1300 SMILES Dentists

Appendix 4D

Half yearly report

Name of Entity	**1300SMILES Limited**
ABN	91 094 508 166
Half year ended ('current reporting period')	31 December 2016
Previous corresponding period	31 December 2015

Results for Announcement to the Market

	$'000	**Percentage increase/ (decrease) over previous corresponding period**
Revenue from ordinary activities	18,011	(3.4)%
Profit / (loss) from ordinary activities after tax attributable to members	3,785	(2.4)%
Net profit / (loss) for the period attributable to members	**3,785**	**(2.4)%**

Dividends

The company has declared a fully franked interim dividend of 11.25 cents per share in relation to the half-year ended 31 December 2016.

Confirmation of the Interim Dividend details:

Dividend amount per security	11.25 cents
Franked amount per security	100%
Date interim dividend declared	16 February 2017
Date that shares (ASX code: ONT) will trade ex-dividend	16 March 2017
Record date to determine entitlement to the dividend	17 March 2017
Date the dividend is payable	29 March 2017

NTA Backing

	Current Period	**Previous corresponding period**
Net tangible asset backing per ordinary security	50.2 cents	50.9 cents

1300 SMILES Dentists

INTERIM FINANCIAL REPORT

For the half-year ended
31 December 2016

1300 SMILES Stadium

1300 Smiles™ We Care

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DIRECTORS
Robert Jones, Chairman
Dr Daryl Holmes, Managing Director
Dr Glen Richards, Non-Executive Director

COMPANY SECRETARY
Ms Gina Bozinovski

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COUNTRY OF INCORPORATION
Australia

STOCK EXCHANGE LISTING
Australian Securities Exchange Limited
ASX Code: ONT

AUSTRALIAN BUSINESS NUMBER
ABN 91 094 508 166

SHARE REGISTER
Computershare Investor Services Pty Limited
117 Victoria Street
West End QLD 4001
Telephone: +61 7 3237 2100

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders,

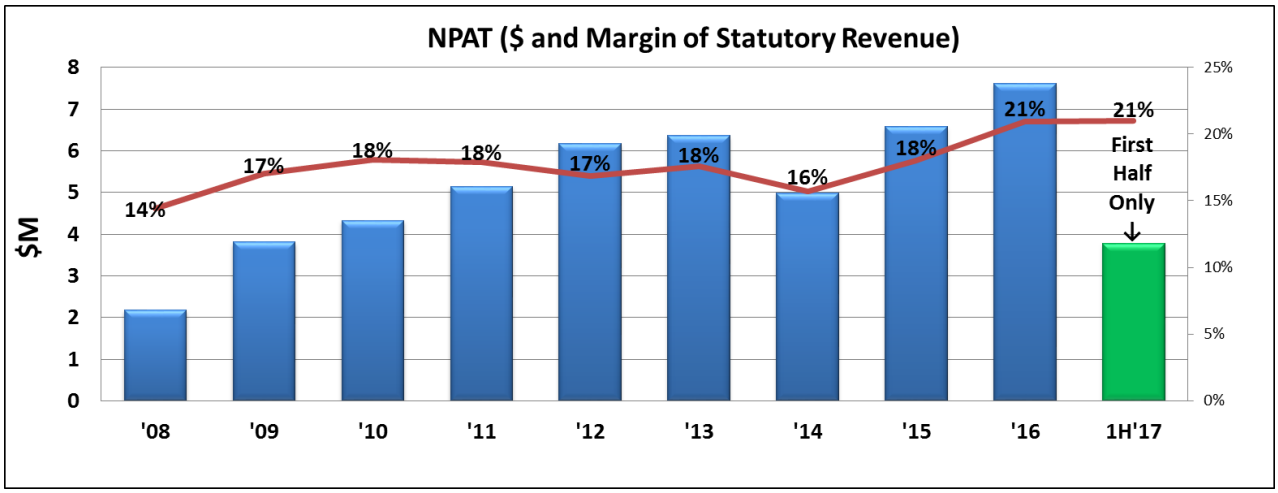
I am very pleased to present to you our accounts for the first half of the 2017 financial year. These results, delivered in a period which presented some challenges to our entire industry, speak to the soundness of our management and business model.

