activities	20,525	3.9%
Profit / (loss) from ordinary activities after tax attributable to members	4,106	4.3%
Net profit / (loss) for the period attributable to members	**4,106**	**4.3%**

Dividends

The company has declared a fully franked interim dividend of 12.5 cents per share in relation to the half-year ended 31 December 2018.

Confirmation of the Interim Dividend details:

Dividend amount per security	12.5 cents
Franked amount per security	100%
Date interim dividend declared	19 February 2019
Date that shares (ASX code: ONT) will trade ex-dividend	18 March 2019
Record date to determine entitlement to the dividend	19 March 2019
Date the dividend is payable	27 March 2019

NTA Backing

	Current Period	**Previous corresponding period**
Net tangible asset backing per ordinary security	47.4 cents	40.0 cents

INTERIM FINANCIAL REPORT

For the half-year ended

31 December 2018

Contents

Managing Director's Letter
For the half year ended 31 December 2018

Dear Shareholders,

Many key issues compete for top billing in this letter. They are all important. We have to deal with them in some order, but I don't want readers to think that this order amounts to some sort of ranking. These are the issues of great significance--to our dentists and staff, to our patients, to our suppliers, and to our shareholders--that I will address in this letter:

- First half results. These were solid as a rock with 7% growth in OTC revenue, 6% growth in EBITDA, and 4% growth in Net Profit After Tax.

o Revenue (OTC) up 7.1% to $30.0 million	o Revenue (Statutory) up 3.9% to $20.5 million
o EBITDA up 5.7% to $7.1 million	o Earnings per Share up 4.3% to 17.3cps
o NPAT up 4.3% to $4.1 million	o NPBT up 4.5% to $5.9 million
o Interim dividend up 4.2% to 12.5cps	o Bank debt at $4.4 million

- Townsville floods. The recent floods affected dentists, staff, and patients at our seven Townsville practices. Many of our dentists and employees have had their homes and possessions badly affected--some lost everything – and the jobs and schooling of family members disrupted. I express my heartfelt sympathy to all who have been affected.

- Response to Townsville floods. The outpouring of care and concern has been phenomenal. For those of us at 1300SMILES it has been heartwarming to find out how many of our patients, suppliers, and colleagues have contacted us to enquire about the well-being of our staff and dentists. Thank you to all.

- Business response to Townsville floods. Our Townsville operations were briefly interrupted by the floods, as I'll discuss in detail below. But the response from everyone we rely on--our insurers, tradesmen, staff, dentists, and patients--has been simply wonderful.

- Economic rebound. In 1998, Townsville suffered flood damage on a comparable scale to that of the recent events. That flood set off an economic boom in the region which continued for years. Early indications suggest that the economic activity arising from the current re-building of Townsville will be far greater than that of 1998. In addition, this new activity coincides with a period of rebounding fortunes for the mining industry. We're entering into a period in which there will be simply much more money flowing through every corner of the regional Queensland economy.

