Appendix 4D

Half-yearly report

Name of Entity	**1300SMILES Limited**
ABN	91 094 508 166
Half-year ended ('current reporting period')	31 December 2019
Previous Corresponding Period	31 December 2018

Results for Announcement to the Market

	$'000	**Percentage increase/ (decrease) over previous corresponding period**
Revenue from ordinary activities	23,495	14.5%
Profit / (loss) from ordinary activities after tax attributable to members	4,384	6.8%
Net profit / (loss) for the period attributable to members	**4,384**	**6.8%**

Dividends

The company has declared a fully franked interim dividend of 13.25 cents per share in relation to the half-year ended 31 December 2019.

Confirmation of the Interim Dividend details:

Dividend amount per security	13.25 cents
Franked amount per security	100%
Date interim dividend declared	18 February 2020
Date that shares (ASX code: ONT) will trade ex-dividend	19 March 2020
Record date to determine entitlement to the dividend	20 March 2020
Date the dividend is payable	27 March 2020

NTA Backing

	Current Period	**Previous corresponding period**
Net tangible asset backing per ordinary security	*29.5 cents	47.4 cents

* The net tangible asset (NTA) backing per ordinary share of 29.5 cents is inclusive of right-of-use assets and liabilities. NTA has reduced from the prior corresponding period due to significant practice acquisitions during the previous 12 month period, which has significantly increased goodwill (ITA).

INTERIM FINANCIAL REPORT

For the half-year ended

31 December 2019

Contents

Managing Director's Letter

For the half-year ended 31 December 2019

Dear Shareholders,

What a difference a year makes! Just one year ago, our interim report was crowded with urgent topics. Some of these -- the Townsville floods and the potential disruption to the dividend franking system -- have resolved themselves. The ongoing consolidation in the dental industry, a top issue a year ago, remains close to the top of the list today.

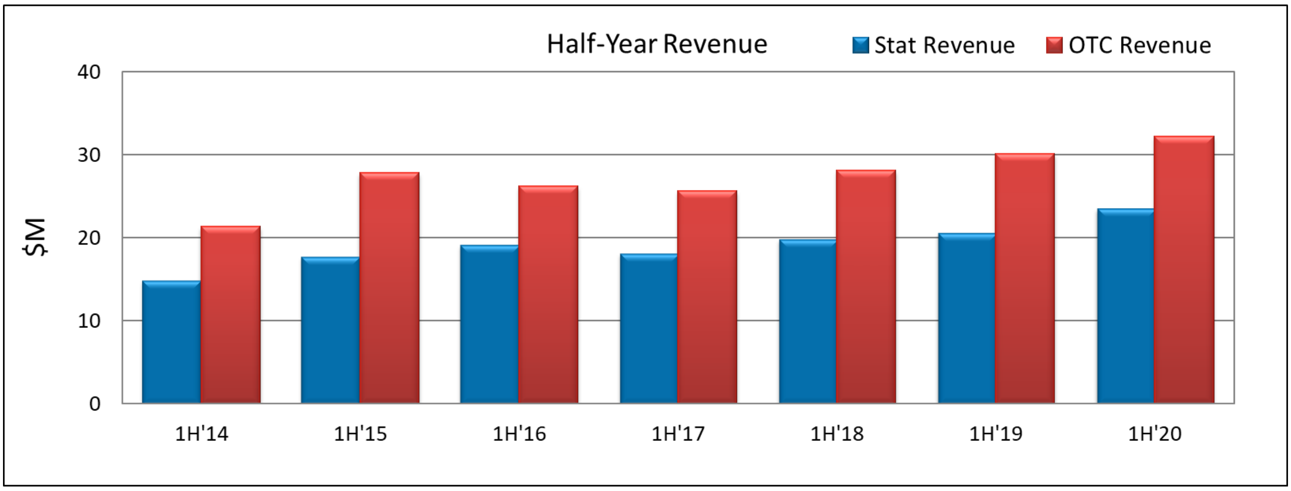
This year, a different issue of importance to shareholders has pushed its way up the list: a new accounting standard which has a significant effect on our reported results.

Over the years I have always done my best to help shareholders distinguish between the numbers produced by ever-changing accounting standards and the real results delivered by our real business. Such accounting changes have sometimes made our results look better, sometimes worse. Shareholders know that I have always explained these effects, good or ill, along the way.