Thanks to our solid operations and our intense focus on cost control and operational efficiency, I have the privilege of announcing a record interim dividend of 11.25c per share, fully franked.

Financial results for the half year to 31 December 2016

- NPAT down 2.4% to $3.8 million
- Normalised NPAT up 4.5% to $3.8 million
- Earnings per Share down 2.4% to 16.0c
- Interim dividend up 2.3% to 11.25c
- Revenue (Statutory) down 5.2% to $18.0 million
- Normalised Revenue down 3.4% to $18.0 million
- Cash balance up 14% to $8.6 million
- Bank debt unchanged at $0

While I never like to see negative numbers in our financial reports, I take some comfort from these results. Above all, I note that during the twelve months from 31 December 2015 1300SMILES paid a record full-year dividend and also experienced a slight decline in Revenue, but nevertheless we have delivered a 14% increase in our cash balance to $8.6 million. As discussed in detail below, our normalised NPAT for the period was up by 4.5%. Our bank debt, of course, remains at zero.



Economic and political environment

At the commonwealth government level, the main program of direct relevance to our business, the Child Dental Benefit Scheme, produces a non-material portion (that is, less than 5%) of our Revenue. Our CDBS revenue continues to grow at a moderate double-digit pace.

At the state level, our company continues to provide services to public dental patients in Queensland under an outsourcing arrangement with Queensland Health. Our revenue from this activity ebbs and flows noticeably, affected by the size of public dental service waiting lists and perhaps by budget cycles within government. Our relationship with Queensland Health is practical and positive, and our revenue from these services continues on an upward trend.

I am pleased to say that there were no significant changes to government policy affecting our business at either the state or federal level.

Broader economic factors did have a noticeable effect on our results. The first of these is ongoing political uncertainty and gridlock here in Australia. Both the commonwealth government and the state government in Queensland (our largest market) hang by slender threads, susceptible to disruption at any time.

In Queensland the state government depends on the support of a single independent member. An election is not due for another year but there's plenty of speculation that it will come much sooner. This sort of leadership and policy vacuum always creates distress for consumers and exerts downward pressure on consumer spending.

A second factor is the shock result in the recent American elections. This has created great uncertainty in the outlook for employment in industries across all sectors of our economy. Whether the economic result eventually turns out to be good or bad, consumers react to this sort of uncertainty by waiting it out with their wallets closed.

A third factor is the growing gulf between the booming big city markets in Sydney and Melbourne and the rest of Australia. In those two big cities, consumer spending seems to be supported by the wealth effect of increasing real estate prices. Personally, I can't see how it makes sense to buy more dental care because the price of houses in your neighbourhood is increasing, but it's an observable effect. Elsewhere it's quite a different story.

A fourth factor is the sharp contraction of the mining industry generally, which has had an effect on our Revenue in a number of regional centres. It appears that the mining sector has passed through the worst of the current downturn, with activity increasing in a number of regional areas important to our company.

Our monthly results toward the end of the first half and over the first several weeks of the second half have been improving, subject to the usual complications of the holiday period. Having been through these cycles many times, my sense is that conditions are improving. Without making any forecast I can say that I believe that we've now seen the worst effects of the mining downturn on our business.

First half results

The first half of the current year gives shareholders a good opportunity to understand the inner workings of our company.

1300SMILES Ltd has been dealing with the economic factors discussed above for more than a year now, and our first half result suggests that our management response has been effective. Our statutory Revenue for the first half was down by $1 million, from $19 million to $18 million. That's a decrease of 5.2%.

Carrying on from the previous full year, however, we have continued our relentless campaign to streamline and simplify every aspect of our business with the aim of improving our operating efficiency in every possible way. I am proud to say that we've managed to improve the quality of our result in a period of decreasing Revenue. At the Net Profit After Tax line we see a decrease of just 2.4%, down just $93,000 to $3,785,000.

In a static business, a revenue decline of a given percentage almost always delivers an NPAT decrease of a greater percentage. 1300SMILES has been anything but static, significantly improving the less-visible parts of our operation during this spell of consumer unease.

