

Appendix 4D

Half-yearly report

Name of Entity	1300SMILES Limited
ABN	91 094 508 166
Half-year ended ('current reporting period')	31 December 2020
Previous corresponding period	31 December 2019

Results for Announcement to the Market

	\$'000	Percentage increase/ (decrease) over previous corresponding period
Revenue from ordinary activities	23,784	1.2%
Profit / (loss) from ordinary activities after tax attributable to members	5,911	34.8%
Net profit / (loss) for the period attributable to members	5,911	34.8%

Dividends

The company has declared a fully franked interim dividend of 14.5 cents per share in relation to the half-year ended 31 December 2020.

Confirmation of the Interim Dividend details:

Dividend amount per security	14.5 cents
Franked amount per security	100%
Date interim dividend declared	16 February 2021
Date that shares (ASX code: ONT) will trade ex-dividend	10 March 2021
Record date to determine entitlement to the dividend	11 March 2021
Date the dividend is payable	18 March 2021

NTA Backing

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	*40.6 cents	*29.5 cents

* The net tangible asset backing per ordinary share of 40.6 cents presented above is inclusive of right-of-use assets and liabilities.

1300 **S** **M** **I** **L** **E** **S**
Dentists

INTERIM FINANCIAL REPORT

For the half-year ended
31 December 2020

1300 Smiles™
We Care

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Managing Director's Letter

For the half-year ended 31 December 2020

Dear Shareholders,

More services delivered to more patients. Better safety and cost control than ever before. Big increase in Same Store Sales. Excellent financial results. Record interim dividend.

That's the brief summary of the first half of the 2021 financial year.

At year-end in June 2020 we were hopeful that our response to the COVID-19 disruptions would get our business back on track. At the beginning of this current year we saw positive signs that our response to the new operating environment was working. Half way through the year we have a business which is operating at a new level.

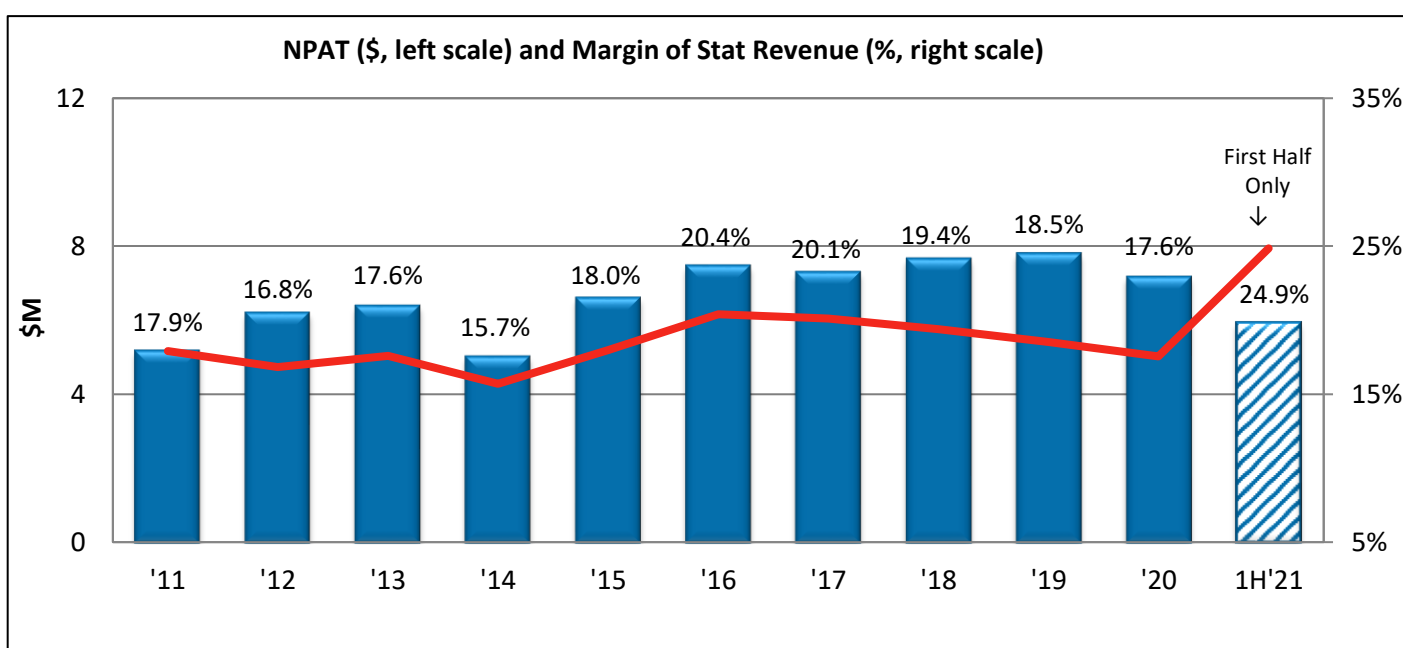
1300SMILES has always been fierce in its pursuit of incremental improvement. Over the years we have implemented thousands of changes, big and small, to improve services to our dentists and patients while controlling expenses and improving returns to shareholders. The pursuit of constant improvement is at the core of everything we do.