Our underlying results are positive and reflective of our well performing and growing business. The application of the new accounting standards (AASB 16), effective from 1 July 2019 further increases some of our reported profits, whilst decreasing others marginally. Let's review the headline results and then dig into the details.

Financial results for the half-year to 31 December 2019

- Revenue (OTC) up 7.0% to $32.1 million
- EBITDA up 31.6% to $9.4 million
- EBITDA *(pre-AASB 16)* up 11.2% to $7.9 million
- NPAT up 6.8% to $4.4 million
- Interim dividend up 6% to 13.25c
- Revenue (Statutory) up 14.5% to $23.5 million
- NPBT up 3.7% to $6.1 million
- NPBT *(pre-AASB 16)* up 5.9% to $6.2 million
- Earnings Per Share up 6.8% to 18.52c
- Bank debt up 21.7% to $11.2 million



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

	1H'14	1H'15	1H'16	1H'17	1H'18	1H'19	1H'20
OTC Revenue ($m)	21.3	27.7	26.2	25.6	28.0	30.0	32.1
Less amount retained by self-employed Dentists ($m)	6.5	10.1	7.1	7.6	8.3	9.5	8.6
Statutory Revenue ($m)	14.8	17.6	19.0	18.0	19.8	20.5	23.5

Revenue/Sales performance

Overall Statutory Revenue was up a very healthy 14.5% whilst our internal measure, Over the Counter (OTC) Revenue (more meaningful in many ways) was up 7%.

Our practices have generated solid same store sales (SSS) performance, of positive 0.6% across the comparable store group, excluding recently acquired/divested practices. Pleasingly this positive SSS growth has continued into the second half of the year, even more strongly.

Earnings – EBITDA, NPBT and NPAT

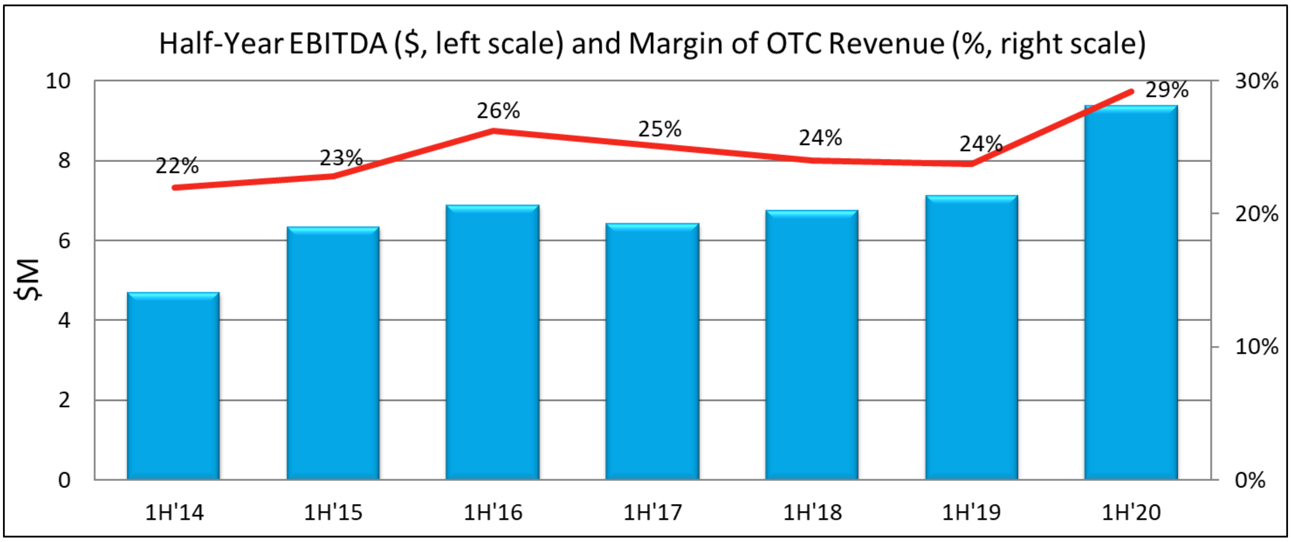
The most prominent effect of applying the new standard AASB 16 is that of significantly increasing reported EBITDA, and only minor net effects on the other profit figures.