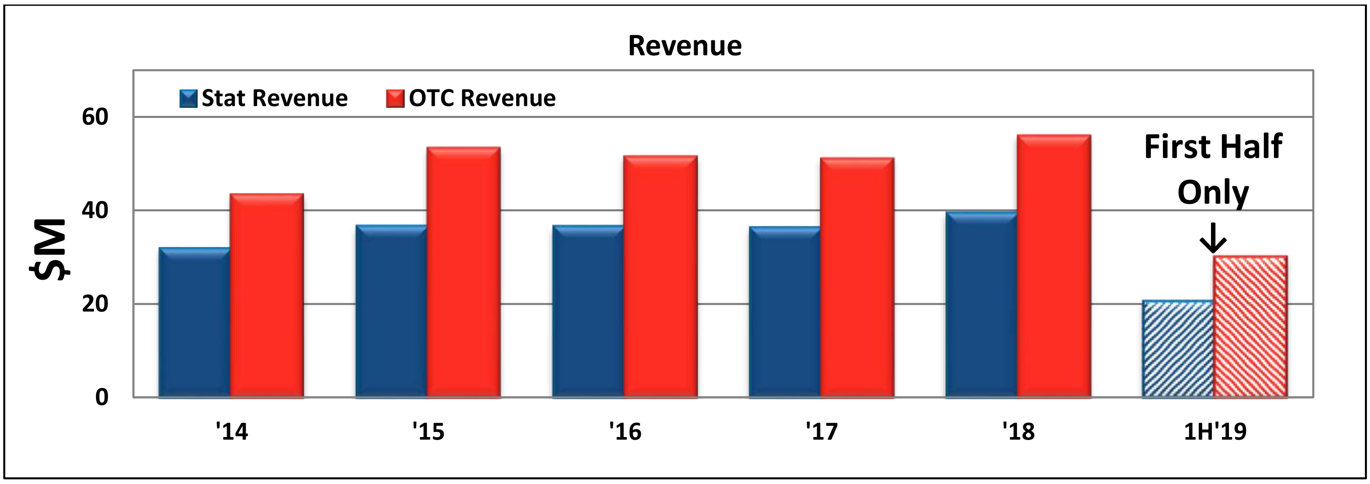
- Mergers and Acquisitions; practice level acquisitions. Our activity on these fronts remains intense indeed, although these efforts produce results we announce to the market only infrequently. We expect to make significant announcements on this front soon.

Managing Director's Letter
For the half year ended 31 December 2018

Financial results for the half year to 31 December 2018

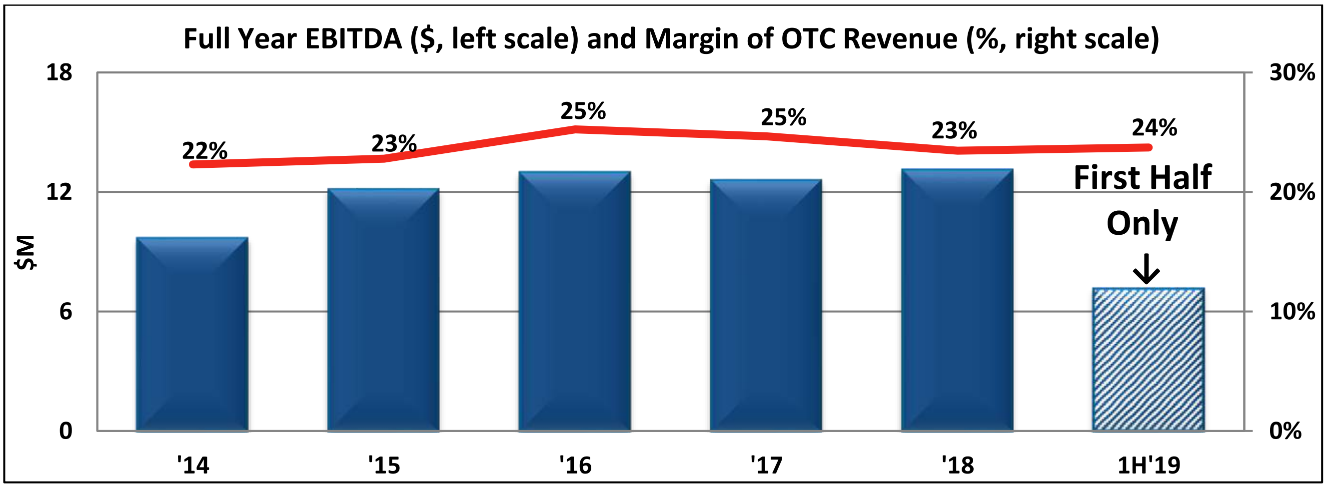
1300SMILES has delivered solid financial results for the first half of the year, with positive progress on all important measures.

Over-the-Counter Revenue was up 7.1% to $30.0 million, a record high boosted by a combination of solid growth across our long-established practices plus the incorporation of the practices acquired toward the end of the 2018 financial year.