Normalised results

The normal ebb and flow of business activity means that income or expense sometimes get bunched up in a particular period, affecting the year-on-year comparisons.

In the accounts for the first half of the 2016/2017 year there is one factor which has a noticeable effect on both Revenue and NPAT.

In the previous half year our company sold a dental practice which no longer suited our business. In doing so we recorded a significant capital gain ($365,000), which had the effect of boosting both our Revenue and our profit in the first half of the 2016 year. This means that the base against which we measure the first half of the 2017 year was noticeably higher than it otherwise would have been.

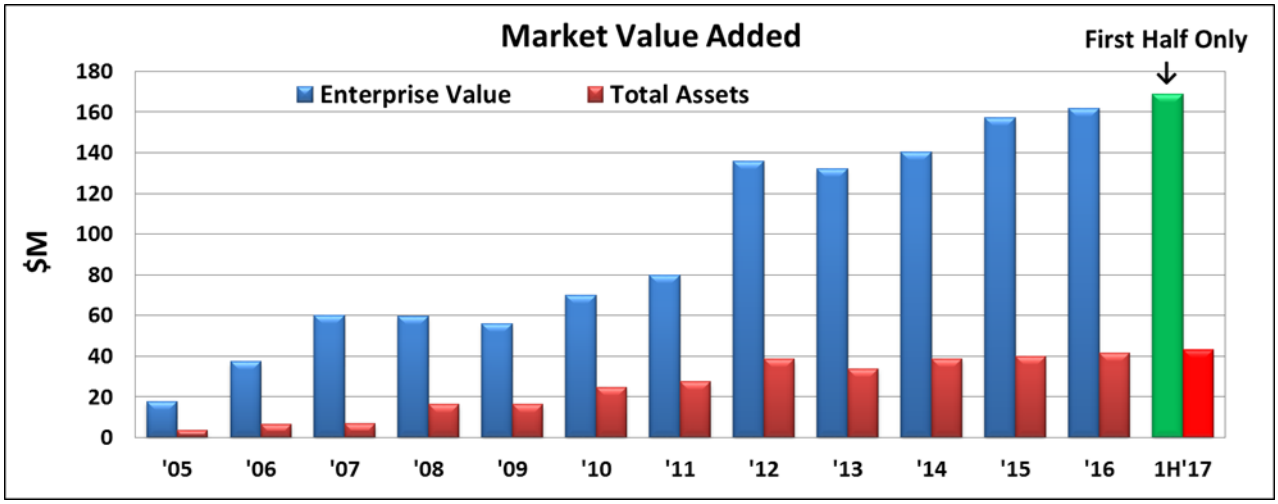
Because we don't regard trading dental practices as part of our core business (while recognising that we will from time to time dispose of some) we need to acknowledge the effect of this transaction on our period-to-period comparisons. It certainly does shareholders no harm when we realise gains on asset disposals, but in these accounts this particular transaction has the effect of making the current first half look worse in comparison to the previous year's first half than it otherwise would.

In the previous year's first half, this non-operating gain of $365,000 flowed through to an increase in Revenue of the same amount. Excluding this boost to the prior period's Revenue, for the first half of the current year normalised Revenue is down by 3.4%, somewhat better than the 5.2% decline in statutory Revenue.

Similarly, the non-operating gain of $365,000 in the first half of the previous year had the effect of increasing our reported NPAT (after company tax at 30%) by about $255,000.

As noted above, our statutory Net Profit After Tax is down by $93,000 or 2.4%. If we were to normalise this result to exclude the capital gain in the first half of the preceding year, our NPAT would actually be up by about $163,000 or up 4.5%.

These effects all even out in the long run, of course, but understanding our results from an owner's point of view requires us to note that normalised NPAT from core operations was up by 4.5% on the previous year's first half.



"Enterprise Value" is a measure of the value of our business as determined by the market. It is calculated as the market value of all issued shares in 1300SMILES minus our net cash balance. It's counter-intuitive to subtract the cash balance, which is clearly a good thing, but this measure gets at the pure value of the operating business and ignores borrowings and cash holdings.