	1H'20 $000	1H'19 $000	Change
EBITDA	**9,375**	**7,124**	**31.6%**
Rent not recognised in property expenses	(1,452)	-	-
EBITDA (pre-AASB 16)	**7,923**	**7,124**	**11.2%**

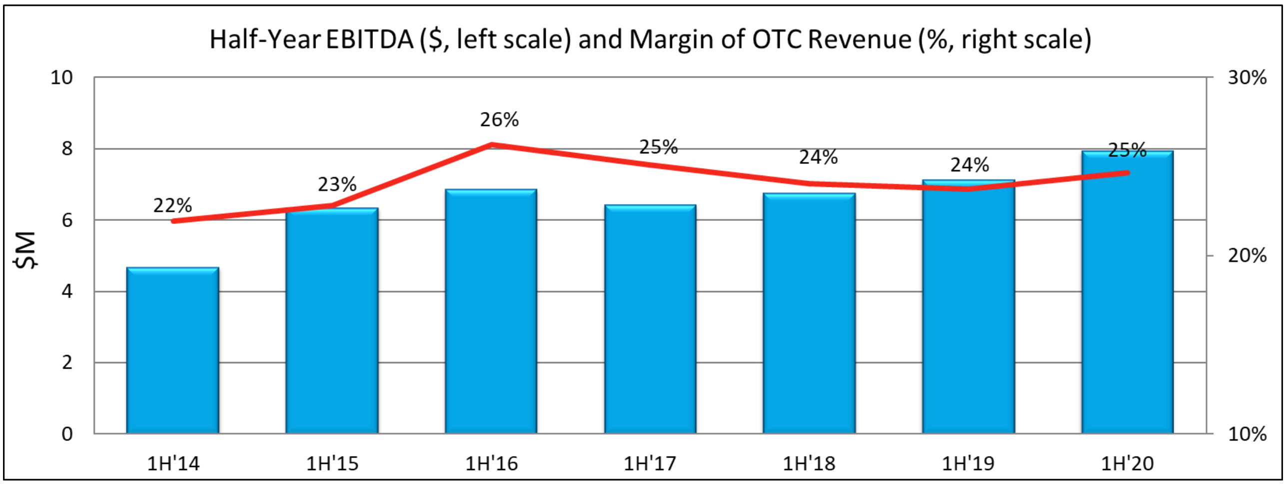
We often focus on EBITDA because it enables investors to compare different businesses with different financial structures. It's a tool for discerning the real returns from a business, stripping away the effects of borrowings and other factors. It also enables investors to compare the earnings quality of companies operating in different industries.

Our reported EBITDA is affected by the new, mandatory treatment of leases. While I won't attempt to explain these new standards in detail, the basic effect is this: in the old days, we paid the rent on leased facilities and treated that rent as an expense. That's how you would do it in your own business.

Under the new standard our leases are treated in a new way. Each lease, as before, gives us the right to occupy a certain space for a certain period of time. This right is assigned a present capital value, which we must depreciate as time goes by. Although we're still paying rent, just as before, we don't treat that as an expense but rather recognise the expense by depreciating the asset, as well as a new interest expense that must be recognised ($148k this half-year). I have faith that there's some industry somewhere in which this approach makes sense. For 1300SMILES and our shareholders, we just have to accept that this is the way we have to do it.



Pre-AASB 16 / normalised



I have mentioned in previous reports that a key management metric is EBITDA as a percentage of Revenue. Under the new standards this measure has been disrupted by the change in how EBITDA is calculated. As the graph above illustrates clearly, the relationship between EBITDA and Revenue is on track and as good as ever.