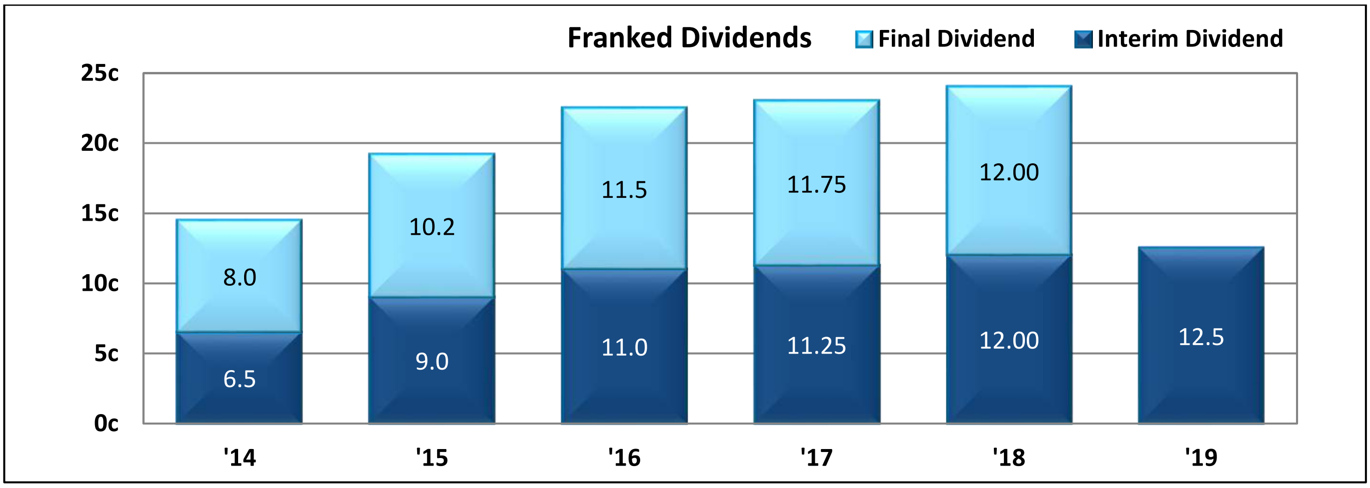


	'14	'15	'16	'17	'18	1H'19
OTC Revenue ($m)	43.3	53.2	51.4	51.0	55.8	30.0
Less amount retained by self-employed Dentists ($m)	11.5	16.6	14.9	14.8	16.5	9.5
Statutory Revenue ($m)	31.8	36.6	36.5	36.2	39.3	20.5

EBITDA is an increasingly important measure in our industry, as Dental Service Organisations become a more important but still small part of the total dental industry in Australia. Our EBITDA was up an agreeable 5.7% to $7.1 million and compares favourably to that produced by a number of our competitors.



Net Profit After Tax, Earnings Per Share, and the interim Dividend all increased by more than 4%. We have long committed to ensure that shareholders in 1300SMILES are truly treated as owners of this business, so in the normal course of things we expect our dividend to grow on a similar trajectory to that of Earnings Per Share.



Our balance sheet remains conservative indeed. We regard the $4.4 million of bank debt deployed at the moment as modest in relation to the size of our business and the value of the acquisitions it has enabled.

Townsville floods

Of our thirty-two dental facilities in Australia, seven are located in Townsville, Queensland's largest regional centre. All of these were affected to some degree by the floods of early 2019. Our greatest concern is focused on the disruption of the personal lives of our many dentists and staff members. In many cases the effect on their non-work lives has been far greater than any work-related disruptions. We're doing our best to look after all of our dentists and staff members with the care they deserve.

I am pleased to report that all of our Townsville facilities stood up well to the fierce and extended stormy weather. None of our practices was affected by flood waters or mud; all are positioned well above some of the worst flooding ever seen.

The sheer volume of rain, much of it horizontal and driven by powerful winds, caused some disruption at all seven of these practices. All Townsville practices were closed for a few days while the city itself was paralysed. There was no way for dentists, staff, or patients to travel.

Only two of our facilities were forced to shut briefly by water incursion. Not flooding, I emphasise, but various small water leaks leading to minor interior damage. No expensive equipment was damaged. The other five Townsville practices remained open and in full operation except for those few days when the whole city was shut down.

Thanks to exceptional work by our insurers and tradesmen, all seven of our practices were fully operational and in excellent condition first thing on the morning of Monday 11 February, just days after the worst of the weather subsided.