Acquisition and expansion

I would also note that the our recent acquisitions in Stanmore and Waterloo (both in Sydney) have not yet had a chance to show their effects in our accounts. We acquired these practices in October 2016 and we have recognised all of the acquisition expenses in the results for the first half year.

Both of the new Sydney practices make positive contributions to Revenue and profit but these contributions over a short spell during the first half were offset by the up-front expenses. For the second half of the 2016/2017 year we expect solid contributions from both of these facilities.

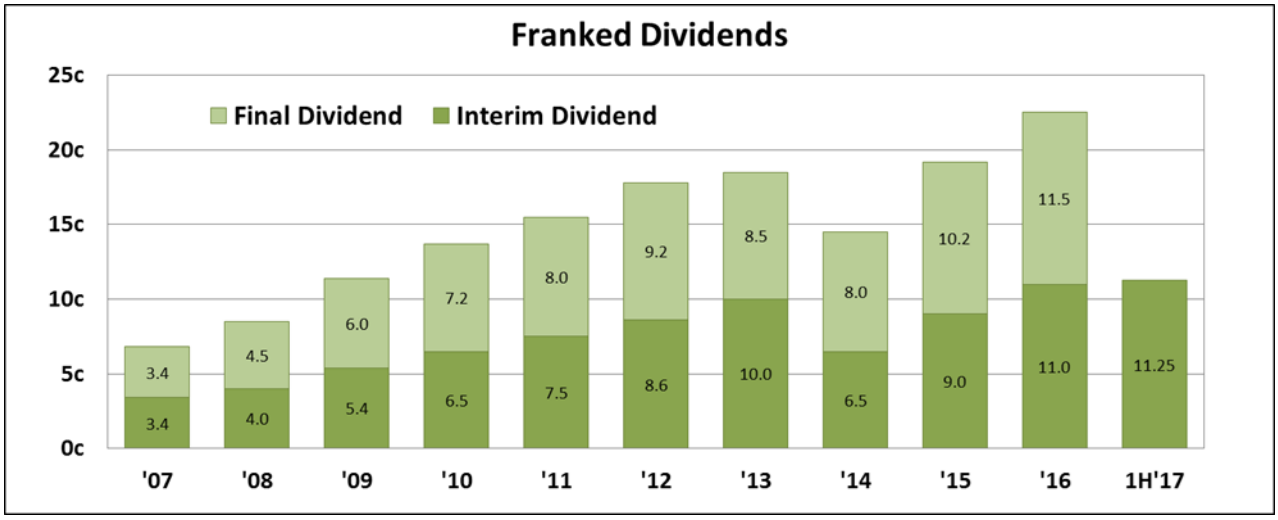
Subsequent to 31 December 2016 we entered into a contract to acquire an established practice in Kirwan, in the fast growing northwestern corridor of Townsville. While not by itself a financially material acquisition, this additional facility expands our network of facilities across Townsville and underscores our continuing confidence in north Queensland. It is located near the main entrance to a Coles-anchored shopping centre and offers services six days a week.

In Smithfield (Cairns) we are most of the way through the process of relocating our practice to a significantly better shopping centre location. The new location gives our facility a notably higher profile and significantly more passing foot traffic.

Dividend

All of the factors discussed in this report were considered in setting the interim dividend at 11.25c per share, a small increase on the previous year's interim dividend.

As always, the board of 1300SMILES seeks to ensure that all shareholders in our company share in the experience of business ownership. If ours were a private company we would consider all of the key facts and make the same decision: our business is strong; our cash situation is excellent, and our outlook is sufficiently positive to support a small increase in the dividend.



Affordable, accessible dentistry

Our DMA dental vouchers program continues to make a solid and growing contribution to our results, growing steadily both in dollar terms and as a proportion of our Revenue.

The essence of the voucher program lies in making more extensive and complex dental care available to people who might not otherwise be able to afford it. Using our vouchers, patients select payment plans which suit their budgets with manageable automatic payments over periods coordinated with their treatment programs and extending over some months.