I'm proud to report that in the first half of the current year this constant improvement accelerated to a remarkable degree. This shows up in many of the key measures we use to track our performance. Among these good figures, shareholders are likely to appreciate that both Net Profit After Tax and Earnings per Share are up by 35%.

This first year of COVID-19 spurred us along in ways that have equipped us to deliver more services to more patients than ever before, all while maintaining the highest safety standards and controlling costs. Our head office and practice-level staff have worked tirelessly through this trying time and they have delivered brilliant results.

Financial Results for the half-year ended 31 December 2020

- Revenue (OTC) up 8% to \$34.8 million
- Revenue (Statutory) up 1% to \$23.8 million
- EBITDA up 17% to \$11.0 million
- NPBT up 34% to \$8.1 million
- NPAT up 35% to \$5.9 million
- Earnings Per Share up 35% to 25.0c
- Interim dividend up 9% to 14.5c
- Bank debt down 30% to \$10.5 million



Managing Director's Letter

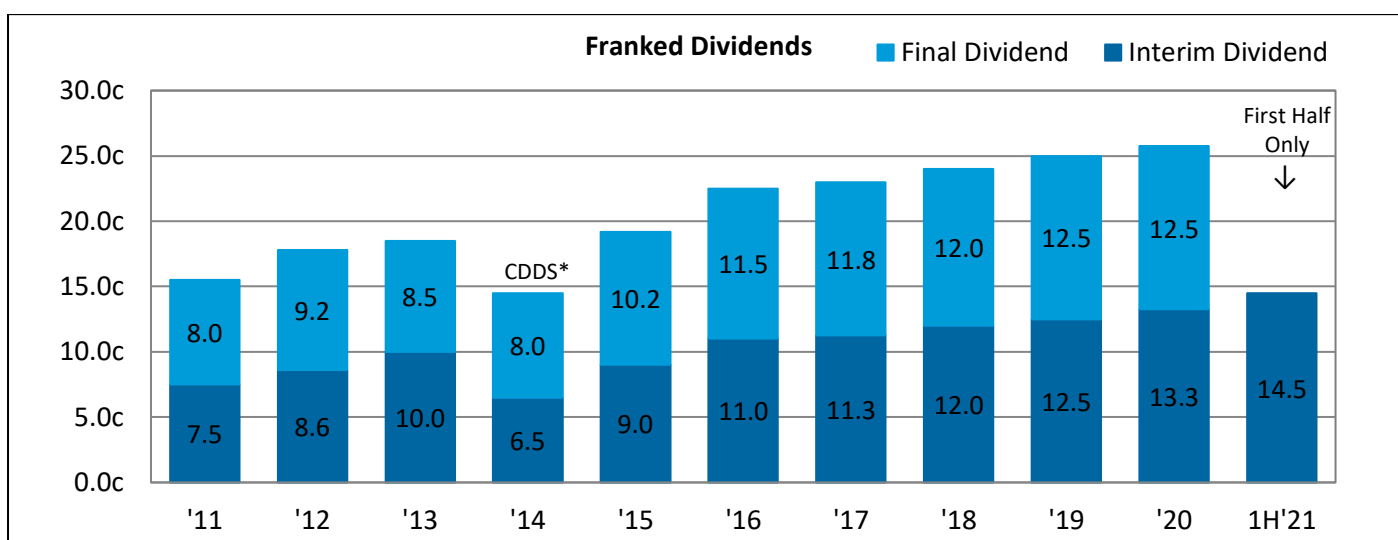
For the half-year ended 31 December 2020