We carry business interruption insurance as a normal part of our risk management and expect to recoup all repair costs and lost profit arising from this event.

I have so many people to thank for the fact that the harm to our business was absolutely minimised. I note the hard work and good cheer of our staff, dentists, and patients. I salute the solid response from Townsville's emergency services--with massive assistance from the Army--and the public at large. What a great community.

Economic rebound

Floods of the sort just suffered by Townsville are a fact of life. Following the 1991 flood and the extraordinary "Night of Noah" in 1998 (in which Townsville had almost a meter of rainfall in one day) we saw extraordinary, extended economic booms. Just looking along the streets we can see that sales of white goods, consumer and business electronics, and furniture sales are all about to boom, as are sales of building materials and flooring of all kinds, with much of this buying activity funded by insurance payouts. Every restaurant and hotel in town is getting ready for a sustained crush of demand. Every landlord looks out on a sea of eager tenants funded by insurance payouts and tradesman's premium rates.

As I have often reminded you, dental services are, to a degree, discretionary purchases driven by consumer buying power and consumer confidence. I have pointed out before that we compete with Harvey Norman or Amazon for consumer spending at least as much as we compete with other dentists, probably more. Looking ahead, our seven Townsville practices, recently surrounded by flood waters, will soon find themselves operating in a flood of consumer spending.

We observe this effect right now, on a smaller scale, in Airlie Beach. In March 2017, Cyclone Debbie clobbered Airlie Beach and most of the Whitsundays. Two years later, Airlie continues to enjoy an economic boom which shows no sign of diminishing. These effects show up clearly at our nearest facility, in Mackay.

Meanwhile, business at most of our regional Queensland facilities is getting a boost from the ongoing strength of the resources industry. It appears to us that this sector of the economy is still gathering strength, adding demand for dental services in almost all of the regional centres we serve.

Mergers and acquisitions

Our senior managers spent a great deal of time on larger potential acquisitions during the first half of the current year. The transactions we work on are sensitive, complex, and large in scale. Progress on such deals is slow and exquisitely careful. We will of course announce finalised deals to the Australian Stock Exchange at the appropriate times.

Practice-level acquisitions

Long term shareholders are well aware that acquisitions seem to come in spurts. The underlying work is constant and never-ending, but the results come in bunches.

After announcing a batch of acquisitions completed at the end of the 2018 financial year, the first half of the 2019 year produced no completed, announced deals. This does not suggest any lack of progress.

As of now I expect that we will soon be able to announce contracts, subject to the usual conditions, to acquire several additional larger practices delivering estimated additional annual revenue of at least $6.5 million--a significant increment. These pending acquisitions will meet our usual strict performance standards and I expect them to make a contribution to EBITDA commensurate to the expected increase in revenue.

Politics and uncertainty

Regional Australia has been facing economic challenges for some years now. More recently, capital city real estate prices have been dropping at startling rates. And, of course, we now face another federal election. Political uncertainty is always negative for consumer confidence. This year we have a bonus complication: a debate over whether to make significant changes to dividend imputation.

I'm not going to enter the argument about dividend imputation and franking credits. Over our fourteen years as a listed company we have been proud of our record of paying growing franked dividends. This record reflects our commitment to doing the right thing by shareholders in the economic and tax framework within which we operate. If that framework happens to change then we'll adjust our behaviour as necessary to continue our careful and fair treatment of shareholders.

Perhaps I can make a small contribution by reminding people of a bit of the history of dividend imputation. First of all, it was Paul Keating who thought of it, back in the 1980s. Today, it seems that many of the most adamant defenders of refundable imputation credits are people who don't like Keating and have a hard time believing that he introduced it. He did, and I would argue that the imputation system had lasting positive effects on the Australian economy and went a long way toward achieving its goal of eliminating double-taxation of company income.

I'll bet Keating never dreamed that any government would push the imputation system so far as to make excess franking credits refundable in cash. It took John Howard and Peter Costello to think of that, many years later. They were facing a difficult election campaign and came up with a sure vote winner among the growing population of self-managed super fund members: cash refunds. It worked for them, but it did so at vast and lasting cost to the Australian Treasury. This cost has been passed on, inevitably, to other tax payers.