This approach is good for our business and good for our dentists, as it builds a base of steady long-term revenue. But it's also just good, full stop. Already it has enabled thousands of people to get the essential dental care they need, care which might otherwise have been neglected, leading to unnecessary pain and discomfort as well as far more serious dental and medical complications down the track.

Dental employment market

The supply of new dental graduates in Australia has increased significantly over the past few years. Ultimately our profitability is driven by the number of dentists we have multiplied by their productivity. As the employment outlook for new graduates generally grows a bit more difficult, the attractiveness of 1300SMILES and our ability to ensure dentists a steady flow of work increases.

It has always been our model to ensure that every facility has room for additional dentists, as it costs little extra to build in this extra capacity up front. But just having enough room isn't enough, by itself, to enable us to accommodate new graduates properly and profitably.

For that we rely on our marketing and management, which produce a steady flow of patients with needs ranging from the simple and routine to the far more complex. Because of our scale we can absorb new graduate dentists into our busy practices while always ensuring that every dentist has experience appropriate to the services required. Our multi-dentist facilities enable and encourage continuing mentoring from senior dentists.

Outlook

All of the challenges facing our company in the first half of the year apply across the dental industry. These have the effect of putting the entire industry under a little stress, creating certain opportunities for 1300SMILES.

Warren Buffett put it this way: "Only when the tide goes out do you discover who's been swimming naked."

Over many years in this industry we have sometimes seen other players willing to pay more for dental practices than we believed they were worth. In such cases we've always exercised patience and discipline and pursued only those acquisitions which yield real value to our shareholders.

Today, with a slight decline in revenue across the entire industry, investors are looking on a bit more critically. Every player in our industry now has to prove that it can operate dental practices profitably.

1300SMILES has always taken a proudly conservative approach to expanding our business. Shareholders would know that we have no bank debt and significant cash reserves. We have stuck to our knitting and ensured that all of our operations make a contribution to profit while controlling our headquarters and overhead expense.

We continue to pursue sensible acquisition and greenfield development opportunities. We have many under consideration at all times, including now. While shareholders can remain confident that we will be careful about finalising these commitments, I think it's fair to say that that the market is turning back in our favour. Vendor dentists increasingly have more realistic ideas of the value of their practices, and we face less competition from formerly free-spending rivals.

After all these years, a surprising number of dentists in Australia still operate in small stand-alone practices. Operating such small businesses is inevitably getting harder, as the demands of compliance and accreditation grow more onerous and require more time and money every year.

In contrast, the larger facilities operated by 1300SMILES enable our dentists to enjoy collegiality, mentoring, synergy, and flexibility. They also enable in-house cross-referrals. As the number and proportion of female dental graduates increases each year, we believe that the demand among young dentists for the opportunity to work in this sort of supportive and encouraging environment will only increase.

The increasing difficulty of running stand-alone practices profitably continues to create advantages for dentists in the 1300SMILES system. Our company has dedicated professional staff who look after all of the regulatory and administrative issues, leaving our dentists free to focus on their patients, on good communications, and on clinical expertise.

All of the key external factors affecting our business are about as bad as they get, or have recently been so: elections, governments in chaos, the mining sector in free fall, the big gulf in economic performance between the big cities and the rest of the country. Given these unhelpful circumstances 1300SMILES has delivered a sound result for the half year.

From here we expect that governments will blunder back toward some sort of stability or consumers will come to accept the current chaos as normal. We expect the mining sector will stabilise at a higher level of activity than we've seen recently. We expect that opportunities to make sensible, earnings-accretive acquisitions will increase, as will the opportunities to develop new sites compatible with our growing network of facilities.

We know that our business model and processes are solid, having just delivered good results in a difficult spell. All in all I expect our results to resume a more familiar upward trajectory, all within the bounds of the conservative management style shareholders expect from our company.

Thank you

As always, I wish to thank our hard working staff in all departments and our front-line dental professionals and practice staff and management personnel.

I also acknowledge our long-term shareholders and those who have joined us more recently and thank you all for trusting our company with your capital.