Net Profit After Tax, Earnings per Share & Dividend

The strong 35% growth in Net Profit After Tax delivered an equal 35% growth in earnings to a new record high at 25.0c per share. This is the single figure which reflects the sum of all of our efforts to grow revenue, control costs, and manage our capital properly.

Your board has, accordingly, increased the interim dividend to a record 14.5c per share. Shareholders will recall that we held the final dividend for 2020 steady despite the sharp COVID-19-induced drop in EPS. This was our way of signalling to shareholders that we believed the earnings dip was transitory, as it has indeed proved to be.

As always, we believe shareholders must be treated as the true owners of this business and we manage the dividend to reflect the experience of a business owner navigating good times and bad.



*Chronic Disease Dental Scheme (CDDS)

Statutory Revenue

Shareholders may notice that for a period which delivered such strong metrics, Statutory Revenue was up just 1% on the previous year's first half.

Statutory Revenue, alas, is an accounting construct which differs greatly from the common sense understanding of "revenue." Many elements go into the calculation of Statutory Revenue. In this case, Statutory Revenue in the previous year's first half was increased by a few items you might not consider revenue.

Most important to shareholders, the Dental Revenue portion of Statutory Revenue increased by 8% in 1H21 compared to the previous first half.

Other non-core elements of Statutory Revenue declined. These include:

- profit on disposal of assets: in the previous period, we booked a gain on the disposal of certain dental practices, something we do from time to time but not in every period.
- consulting revenue: this is not normally a core business, but it came into play in the previous year's first half in relation to one transaction
- de-recognition of contingent consideration: it became apparent in 1H20 that certain amounts set aside as probable obligations would not be required

Managing Director's Letter

For the half-year ended 31 December 2020

Same store sales

As in most years, 1300SMILES acquired additional practices during the year. Also, it is normal in most years to dispose of a small number of practices which no longer meet our performance standards or no longer serve as part of the best possible footprint for our business.

For this reason, the raw Revenue numbers reported can be affected by the number of practices generating that Revenue in a given year. This is what makes the Same Store Sales figure useful, as it reflects the progress of our business at locations established throughout the period.

In the first half of the 2021 year, our Same Store Sales increased by a solid 10%. Remember that in the first half of the previous year we had not yet heard of COVID-19, so that 10% increase comes in comparison to a normal period which delivered, at that time, record-high Revenue.