That said, I'll resume my position standing back from this debate. I'm confident that if there are changes to the dividend imputation system, they will inevitably be less sweeping than feared or hoped (depending on your position), that they'll be eased in over some years rather than all at once, and that the small group of people badly affected by the change will be accommodated with some sort of transition arrangement. However it turns out, I assure you that 1300SMILES will continue to deliver benefits to shareholders to the best of its ability.

Thank you

As always, but especially now, I express my enthusiastic thanks to our dentists, clinical staff, and management staff, all of whom have worked hard to deliver the good results reported here. I also thank you, our shareholders, for your continuing trust and support.

Dr Daryl Holmes (OBE)
Managing Director

ABOUT 1300SMILES LTD

OVERVIEW OF THE COMPANY'S BUSINESS

1300SMILES Limited 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 encouraged to contact Dr. Holmes directly or email dentalcareers@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.

DIRECTOR'S 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 2018. Throughout the report, the consolidated entity is referred to as the group.

Directors and company secretary

The following persons were directors of 1300SMILES Limited during the whole of the half-year and up to the date of this report, unless otherwise noted;

Robert Jones (Non-Executive Chairman)
Dr Daryl Holmes (Managing Director)
Evonne Collier (Non-Executive Director)
Jason Smith (Non-Executive Director)
Patrick Wyatt (Company Secretary) (Appointed 20 July 2018)

Review of operations

The profit for the group after providing for income tax amounted to $4,106,000 (31 December 2017: $3,938,000).

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.

FY2018 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 9.

Rounding of amounts

The company is of a kind referred to in ASIC Corporations Instrument 2016/191, 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 in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Dr Daryl Holmes (OBE)
Director
Townsville
19 February 2019

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*
TO THE DIRECTORS OF 1300SMILES LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2018, 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.

PKF

PKF BRISBANE AUDIT

SHAUN LINDEMANN
PARTNER

BRISBANE
DATE: 19 FEBRUARY 2019

Consolidated statement of comprehensive income

For the half year ended 31 December 2018

	Note	Half-year 2018 $'000	Half-year 2017 $'000
Revenue from continuing operations			
Services	6	**20,525**	19,680
Other	7	**-**	70
		20,525	19,750
Expenses			
Consumables, lab fees and other supplies		**(2,025)**	(2,235)
Employee benefits expense – Dentists		**(1,545)**	(1,773)
Employee benefits expense – all others		**(6,085)**	(5,466)
Depreciation and amortisation expense		**(1,148)**	(1,054)
Property expenses		**(1,582)**	(1,423)
Operating expenses		**(1,964)**	(1,843)
Corporate and administrative expenses		**(200)**	(292)
Finance costs		**(110)**	(73)
		(14,659)	(14,159)
Share of net profit / (loss) of associates		**-**	20
Profit before income tax expense		**5,866**	5,611
Income tax expense	4	**(1,760)**	(1,673)
Profit for the half-year		**4,106**	3,938
Other comprehensive income		-	-
Total comprehensive income for the half-year		**4,106**	3,938
		Cents	**Cents**
Earnings per share:			
Basic earnings per share		**17.34**	16.63
Diluted earnings per share		**17.34**	16.63

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

Consolidated balance sheet

As at 31 December 2018

	Note	31 December 2018 $'000	30 June 2018 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		**2,156**	2,295
Trade receivables	8	**2,732**	2,502
Inventories		**21**	19
Prepayments		**980**	350
Other		**38**	373
Loans receivable	9	**715**	972
Total current assets		**6,642**	6,511
Non-current Assets			
Loans receivable	9	**2,843**	2,317
Property, plant and equipment	10	**12,669**	11,155
Intangible assets	11	**28,151**	28,129
Total non-current assets		**43,663**	41,601
Total Assets		**50,305**	48,112
LIABILITIES			
Current Liabilities			
Trade and other payables	12	**4,210**	5,667
Current tax liability		**534**	444
Provisions		**606**	688
Other liabilities		**100**	100
Total current liabilities		**5,450**	6,899
Non-current Liabilities			
Borrowings	13	**4,422**	1,951
Deferred tax liabilities		**190**	210
Provisions		**404**	378
Other liabilities		**460**	560
Total non-current liabilities		**5,476**	3,099
Total Liabilities		**10,926**	9,998
Net Assets		**39,379**	38,114
EQUITY			
Contributed equity		**15,501**	15,501
Retained profits		**23,878**	22,613
Total Equity		**39,379**	38,114