Yours faithfully

Dr Daryl Holmes
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 year ended 31 December 2016. 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:

Robert Jones (Non-Executive Chairman)
Dr Daryl Holmes (Managing Director)
Dr Glen Richards (Non-Executive Director)

Mr Bryan Delhunty was the company secretary from the beginning of the financial year until 31 January 2017. The company secretary is Ms Gina Bozinosvki, who was appointed to the position of company secretary on 31 January 2017. Ms Bozinovski is a senior lawyer with significant corporate governance and board advisory experience. Ms Bozinovski is admitted to practice in Queensland and holds a Master of Laws (Melbourne), a Bachelor of Laws (Hons) (Canberra), and a Bachelor of Arts (ANU).

Review of operations

The profit for the group after providing for income tax amounted to $3,785,000 (31 December 2015: $3,877,000).

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.

FY2017 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 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 in accordance with that Class Order 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
Director

Townsville
16 February 2017

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 2016, 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 Hacketts

PKF HACKETTS AUDIT

Shaun Lindemann
Partner

Brisbane, 16 February 2017

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	Note	Half-year 2016 $'000	Half-year 2015 $'000
Revenue from continuing operations			
Services	6	18,011	18,639
Other income	7	-	365
Expenses			
Consumables, lab fees and other supplies		(1,821)	(1,808)
Employee benefits expense		(6,817)	(6,878)
Depreciation and amortisation expense		(1,030)	(1,173)
Property expenses		(1,203)	(1,275)
Operating expenses	2	(1,650)	(1,990)
Corporate and administrative expenses		(179)	(236)
Finance costs		(71)	(59)
Total expenses		(12,771)	(13,419)
Share of net profit / (loss) of associates	10	78	23
Profit before income tax expense		5,318	5,608
Income tax expense	4	(1,533)	(1,731)
Profit after income tax expense for the half-year attributable to the owners of 1300SMILES Limited		**3,785**	**3,877**
Other comprehensive income for the year, net of tax		-	-
		3,785	3,877
Total comprehensive income for the half-year attributable to the owners of 1300SMILES Limited		**3,785**	**3,877**
		Cents	**Cents**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share		15.98	16.37
Diluted earnings per share		15.98	16.37
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share		15.98	16.37
Diluted earnings per share		15.98	16.37

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

	Note	31 December 2016 $'000	30 June 2016 $'000
Assets			
Current Assets			
Cash and cash equivalents		8,591	7,538
Trade receivables	8	1,742	2,106
Current tax asset		-	764
Inventories		18	23
Other		398	193
Total current assets		10,749	10,625
Non-current Assets			
Loans receivable		382	808
Investments accounted for using the equity method	10	390	312
Property, plant and equipment	11	8,278	8,349
Intangible assets	12	23,330	22,040
Deferred tax assets		63	-
Total non-current assets		32,443	31,509
Total Assets		43,192	42,134
Liabilities			
Current Liabilities			
Trade and other payables	13	5,529	5,895
Current tax liability		430	-
Provisions		507	490
Other liabilities		90	137
Total current liabilities		6,556	6,522
Non-current Liabilities			
Trade and other payables	13	1,031	1,047
Deferred tax liabilities		-	39
Provisions		322	305
Total non-current liabilities		1,353	1,391
Total Liabilities		7,909	7,913
Net Assets		**35,283**	**34,221**
Equity			
Contributed equity		15,501	15,501
Retained profits	1(b)	19,782	18,720
Total Equity		**35,283**	**34,221**

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

	Note	Contributed equity $'000	Retained profits $'000	Total equity $'000
Consolidated				
Balance at 1 July 2015		15,501	16,299	31,800
Profit after income tax expense for the year		-	3,877	3,877
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	3,877	3.877
Transactions with owners in their capacity as owners:				
Dividends paid	5	-	(2,415)	(2,415)
Balance at 31 December 2015		15,501	17,761	33,262
Balance at 1 July 2016		**15,501**	**18,720**	**34,221**
Profit after income tax expense for the year		-	3,785	3,785
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	3,785	3,785
Transactions with owners in their capacity as owners:				
Dividends paid	5	-	(2,723)	(2,723)
Balance at 31 December 2016		**15,501**	**19,782**	**35,283**