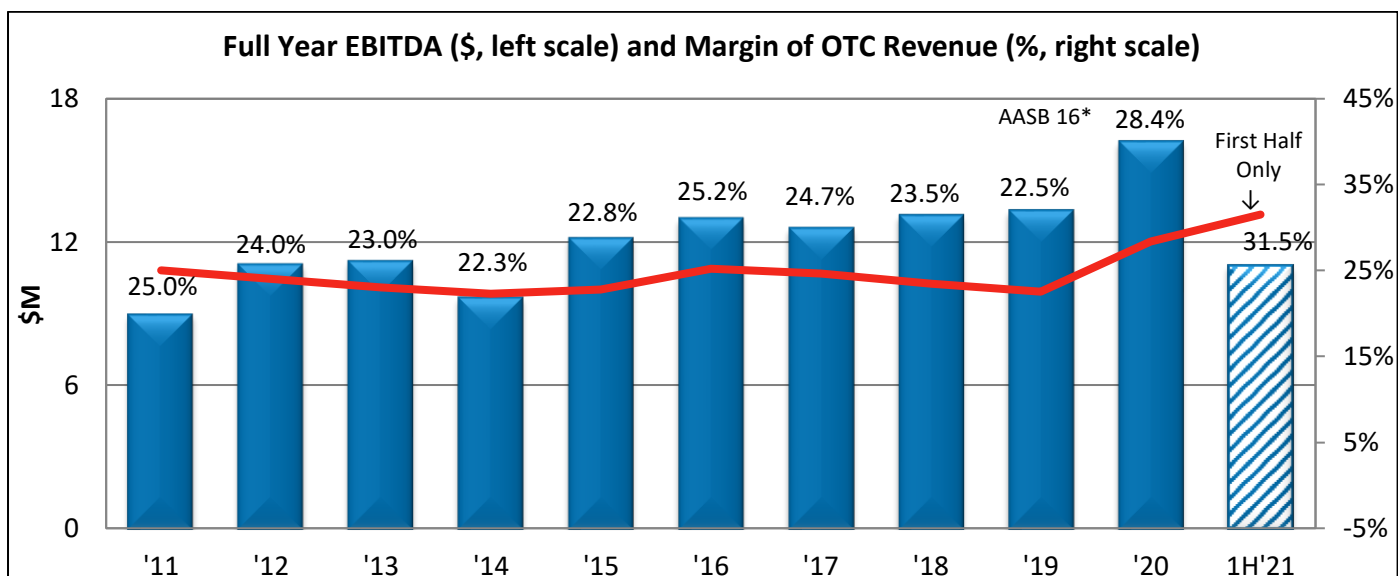
EBITDA

Earnings Before Interest, Tax, Depreciation, and Amortisation--this is a measure we report and explain in most periods because it gives a true measure of the quality of the operating business, excluding such things as the level of debt employed. EBITDA also enables the comparison of businesses across different industries.

In the first half of the 2021 year, our EBITDA was up a gratifying 17% to \$11.0 million. That increase summarises the effectiveness and efficiency of our business at every step. The starting point is solid Revenue, supported by efficient operations and cost control.

The accounting standard AASB-16 took effect with the 2020 financial year. This new standard changed the calculation of EBITDA significantly. This effect shows up in the chart below, in which EBITDA in the years prior to the 2020 year was calculated in accordance with the then-current standard. The figures shown for the 2020 and 2021 years are calculated under the new standard, so our presentations going forward will continue to show this step-change between 2019 and 2020.

Nevertheless, it is important to note that the 2021 figures to date are calculated on exactly the same basis as the figures from the previous year. In 1H'21 we have seen a significant increase in both EBITDA and in EBITDA as a proportion of Revenue.



*AASB 16 Leases adopted in FY'20.