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 2018

	Note	Contributed equity $'000	Retained profits $'000	Total equity $'000
Consolidated Balance at 1 July 2017		15,501	20,604	36,105
Total comprehensive income for the year		-	3,938	3,938
Transactions with owners in their capacity as owners:				
Dividends paid	5	-	(2,782)	(2,782)
Consolidated Balance at 31 December 2017		15,501	21,759	37,260
Consolidated Balance at 1 July 2018		**15,501**	**22,613**	**38,114**
Total comprehensive income for the year		-	**4,106**	**4,106**
Transactions with owners in their capacity as owners:				
Dividends paid	5	-	**(2,841)**	**(2,841)**
Consolidated Balance at 31 December 2018		**15,501**	**23,878**	**39,379**

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 2018

	Note	Half-year 2018 $'000	Half-year 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**22,578**	21,999
Payments to suppliers and employees (inclusive of GST)		**(17,558)**	(14,940)
		5,020	7,059
Interest received		**163**	189
Interest and other finance costs paid		**(110)**	(73)
Income taxes paid		**(1,518)**	(1,698)
Net cash inflow from operating activities		**3,555**	5,477
Cash flows from investing activities			
Investments in share loans and other loans		**(430)**	(928)
Payments for property, plant and equipment		**(2,138)**	(1,050)
Payments for intangible assets		**(35)**	(282)
Payment for purchase of businesses, net of cash acquired	15	**(720)**	(5,489)
Net cash outflow from investing activities		**(3,323)**	(7,749)
Cash flows from financing activities			
Drawdown of borrowings		**2,471**	4,161
Dividends paid		**(2,841)**	(2,782)
Net cash inflow/(outflow) from financing activities		**(370)**	1,379
Net (decrease)/increase in cash and cash equivalents		**(139)**	(893)
Cash and cash equivalents at the beginning of the half-year		**2,295**	5,733
Cash and cash equivalents at the end of the half-year		**2,156**	4,840

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

Note 1: Basis of preparation for the half-year report

This consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This 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 2018 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*.

These interim financial statements were authorised for issue on 19 February 2019.

(a) Accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for those as described below.

(i) Impact of Standards Issued But Not Yet Applied by the Group

AASB 16: Leases

AASB 16: Leases (issued February 2016) will supersede the existing lease accounting requirements in AASB 117: Leases and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership. The key requirements of AASB 16 are summarised as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: Property Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components, instead accounting for all components as a lease;
- inclusion of additional disclosure requirements; and
- accounting for lessors will not significantly change.

AASB 16 will affect primarily the accounting for the Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $8,486,000. The Group is currently assessing to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit, financial position and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16. The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the Standard before its effective date.

Note 1: Basis of preparation for the half-year report (continued)
(a) Accounting policies (continued)

(ii) Changes in Accounting Policies Applied by the Group

AASB 9: *Financial Instruments* – Accounting Policies

This standard addresses the classification, measurement and recognition of financial assets (cash, trade receivables, other receivables) and financial liabilities, the impairment of financial assets and hedge accounting. In summary:

(a) Classification and measurement – financial assets are required to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. For financial liabilities the standard retains most of the previous standard requirements. There has been no change to the classification and measurement of financial assets and liabilities in the group.

(b) Impairment – the expected credit loss model for impairment of financial assets replaces the incurred loss model. The Group has applied the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and requires recognition from initial recognition of the trade receivables. Application of this standard has not had a material impact on the carrying value of expected credit losses. No material impact was noted with respect to the opening provision therefore no adjustments have been made to opening balances.

(c) Hedge accounting – the rules on hedge accounting have been amended to align accounting treatment with risk management practices of the reporting entity. There is no impact on the Group of the new standard.