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

1300SMILES Dentists

1300SMILES Limited
Consolidated statement of cash flows
For the half year ended
31 December 2016

	Note	Half-year 2016 $'000	Half-year 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		19,480	20,136
Payments to suppliers and employees (inclusive of GST)		(13,498)	(14,026)
		5,982	6,110
Interest received		111	108
Interest and other finance costs paid		(71)	(59)
Income taxes paid		(440)	(2,660)
Net cash from operating activities		5,582	3,499
Cash flows from investing activities			
Investments in share loans and other loans		-	(26)
Repayment of share loans and other loans		-	278
Proceeds from sale of assets		-	294
Payments for property, plant and equipment		(301)	(340)
Payments for intangible assets		(305)	(143)
Payment of deferred and contingent consideration		-	-
Payment for purchase of businesses, net of cash acquired	16	(1,200)	-
Net cash used in investing activities		(1,806)	63
Cash flows from financing activities			
Dividends paid		(2,723)	(2,415)
Net cash used in financing activities		(2,723)	(2,415)
Net increase in cash and cash equivalents		1,053	1,147
Cash and cash equivalents at the beginning of the half-year		7,539	6,284
Cash and cash equivalents at the end of the half-year		**8,592**	**7,431**

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

Note 1: Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 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 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 2016 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 authorized for issue on 16 February 2017.

(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. The group has considered the implications of new and amended accounting standards, and determined that their application to the interim financial statements is either not relevant or not material.

(b) Comparative amendments

Some account classifications have been changed in the current period in order to improve the accuracy of presentation. Comparative figures have also been reclassified for consistency.

There was a restatement of comparatives relating to operations expense and other payables by the amount of $182,000 for the half year ended 31 December 2015. This restatement was due to a prior period miscalculation. The amount of the adjustment has been deemed to be insignificant in nature and amount. Basic and diluted earnings per share for the prior year have also been restated, the amount of the correction for both basic and diluted earnings per share is a decrease of $0.77 per share. The adjustment has also resulted in a restatement at opening retained earnings as at 1 July 2015 to $18,720,000 (previously stated: $18,902,000) and sundry payables and accruals to $2,821,000 (previously stated: $2,639,000).

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 2016.

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 2016 is 30%, compared to 30% for the six months ended 31 December 2015.

	Half-year	
	2016	**2015**
	$'000	**$'000**
Current tax:		
Current tax on profit for this year	1,587	1,731
Adjustments for current tax on prior years	(54)	-
	1,533	1,731

	Half-year	
	2016	**2015**
	$'000	**$'000**
Note 5: Dividends		
Dividends provided for or paid during the half year:		
Fully franked final dividend of 11.5 cents (2015: 10.2 cents) for the year ended 30 June 2016 paid on 29 September 2016.	2,723	2,415
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 11.25 cents per fully paid ordinary share (2015: 11.0 cents per share), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 29 March 2017 out of retained earnings at 31 December 2016, but not recognised as a liability at the end of the half year, is:	2,664	2,605

	Half-year	
	2016	2015
	$'000	$'000
Note 6: Revenue		
Sales revenue from continuing operations:		
Service fees	17,733	18,401
Other revenue:		
Interest revenue	111	108
Other revenue	167	130
	278	238
Revenue	18,011	18,639
Note 7: Other income		
Profit on disposal of assets	-	365

	31 December 2016 $'000	30 June 2016 $'000
Note 8: Trade and other receivables		
Trade receivables	841	1,310
Membership and treatment plan receivables*	916	811
Provision for doubtful debts	(15)	(15)
	1,742	2,106

* 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, usually twelve months. Treatment plan receivables balance is exclusive of all payments received but not yet applied to outstanding invoices.

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 $190,000 as at 31 December 2016 ($142,000 as at 30 June 2016). These past due debtors were all 1 to 3 months overdue.

	31 December 2016 $'000	30 June 2016 $'000
Note 9: Loans receivable		
Share loan principle	351	351
Share loan interest	31	18
Other loans receivable	-	439
	382	808

Note 10: Investment accounted for using the equity method

There has been no change in the arrangement between Dental Members Australia Pty Ltd ('DMA') and the Group. The Group's share of profit from its equity accounted investment for the half-year was $78,000 (30 June 2016 profit of $42,000). The Group did not receive any dividends from its equity accounted investment during the half year.