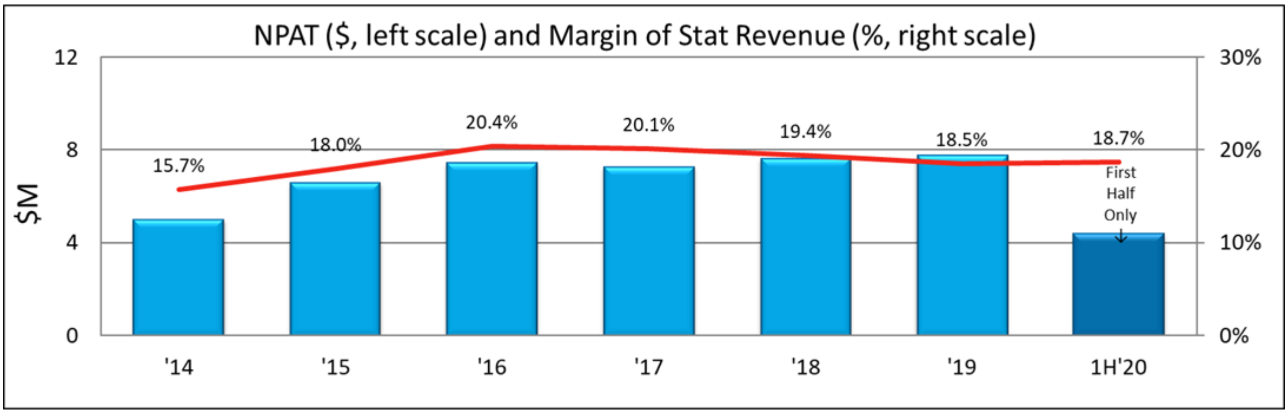
Net Profit Before Tax (NPBT)

Net profit before tax is $6.1 million, up 3.7%. When adjusted for AASB 16, it becomes $6.2 million, up 5.9%, as outlined in the table below.

	1H’20 $000	1H’19 $000	Change
Net Profit Before Tax	**6,082**	**5,866**	**3.7%**
AASB 16 impacts			
Depreciation on right-of-use asset	1,435	-	
Lease interest expense	148	-	
Rent expense	(1,452)	-	
Total AASB 16 impacts	**131**		
Net Profit Before Tax (pre-AASB 16)	**6,213**	**5,866**	**5.9%**

Net Profit After Tax (NPAT)

AASB 16 only minimally affected NPAT by decreasing it by $95k.



Industry dynamics

A six-monthly report is hardly the vehicle for up-to-date news on a fast-rationalising industry. However, I will mention a few key developments and their effects on 1300SMILES Ltd.

Shareholders would be aware that our efforts to acquire the Australian business called Maven Dental Group from New Zealand-listed Abano Healthcare Group Ltd did not succeed. In the end, a competing bidder made an offer for the entirety of Abano, including its much more extensive operations in New Zealand.

We chose not to make a competing bid on this basis and, while we regret the outcome, I can assure shareholders that the re-organisation of our industry is very much ongoing.

Shareholders will also be aware that another listed dental services organisation here in Australia suffered some terrible troubles in the past year. We considered acquiring that entire company but decided the risks were too great. In December we acquired two healthy and solid dental practices from that company, and we are continuing the process of integrating those practices into the 1300SMILES system.

As a well performing company in the sector, we see 1300SMILES Ltd as a key player that is positioned to participate as consolidation in the industry occurs.

Practice acquisitions and sales

The two acquired practices mentioned above (in Gatton and Laidley, both in Queensland) operated as part of our company for only three business days in the first half, so they made no significant contribution to our first half results but have been trading very well year to date.

We also sold one of our locations during the half-year and one subsequently in January 2020. Given the scale of our operations, such sales are part of our normal business.

The practices we acquired in FY19, being Springfield Lakes, Maroochydore and Strathpine Central, have been integrated and performed well since transitioning to 1300SMILES Ltd ownership and have been delivering good patient outcomes.

Looking ahead, I would expect that our continuing drive to deliver profitable expansion will from time to time create circumstances in which it is simply good business to sell a given practice. As I have mentioned many times, our focus is always on delivering the best results achievable. We neither acquire nor retain practices merely to inflate the number of sites we operate. Instead we focus on delivering the best returns to shareholders over the long term.

Floods and fires

In last year's report we addressed the issues created by the Townsville floods of January and February 2019. The disruption to our operations was minimal, overall, and our practices in all flood-affected areas have resumed their steady growth.

The unfortunate truth is that this sort of natural disaster quickly turns into an economic stimulus as insurance money flows into the region. In addition, many renovation projects scheduled for the next few years have been accelerated, so the construction sector is busy. Mining activity generally is also moving in a positive direction, underpinning the steady growth of operations in several of our regional centres.