Managing Director's Letter

For the half-year ended 31 December 2020

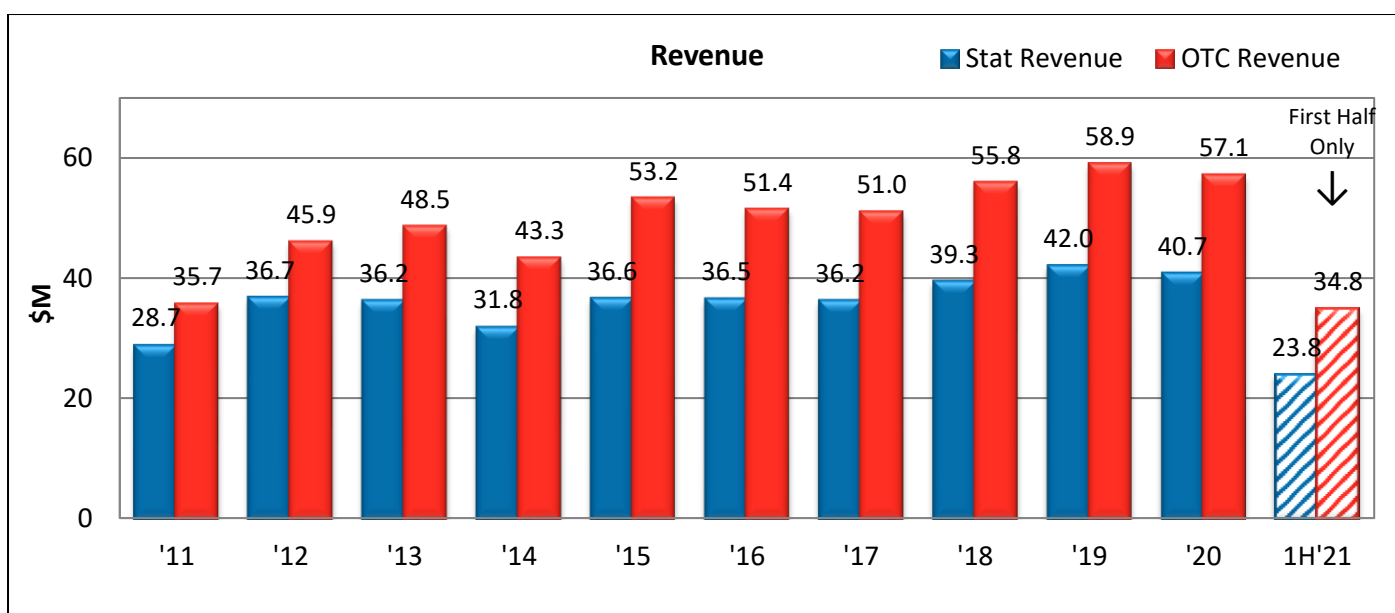
On-line booking

A significant contributor to both the Revenue and cost control is the greatly expanded use of our on-line booking system. From the pre-COVID-19 month of January 2020 to the most recent month of January 2021, the number of patient appointments booked on-line grew by 79% to 2,199.

We recognise that some of our patients still prefer to book by phone, and we look after these patients with the same friendly service as always. For many others, however, the past year is one in which people became more accustomed to doing things on-line, and this has become the first preference for many.

Statutory & OTC Revenue

The percentage increase in Over-the-Counter Revenue, at 8%, is significantly greater than the increase in our Statutory Revenue. As I have noted before, these two measures often differ widely from one period to the next. This variation is sometimes driven by the changing mix of contract dentists and employed dentists operating with the 1300SMILES system and sometimes by one-off inclusions in Statutory Revenue as mandated by the accounting standards. As always, it is our view that OTC Revenue gives a far better indication of the size of our business, as it measures the total amount of money paid by patients for services.



Reconciliation of OTC Revenue (non-IFRS) to Statutory Revenue per (Financial Statements)													
	'09	'10	'11	'12	'13	'14	15	16	17	18	19	20	1H'21
OTC Revenue (\$m)	27.6	30.7	35.7	45.9	48.5	43.3	53.2	51.4	51.0	55.8	58.9	57.1	34.8
Less amount retained by self-employed Dentists (\$m)	5.3	6.8	6.9	9.2	12.3	11.5	16.6	14.9	14.8	16.5	17.0	16.4	11.0
Statutory Revenue (\$m)	22.4	23.9	28.7	36.7	36.2	31.8	36.6	36.5	36.2	39.3	42.0	40.7	23.8

“Stat Revenue” is the Revenue we report in our statutory accounts.

“Over-the-Counter (OTC) Revenue” is a measure which captures the full value paid by patients for all dental services rendered. OTC Revenue gives a clearer indication of the scale of our business. The difference is that Statutory Revenue excludes the portion of patient fees retained by self-employed dentists.