	31 December 2016 $'000	30 June 2016 $'000
Shares in Dental Members Australia Pty Ltd (ownership interest 33%)	390	312
Investment in joint venture		
Opening balance	312	270
Share of profit/(loss) from investment in joint venture	78	42
	390	312

	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Note 11: Property, plant and equipment			
At 30 June 2016			
Cost or fair value	15,343	4,615	19,958
Accumulated depreciation	(8,628)	(2,981)	(11,609)
Net book amount	6,715	1,634	8,349
At 31 December 2016			
Cost or fair value	15,923	4,742	20,665
Accumulated depreciation	(9,275)	(3,112)	(12,387)
Net book amount	6,648	1,630	8,278

	Software $'000	Goodwill $'000	Intellectual property $'000	Future maintainable revenue stream $'000	Total $'000
Note 12: Intangible assets					
Balance at 1 July 2015	327	19,080	780	1,040	21,227
Additions	112	-	3	286	401
Addition from business combinations #	-	900	-	-	900
Disposals	(1)	-	-	(26)	(27)
Amortisation expense	(120)	-	(46)	(295)	(461)
Balance at 30 June 2016	318	19,980	737	1,005	22,040
Balance at 1 July 2016	318	19,980	737	1,005	22,040
Additions	39	-	440	262	741
Addition from business combination #	-	800	-	-	800
Disposals	-	-	-	-	-
Amortisation expense	(65)	-	(26)	(160)	(251)
Balance at 31 December 2016	292	20,780	1,151	1,107	23,330

Refer to note 16

	31 December 2016 $'000	30 June 2016 $'000
Cost	25,098	23,558
Accumulated amortisation	(1,769)	(1,518)
	23,330	22,040

On 21 September 2016, the group acquired intellectual property being a database and documentation (legal and other) for $440,000. These intangible assets will be amortised over their assessed useful life of 20 years.

	31 December 2016 $'000	30 June 2016 $'000
Note 13: Trade and other payables		
Current:		
Trade payables	2,117	2,082
Sundry payables and accruals	2,504	2,821
Unearned revenue	908	992
	5,529	5,895
Non-current:		
Other payables	1,031	1,047

Note 14: Contingencies and commitments

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

Note 15: Related party transactions

The Group is party to an agreement on normal commercial terms and conditions with Dental Members Australia Pty Ltd in return for commission. During the half-year ended 31 December 2016, the company did not enter into any significant transactions with related parties. There were no significant changes to the nature and extent of related party transactions disclosed in the annual report for the year ended 30 June 2016.

Note 16: Business combinations

On 26 October 2016, the business assets of two dental practices, located in Stanmore and Waterloo, Sydney, New South Wales were acquired.

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

	31 December 2016 $'000
Purchase consideration:	
Cash paid	1,200
Total purchase consideration	1,200

Assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value $'000
Property, plant and equipment	400
Provisional goodwill	800
Net assets acquired	1,200

The practices contributed income of $246,000 to the Group since acquisition, and profit after tax of $17,000. It is not practicable for the Group to disclose the revenue and profit after tax contributions of the practices, had the acquisition occurred on 1 July 2016.

Note 16: Events occurring after balance sheet date

As outlined in Note 5, the Directors have recommended an interim full-franked dividend of 11.25 cents per fully paid ordinary share. On 10 February 2017, the group entered into a conditional sale and purchase agreement for an established dental practice in Kirwan, Townsville, Queensland. 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.

In the directors' opinion:

a) the financial statements and notes set out on pages 10 to 20 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 2016 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
Director

Townsville
16 February 2017

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") and its controlled entities ("the consolidated entity"), which comprises the consolidated balance sheet as at 31 December 2016, 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, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' 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 Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 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 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.

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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 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 2016 and of its performance for the half-year ended on that date; and

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

PKF Hacketts

PKF HACKETTS AUDIT

Shaun Lindemann
Partner

Brisbane, 16 February 2017

1300 SMILES Dentists

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