As to the fires which have afflicted so much of Australia, I can report that none of our facilities have been affected and none of our operations have been interrupted. I extend our sympathy to the many people who have been less lucky during this terrible fire season.

Thank you

As always, I express my thanks to our dentists, clinical, and management staff, all of whom have worked tirelessly 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 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 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 2019. 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)

Review of operations

The profit for the group after providing for income tax amounted to $4,384,000 (31 December 2018: $4,106,000).

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.

FY2020 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 8.

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
18 February 2020

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 2019, 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 BRISBANE AUDIT

SHAUN LINDEMANN
PARTNER

BRISBANE
DATE: 18 FEBRUARY 2020

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Consolidated statement of comprehensive income
For the half-year ended 31 December 2019

	Note	Half-year 2019 $'000	2018 $'000
Revenue			
Services	6	**22,819**	20,525
Other	7	**676**	-
		23,495	20,525
Expenses			
Consumables, lab fees and other supplies		**(2,816)**	(2,025)
Employee benefits expense – Dentists		**(1,834)**	(1,545)
Employee benefits expense – all others		**(6,882)**	(6,085)
Depreciation and amortisation expense	8	**(2,821)**	(1,148)
Property expenses		**(462)**	(1,582)
Operating expenses		**(1,861)**	(1,964)
Corporate and administrative expenses		**(265)**	(200)
Finance costs		**(473)**	(110)
		(17,414)	(14,659)
Profit before income tax expense		**6,081**	5,866
Income tax expense	4	**(1,697)**	(1,760)
Profit for the half-year		**4,384**	4,106
Other comprehensive income		-	-
Total comprehensive income for the half-year		**4,384**	4,106
		Cents	Cents
Earnings per share:			
Basic earnings per share		**18.53**	17.34
Diluted earnings per share		**18.53**	17.34

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

Consolidated balance sheet
As at 31 December 2019

	Note	31 December 2019 $'000	30 June 2019 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		**1,593**	634
Trade receivables	9	**2,514**	1,839
Inventories		**21**	20
Other		**984**	655
Current tax assets		**-**	71
Loans receivable	10	**1,844**	1,655
Total current assets		**6,956**	4,874
Non-current Assets			
Loans receivable	10	**3,357**	3,538
Financial assets - investments		**186**	208
Property, plant and equipment	11	**13,978**	13,642
Right-of-use asset	12	**9,593**	-
Investment property	13	**1,625**	1,625
Intangible assets	14	**34,516**	33,482
Total non-current assets		**63,255**	52,495
Total Assets		**70,211**	57,369
LIABILITIES			
Current Liabilities			
Trade and other payables	15	**3,364**	3,803
Provisions		**847**	630
Current tax liabilities		**764**	-
Other liabilities	16	**765**	634
Lease liabilities	12	**2,644**	-
Total current liabilities		**8,384**	5,067
Non-current Liabilities			
Trade and other payables	15	**458**	458
Deferred tax liabilities		**322**	541
Provisions		**448**	427
Other liabilities	16	**810**	1,591
Loans payable	17	**11,200**	9,200
Lease liabilities	12	**7,080**	-
Total non-current liabilities		**20,318**	12,217
Total Liabilities		**28,702**	17,284
Net Assets		**41,509**	40,085
EQUITY			
Contributed equity		**15,501**	15,501
Retained profits		**26,008**	24,584
Total Equity		**41,509**	40,085

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 2019

	Note	Contributed equity $'000	Retained profits $'000	Total equity $'000
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
Consolidated Balance at 1 July 2019		**15,501**	**24,584**	**40,085**
Total comprehensive income for the year		-	**4,384**	**4,384**
Transactions with owners in their capacity as owners:				
Dividends paid	5	-	**(2,960)**	**(2,960)**
Consolidated Balance at 31 December 2019		**15,501**	**26,008**	**41,509**