Managing Director's Letter

For the half-year ended 31 December 2020

Thanks

Finally, as always, I note that our business only exists thanks to the support of our many patients throughout Australia. This support in turn results from the quality care provided by our dentists, dental support staff, and practice and business management teams – thank you to all of you; my admiration for your resilience, professionalism and care has grown even more this year. Finally, I thank our shareholders for your continuing support.

Dr Daryl Holmes OBE, B.D.Sc (Hons.)
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, 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 recruitment@1300smiles.com.au or visit our website www.1300smiles.com.au/careers.

Director's Report

For the half-year ended 31 December 2020

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 2020. 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)
Jason Smith (Non-Executive Director)
Patrick Wyatt (Company Secretary)

Review of operations

The profit for the group after providing for income tax amounted to \$5,911,000 (31 December 2019: \$4,384,000).

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.

FY2021 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
16 February 2021

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 2020, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 1300SMILES Limited and the entities it controlled during the half-year.

PKF BRISBANE AUDIT



TIM FOLLETT
PARTNER

BRISBANE
16 FEBRUARY 2021

Consolidated statement of comprehensive income

For the half-year ended 31 December 2020

		Half-year	
	Note	2020 \$'000	2019 \$'000
Revenue			
Services revenue	6	23,784	22,819
Other income	7	-	676
Total revenue		23,784	23,495
Expenses			
Consumables, lab fees and other supplies		(3,153)	(2,816)
Employee benefits expense		(6,978)	(8,716)
Depreciation and amortisation expense	8	(2,575)	(2,821)
Property expenses		(396)	(462)
Operating expenses		(1,924)	(1,861)
Corporate and administrative expenses		(364)	(265)
Finance costs		(266)	(473)
Total expenses		(15,656)	(17,414)
Profit before income tax expense		8,128	6,081
Income tax expense	4	(2,217)	(1,697)
Profit for the half-year		5,911	4,384
Other comprehensive income		-	-
Total comprehensive income for the half-year		5,911	4,384
		Cents	Cents
Earnings per share:			
Basic earnings per share		24.96	18.53
Diluted earnings per share		24.96	18.53

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

Consolidated balance sheet

As at 31 December 2020

		31 December 2020 \$'000	30 June 2020 \$'000
	Note		
ASSETS			
Current Assets			
Cash and cash equivalents		5,209	6,681
Trade receivables	9	1,754	2,197
Inventories		40	257
Other assets		1,515	1,792
Loans receivable	10	86	271
Financial assets - investments		419	259
Total current assets		9,023	11,457
Non-current Assets			
Loans receivable	10	4,997	5,551
Property, plant and equipment	11	12,790	12,767
Right-of-use assets	12	7,537	8,447
Investment property	13	1,625	1,625
Intangible assets	14	34,463	34,308
Total non-current assets		61,412	62,698
Total Assets		70,435	74,155
LIABILITIES			
Current Liabilities			
Trade and other payables	15	4,265	4,300
Provisions		906	838
Current tax liabilities		772	1,222
Other liabilities	16	225	1,315
Lease liabilities	12	3,161	2,865
Total current liabilities		9,329	10,540
Non-current Liabilities			
Trade and other payables	15	357	401
Deferred tax liabilities		533	360
Provisions		445	444
Other liabilities	16	186	260
Loans payable	17	10,500	15,000
Lease liabilities	12	5,001	6,017
Total non-current liabilities		17,022	22,482
Total Liabilities		26,351	33,022
Net Assets		44,084	41,133
EQUITY			
Contributed equity		15,501	15,501
Retained profits		28,583	25,632
Total Equity		44,084	41,133

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 2020

	Note	Contributed equity \$'000	Retained profits \$'000	Total equity \$'000
Consolidated Balance at 1 July 2019		15,501	24,584	40,085
Total comprehensive income for the half-year		-	4,384	4,384
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid	5	-	(2,960)	(2,960)
Consolidated Balance at 31 December 2019		15,501	26,008	41,509
Consolidated Balance at 1 July 2020		15,501	25,632	41,133
Total comprehensive income for the half-year		-	5,911	5,911
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid	5	-	(2,960)	(2,960)
Consolidated Balance at 31 December 2020		15,501	28,583	44,084