AASB 15: *Revenue from Contracts with Customers* – Accounting Policies

The Group has determined that AASB 15 has not resulted in a change to either recognition or measurement of revenue and therefore there is no requirement to restate revenue reported in prior periods. The Group will continue to recognise each of the following streams of revenue

(a) Rendering of services – revenue from the rendering of dental services over the counter is recognised upon the performance of the service by the dentist. Patients are billed at the time of service delivery and revenue recognised. Service fees from contract dentists is recognised upon the performance of services.

(b) Membership and treatment plans – revenue from membership and treatment plans is recognised on an accrual basis, whereby revenue is recognised when the service is rendered. In the circumstance whereby no service has been rendered, revenue will start to be recognised when the Group when a service obligation has occured per the contract.

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 on 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. There have been no changes to 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, to those disclosed in the annual report for the year ended 30 June 2018.

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 2018 is 30%, compared to 30% for the six months ended 31 December 2017.

	Half-year 2018 $'000	Half-year 2017 $'000
Note 4: Income tax (continued)		
Current tax:		
Current tax on profit for this half year	**1,760**	1,673
Adjustments for current tax on prior years	**-**	-
	1,760	1,673

Note 5: Dividends

Dividends provided for or paid during the half year:

	2018 $'000	2017 $'000
Fully franked final dividend of 12.0 cents (2017: 11.75 cents) for the year ended 30 June 2018 paid on 14 September 2018.	**2,841**	2,782

Dividends not recognised at the end of the half year:

	2018 $'000	2017 $'000
In addition to the above dividends, since the end of the half-year, the directors have recommended the payment of an interim dividend of 12.5 cents per fully paid ordinary share (2017: 12.0 cents per share), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 27 March 2019 out of retained earnings at 31 December 2018, but not recognised as a liability at the end of the half year, is:	**2,960**	2,842

	2018 $'000	2017 $'000
Note 6: Revenue		
Sales revenue from continuing operations:		
Service fees	**19,684**	19,319
Other revenue:		
Interest revenue	**183**	189
Consulting revenue	**600**	-
Other revenue	**58**	172
	841	361
Revenue	**20,525**	19,680
Note 7: Other income		
Profit on disposal of assets	**-**	70

	31 December 2018 $'000	30 June 2018 $'000
Note 8: Trade and other receivables		
Trade receivables	**2,332**	1,972
Membership and treatment plan receivables	**415**	545
Provision for doubtful debts	**(15)**	(15)
	2,732	2,502

Impairment of receivables
The Group continues to recognise a provision for doubtful debts in respect of impairment of receivables.

Past due but not impaired
Customers with balances past due amount to $504,000 as at 31 December 2018 ($433,000 as at 30 June 2018). These past due debtors were all 1 to 3 months overdue.

	31 December 2018 $'000	30 June 2018 $'000
Note 9: Loans receivable		
Current		
Loans receivable – redeemable preference shares (b)	**500**	625
Other loans receivable	**215**	347
	715	972
Non-current		
Share loan principal (a)	**924**	491
Share loan interest	**35**	26
Other loans receivable	**259**	299
Loans receivable – redeemable preference shares (b)	**1,625**	1,500
	2,843	2,317

a) Ordinary share loans were made pursuant to a company-funded share loan plan (SLP) program to incentivise consultants, contractors and senior management. Shares are held in voluntary escrow. There have been no change to the terms of the redeemable preference shares to those disclosed in the audited financial statements from 30 June 2018.

b) Redeemable preferences shares were acquired during the period in an unlisted public company. There have been no change to the terms of the redeemable preference shares to those disclosed in the audited financial statements from 30 June 2018.