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 2019

	Note	Half-year 2019 $'000	Half-year 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**23,628**	22,578
Payments to suppliers and employees (inclusive of GST)		**(16,400)**	(17,558)
		7,228	5,020
Interest received		**216**	163
Interest and other finance costs paid		**(242)**	(110)
Income taxes paid		**(1,028)**	(1,518)
Net cash inflow from operating activities		**6,174**	3,555
Cash flows from investing activities			
(Investments in) / payments of share loans and other loans		**40**	(430)
Payments for property, plant and equipment		**(867)**	(2,138)
Payments for intangible assets		**(13)**	(35)
Payment for deferred consideration		**(100)**	-
Payment for purchase of businesses, net of cash acquired	19	**(1,863)**	(720)
Net cash outflow from investing activities		**(2,803)**	(3,323)
Cash flows from financing activities			
Repayment of borrowings		**(9,200)**	(2,016)
Drawdown of borrowings		**11,200**	4,487
Dividends paid		**(2,960)**	(2,841)
Repayment of lease liabilities		**(1,452)**	-
Net cash outflow from financing activities		**(2,412)**	(370)
Net (decrease)/increase in cash and cash equivalents		**959**	(139)
Cash and cash equivalents at the beginning of the half-year		**634**	2,295
Cash and cash equivalents at the end of the half-year		**1,593**	2,156

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 2019 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 2019 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 18 February 2020.

(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 described below.

Net current asset deficiency

There exists a net current asset deficiency for $1,428,000 as at 31 December 2019 (30 June 2019: $193,000), primarily due to the recognition of current lease liabilities on adoption of AASB16 Leases. Consequently, the Directors have prepared this interim financial report on a going concern basis.

New standards and interpretations adopted by the group in 2019

The Group adopted AASB 16 Leases as of 1 July 2019.

AASB 16 'Leases' replaces AASB 117 'Leases' along with three Interpretations.

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application. The new Standard has been applied using the modified retrospective approach. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from AASB 117 and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. As a result, there is no adjustment to retained earnings.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

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

(a) Accounting policies (continued)

The following table presents the impact of the application of AASB 16 on the opening balance sheet:

	As of 30 June 2019 $'000	Impact of the transition to AASB 16 $'000	As of 1 July 2019 $'000
Total assets	57,369	11,028	68,397
Total liabilities	17,284	11,028	28,312
Shareholders' equity	40,085	-	40,085

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 2.82%. Lease liabilities totaled $11.0 million as of 1 July 2019 and comprised of lease liabilities recognised in respect of 31 operating leases in effect as of 1 July 2019.

Right-of-use assets totaled $11.0 million as of 1 July 2019 and comprised of assets corresponding to the newly recognised lease liabilities.

The following is a reconciliation of total operating lease commitments at 30 June 2019 (as disclosed in the financial statements to 30 June 2019) to the lease liabilities recognised at 1 July 2019:

	$'000
Total operating lease commitments disclosed at 30 June 2019	**14,019**
Recognition exemptions:	
Leases with remaining lease term of less than 12 months	(434)
Other adjustments relating to commitment disclosure	(3,418)
Operating lease liabilities before discounting	**10,167**
Discount using incremental borrowing rate	(615)
Operating lease liabilities	**9,552**
Reasonably certain extension options	1,476
Total lease liabilities recognised under AASB 16 at 1 July 2019	**11,028**

The Group has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 117.

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 2019.

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 2019 is 27.5%, compared to 30% for the six months ended 31 December 2018. The Group's tax rate status was assessed at 30 June 2019, and the aggregated turnover for the year was below the $50 million threshold hence the base rate entity status change.

	Half-year 2019 $'000	Half-year 2018 $'000
Note 4: Income tax (continued)		
Current tax:		
Current tax on profit for this half-year	**1,892**	1,817
Deferred tax	**(227)**	(57)
Adjustments for current tax on prior year	**(21)**	-
Adjustment for deferred tax on prior year	**53**	-
	1,697	1,760

Note 5: Dividends

Dividends provided for or paid during the half-year:

	2019 $'000	2018 $'000
Fully franked final dividend of 12.5 cents (2018: 12.0 cents) for the year ended 30 June 2019 was paid on 29 September 2019.	**2,960**	2,841

Dividends not recognised at the end of the half-year:

	2019 $'000	2018 $'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 13.25 cents per fully paid ordinary share (2018: 12.5 cents per share), fully franked based on tax paid at 27.5%. The aggregate amount of the proposed dividend expected to be paid on 27 March 2020 out of retained earnings at 31 December 2019, but not recognised as a liability at the end of the half-year, is:	**3,137**	2,960

Note 6: Revenue

	2019 $'000	2018 $'000
Sales revenue from continuing operations:		
Service fees	**21,497**	19,684
Other revenue:		
Interest revenue	**228**	183
Consulting revenue	**320**	600
De-recognition of contingent consideration	**550**	-
Other revenue	**224**	58
	1,322	841
Revenue	**22,819**	20,525

Consulting revenue consists of services provided to related parties of the Group.