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 2020

		Half-year	
	Note	2019 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		24,423	23,628
Payments to suppliers and employees (inclusive of GST)		(15,291)	(16,400)
		<u>9,132</u>	<u>7,228</u>
JobKeeper receipts		2,079	-
Interest received		155	216
Interest and other finance costs paid		(162)	(242)
Income taxes paid		(2,397)	(1,028)
Net cash inflow from operating activities		<u>8,807</u>	<u>6,174</u>
Cash flows from investing activities			
Advances (payments) of loans provided		47	40
Repayments (receipts) of share loans provided		118	-
Proceeds from sale of property, plant and equipment		21	-
Payments for property, plant and equipment		(755)	(867)
Payments for intangible assets		(2)	(13)
Payments for deferred consideration		(377)	(100)
Payments for purchase of businesses, net of cash acquired	19	(468)	(1,863)
Net cash outflow from investing activities		<u>(1,416)</u>	<u>(2,803)</u>
Cash flows from financing activities			
Repayment of borrowings		(8,900)	(9,200)
Drawdown of borrowings		4,400	11,200
Dividends paid		(2,960)	(2,960)
Repayment of lease liabilities		(1,403)	(1,452)
Net cash outflow from financing activities		<u>(8,863)</u>	<u>(2,412)</u>
Net (decrease)/increase in cash and cash equivalents		(1,472)	959
Cash and cash equivalents at the beginning of the half-year		<u>6,681</u>	<u>634</u>
Cash and cash equivalents at the end of the half-year		<u>5,209</u>	<u>1,593</u>

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

Notes to the financial statements

For the half-year ended 31 December 2020

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

This consolidated interim financial report for the half-year reporting period ended 31 December 2020 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 2020 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 16 February 2021.

(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.

New or amended accounting standards and interpretations adopted by the group

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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 2020.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the group based on known information. This consideration extends to the nature of the services offered, customers, supply chain, staffing and geographic regions in which the group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the group unfavorably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Notes to the financial statements

For the half-year ended 31 December 2020

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 2020 is 26%, compared to 27.5% for the six months ended 31 December 2019. The Group's tax rate status was assessed at 30 June 2020, and the aggregated turnover for the year was below the \$50 million threshold hence the base-rate entity tax rate.

Note 4: Income tax

Current tax:

	Half-year	
	2020	2019
	\$'000	\$'000
Current tax on profit for this half-year	1,978	1,892
Deferred tax	173	(227)
Adjustments for current tax on prior year	66	(21)
Adjustment for deferred tax on prior year	-	53
	2,217	1,697

Note 5: Dividends

Dividends provided for or paid during the half-year:

Fully franked final dividend of 12.5 cents (2019: 12.5 cents) for the year ended 30 June 2020 was paid on 11 September 2020.

	2,960	2,960
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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 14.50 cents per fully paid ordinary share (2019: 13.25 cents per share), fully franked based on tax paid at 26%. The aggregate amount of the proposed dividend expected to be paid on 18 March 2021 out of retained earnings at 31 December 2020, but not recognised as a liability at the end of the half-year, is:

	3,433	3,137
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Notes to the financial statements
For the half-year ended 31 December 2020

	Half-year	
	2020	2019
	\$'000	\$'000
Note 6: Revenue		
Services revenue	23,201	21,497
<i>Other revenue</i>		
Interest revenue	226	228
Consulting revenue	-	320
De-recognition of contingent consideration	73	550
Other	284	224
	<u>583</u>	<u>1,322</u>
Revenue	<u>23,784</u>	<u>22,819</u>

Note 7: Other income

Profit on disposal of assets	-	676
	<u>-</u>	<u>676</u>

Note 8: Depreciation and amortisation

Depreciation

Leasehold improvements	170	250
Plant and equipment	746	878
Right-of-use assets	1,433	1,435
Total depreciation	<u>2,349</u>	<u>2,563</u>