Note 10: Property, plant and equipment

	Capital works $'000	Land and Buildings $'000	Property, plant and equipment $'000	Leasehold improvements $'000	Total $'000
Balance at 1 July 2018	211	1,274	7,913	1,757	11,155
Additions	337	32	1,585	109	2,062
Additions from business combinations	-	-	450	-	450
Disposals	-	-	(202)	(10)	(212)
Depreciation expense	-	-	(530)	(256)	(786)
Balance at 31 December 2018	**548**	**1,306**	**9,216**	**1,599**	**12,669**

	31 December 2018 $'000	30 June 2018 $'000
Property, plant and equipment – Cost	**27,896**	25,422
Accumulated depreciation	**(15,228)**	(14,267)
	12,669	11,155

Note 11: Intangible assets

	Software $'000	Goodwill $'000	Intellectual property $'000	Future maintainable revenue stream $'000	Total $'000
Balance at 1 July 2018	432	25,551	1,048	1,098	28,129
Additions	77	-	-	35	113
Additions from business combinations		271			271
Disposals	-	-	-	-	-
Amortisation expense	(134)	-	(31)	(197)	(362)
Balance at 31 December 2018	**376**	**25,822**	**1,017**	**936**	**28,151**

Note 11: Intangible assets (continued)

	31 December 2018 $'000	30 June 2018 $'000
Intangible assets - Cost	**31,129**	30,745
Accumulated amortisation	**(2,978)**	(2,616)
	28,151	28,129

Note 12: Trade and other payables

Current:		
Trade payables	**1,716**	2,106
Sundry payables and accruals	**2,111**	2,969
Unearned revenue	**383**	592
	4,210	5,667

Note 13: Borrowings

Non-current:		
Borrowings	**4,422**	1,951

The group maintains the following lines of credit at balance date:

1) Corporate markets loan facility - $25m
2) Bank Guarantee facility - $1m

At balance date the group had drawn down $4.4m of the corporate markets loan facility (30 June 2018: $1.9m). Both facilities have an expiry date of 31 January 2020, whereby any outstanding amounts payable are due.

In accordance with the terms of the finance agreement, Directors have assessed the amounts payable at balance date as non-current.

The facilities are secured by lien over the whole of group assets.

Note 14: 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 15: Business combinations

The group acquired one dental practice in Noosa (Queensland) on 24 July 2018. The practice was acquired through the acquisition of 100% of the shares held in Valudent Pty Ltd. Valudent Pty Ltd has been subsequently consolidated into the group.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Noosa $'000
Purchase consideration:	
Cash paid	1
Total purchase consideration	1
Liabilities assumed	(720)
Property, plant and equipment	450
Provisional goodwill	271
Net assets acquired	1

The practice contributed income of $215,000 to the Group since acquisition, and profit after tax of $25,000. It is not practicable for the Group to disclose the revenue and profit after tax contributions of the practices, had the acquisitions occurred on 1 July 2017.

Note 16: Events occurring after balance sheet date

As outlined in Note 5, the Directors have recommended an interim fully franked dividend of 12.5 cents per fully paid ordinary share.

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
31 December 2018

In the directors' opinion:

a) the financial statements and notes set out on pages 10 to 21 are in accordance with the *Corporations Act 2001*, including:
   i) complying with Accounting Standard AASB 134: *Interim Financial Reporting*; and
   ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
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.

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

Dr Daryl Holmes (OBE)
Director

Townsville
19 February 2019

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF 1300SMILES LIMITED

Conclusion

We have reviewed the accompanying half-year financial report of 1300SMILES Limited ("the Company") and its controlled entities ("the consolidated entity"), which comprises the consolidated balance sheet as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the half-year's end or from time to time during the financial half-year.

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 and its controlled entities 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 2018, and of its financial performance for the half-year ended on that date; and

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. In accordance with the *Corporations Act 2001*, we have given the directors of the company a written Auditor's Independence Declaration.

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 the Australian Accounting Standards and the *Corporations Regulations 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.

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Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of 1300SMILES Limited and its controlled entities, 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.

PKF

PKF BRISBANE AUDIT

SHAUN LINDEMANN
PARTNER

19 FEBRUARY 2019
BRISBANE

Directors

Robert Jones, Chairman
Dr Daryl Holmes, Managing Director
Evonne Collier (Non-Executive Director)
Jason Smith (Non-Executive Director)

Company secretary

Patrick Wyatt (appointed 20 July 2018)

Registered office and principal business office

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Auditor

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Country of incorporation

Australia

Stock exchange listing

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ASX Code: ONT

Australian business number (ABN)

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1300 SMILES Dentists

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