	Half-year 2019 $'000	Half-year 2018 $'000
Note 7: Other income		
Profit on disposal of assets	**676**	-

On 23 December 2019, the Carseldine practice was disposed of for a total consideration of $725,000. After assets and liabilities were disposed of, profit on disposal of $676,000 resulted from the sale.

Note 8: Depreciation and amortisation

	2019 $'000	2018 $'000
Depreciation		
Leasehold improvements	**250**	247
Plant and equipment	**878**	539
Right-of-use asset	**1,435**	-
Total depreciation	**2,563**	786
Amortisation		
Software	**64**	134
Intellectual property	**136**	31
Future maintainable revenue stream	**58**	197
Total amortisation	**258**	362
Total depreciation and amortisation	**2,821**	1,148

	31 December 2019 $'000	30 June 2019 $'000
Note 9: Trade receivables		
Trade receivables	**2,215**	1,496
Membership and treatment plan receivables	**299**	343
	2,514	1,839

Past due but not impaired

Customers with balances past due amount to $309,252 as at 31 December 2019 ($179,000 as at 30 June 2019). These past due debtors were all 1 to 3 months overdue.

Note 10: Loans receivable

	31 December 2019 $'000	30 June 2019 $'000
Current		
Loans receivable (b)	**1,625**	1,500
Other loans receivable	**219**	155
	1,844	1,655
Non-current		
Share loan principal (a)	**1,751**	1,751
Share loan interest	**79**	43
Other loans receivable	**527**	619
Loans receivable (b)	**1,000**	1,125
	3,357	3,538

a) Ordinary share loans were made pursuant to a company loan funded program to incentivise consultants, contractors and executive management. Shares are held in voluntary escrow. The voluntary escrow is progressively released over a six-year period. The loans are full recourse and repayable 13 months after the company makes a call on the borrowers. The loans are secured by lien over the shares acquired from proceeds of the share loan. In the event the borrowers sell any shares, a proportionate percentage of the outstanding loan is required to be repaid. Interest on loans is charged on a commercial basis, varying from 5% to 5.5%.

b) Redeemable preference shares were held during the period in an unlisted public company. Terms of fixed interest repayments range from 12 months to 4 years, with rates of return varying from 6% to 14%. No voting rights are attached to the shares held. Management intend to hold the investments for cash flow purposes and not share trading purposes.

Note 11: Property, plant and equipment

	Capital works	Land and Buildings	Property, plant and equipment	Leasehold improvements	Total
	$'000	$'000	$'000	$'000	$'000
Balance as at 1 July 2019	**378**	**1,306**	**10,529**	**1,429**	**13,642**
Additions	616	-	271	-	887
Transfers	(255)	255	(600)	600	-
Additions from Business Combinations	-	-	620	47	667
Disposals	-	-	(210)	(179)	(389)
Depreciation expense	-	-	(757)	(72)	(829)
Balance at 31 December 2019	**739**	**1,561**	**9,853**	**1,825**	**13,978**

	31 December 2019	30 June 2019
Property, plant and equipment	$'000	$'000
Cost	**29,392**	28,227
Accumulated depreciation	**(15,414)**	(14,585)
Net book amount	**13,978**	13,642

Note 12: Leases

Right-of-use assets

Right-of-use assets breakdown as follows, by type of underlying asset:

	Gross	Depreciation	31 December 2019 Net	1 July 2019 Net
	$'000	$'000	$'000	$'000
Dental practices	10,247	(1,305)	**8,942**	10,247
Offices	781	(130)	**651**	781
Capitalised fixed lease payments	11,028	(1,435)	**9,593**	11,028

Note 12: Leases (continued)

Lease liabilities

Lease liabilities breakdown as follows:

	31 December 2019 $'000	1 July 2019 $'000
Current lease liabilities	**2,644**	2,627
Non-current lease liabilities	**7,080**	8,401
Total	**9,724**	11,028

Change in lease liabilities during the half-year period breakdown as follows:

	Dental practices $'000	Offices $'000	Total $'000
As of 1 July 2019	10,247	781	11,028
Interest expense	138	10	148
Lease repayments	(1,321)	(131)	(1,452)
As of 31 December 2019	**9,064**	**660**	**9,724**

Lease payments not recognised as a liability

The group has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	31 December 2019 $'000
Short-term leases	**149**

Note 13: Investment property

	31 December 2019 $'000	30 June 2019 $'000
Opening balance	**1,625**	-
Capitalised expenditure	**-**	455
Gain from fair value adjustment	**-**	1,170
	1,625	1,625

Note 14: Intangible assets

	Software $'000	Goodwill $'000	Intellectual property $'000	Future maintainable revenue stream $'000	Total $'000
Balance at 1 July 2019	299	30,357	1,964	862	33,482
Additions	-	1,333	-	13	1,346
Measurement period adjustment	-	(53)	-	-	(53)
Disposals	(6)	-	-	-	(6)
Amortisation expense	(59)	-	(136)	(58)	(253)
Balance at 31 December 2019	**234**	**31,637**	**1,828**	**817**	**34,516**

	31 December 2019 $'000	30 June 2019 $'000
Intangible assets		
Cost	**37,989**	36,702
Accumulated amortisation	**(3,473)**	(3,220)
	34,516	33,482

Note 15: Trade and other payables

Current		
Trade payables	**1,503**	1,720
Sundry payables and accruals	**1,257**	1,449
Unearned revenue	**298**	429
Other payables	**306**	205
	3,364	3,803
Non-current		
Other payables	**458**	458

	31 December 2019 $'000	30 June 2019 $'000
Note 16: Other Liabilities		
Current		
Contingent settlement payable	**765**	634
Non-current		
Contingent settlement payable	**810**	1,591
Total	**1,575**	2,225
Contingent settlement payable		
Opening balance	**2,225**	660
Additions through business combinations	**-**	1,665
Settled	**(100)**	(100)
De-recognised	**(550)**	-
Closing balance	**1,575**	2,225

Note 17: Loans payable		
Non-current:		
Loans payable	**11,200**	9,200

The loan payable is a multi-option loan facility agreement with the Commonwealth Bank of Australia. The loan facility was settled on 2 August 2019 with transfer of securities occurring on this date. The details of the loan facility included:

- Total loan facility is for $25 million and a $25 million accordion facility
- Interest terms vary according to the net leverage ratio, with the current rate at 2.66%
- Security for the loan facility consists of first ranking general security interest over all assets and undertakings of 1300SMILES Ltd and 1300SMILES (BOH Dental) Pty Ltd, and a cross guarantee and indemnity between 1300SMILES Ltd and 1300SMILES (BOH Dental) Pty Ltd
- Debt covenants include:
  - Net debt leverage ratio not greater than 2.75x
  - Fixed interest charge cover ratio must not fall below 1.80x
- The termination date of the loan facility is 2 August 2022

For the 12 months ended 31 December 2019, the net leverage ratio and the fixed cover ratio were 0.97x and 4.3x respectively.

Note 18: Contingencies and commitments

The group had total facilities of $750,000 (30 June 2019: $612,000) with $667,632 used at reporting date (30 June 2019: $612,000) in respect of property guarantees.

Note 19: Business combinations

The group acquired two dental practices, Gatton and Laidley in Queensland, on 23 December 2019. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Total $'000
Purchase consideration:	
Cash paid	1,863
Cash payable	72
Total purchase consideration	1,935
Liabilities assumed	65
Property, plant and equipment	(667)
Provisional goodwill	1,333
Net assets acquired	**602**

The practice contributed income of $26,546 to the Group since acquisition, and profit after tax of $10,472. 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 2019.

Note 20: Events occurring after balance sheet date

A fully franked dividend of 13.25 cents per share has been declared and is payable on 27 March 2020.

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 2019

In the directors' opinion:

a) the financial statements and notes set out on pages 9 to 23 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 2019 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
18 February 2020

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 2019, 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 company and 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 2019, 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 2019 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 BRISBANE AUDIT

SHAUN LINDEMANN
PARTNER

18 FEBRUARY 2020
BRISBANE

Directors

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

Company secretary

Patrick Wyatt

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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

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