Amortisation

Software	43	64
Intellectual property	135	136
Future maintainable revenue stream	48	58
Total amortisation	<u>226</u>	<u>258</u>

Total depreciation and amortisation

	<u>2,575</u>	<u>2,821</u>
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31 December	30 June
2020	2020
\$'000	\$'000

Note 9: Trade receivables

Trade receivables	1,389	1,337
Sundry debtors	143	594
Membership and treatment plan receivables	222	266
	<u>1,754</u>	<u>2,197</u>

Notes to the financial statements
For the half-year ended 31 December 2020

Note 9: Trade receivables (continued)

Past due receivables

Customers with balances past due but not impaired amount to \$358,480 as at 31 December 2020 (\$363,000 as at 30 June 2020). These past due debtors were all 1 to 3 months overdue. Management do not anticipate a deterioration of receivables recoverability due to the COVID-19 pandemic.

31 December	30 June
2020	2020
\$'000	\$'000

Note 10: Loans receivable

Current

Other loans receivable	86	271
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Non-current

Share loan principal (a)	1,651	2,001
Share loan interest	130	116
Other loans receivable	216	434
Loans receivable (b)	3,000	3,000
	4,997	5,551

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 3.5% to 5.5%.

b) Redeemable preference shares were held during the period in an unlisted public company. Terms of fixed interest repayments range from 27 months to 29 months, with rates of return varying from 11% to 12%. 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

	Land and Buildings	Property, plant and equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2020	1,306	9,898	1,563	12,767
Additions	-	538	217	755
Additions from Business Combinations	-	189	-	189
Disposals	-	11	(16)	(5)
Depreciation expense	-	(746)	(170)	(916)
Balance at 31 December 2020	1,306	9,890	1,594	12,790

Notes to the financial statements
For the half-year ended 31 December 2020

Note 11: Property, plant and equipment (continued)

	31 December 2020 \$'000	30 June 2020 \$'000
Property, plant and equipment		
Cost	27,898	30,604
Accumulated depreciation	(15,108)	(17,837)
Net book amount	12,790	12,767

Note 12: Leases

Right-of-use assets

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

	31 December 2020 \$'000	30 June 2020 \$'000
Dental practices	11,011	10,501
Less: Accumulated Depreciation	(3,864)	(2,575)
	7,147	7,926
Offices	781	781
Less: Accumulated Depreciation	(391)	(260)
	390	521
Total	7,537	8,447

Change in right-of-use assets during the year breakdown as follows:

	Dental practices \$'000	Offices \$'000	Total \$'000
Balance as at 1 July 2020	7,926	521	8,447
Additions	540	-	540
Disposals at cost	(29)	-	(29)
Depreciation	(1,302)	(131)	(1,433)
Depreciation write-back on disposal	12	-	12
Balance as at 31 December 2020	7,147	390	7,537

Lease liabilities

Lease liabilities breakdown as follows:

	31 December 2020 \$'000	30 June 2020 \$'000
Current lease liabilities	3,161	2,865
Non-current lease liabilities	5,001	6,017
Total	8,162	8,882

Notes to the financial statements
For the half-year ended 31 December 2020

Note 12: Leases (continued)

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

	Dental practices \$'000	Offices \$'000	Total \$'000
Balance as of 1 July 2020	8,344	538	8,882
Additions	295	-	295
Lease extension	274	-	274
Interest expense	107	7	114
Lease repayments	(1,267)	(136)	(1,403)
Balance as of 31 December 2020	7,753	409	8,162

Note 13: Investment property

	31 December 2020 \$'000	30 June 2020 \$'000
Investment property - fair value	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 2020	174	31,638	1,690	806	34,308
Additions	-	-	-	2	2
Additions from business combination	-	379	-	-	379
Amortisation expense	(43)	-	(135)	(48)	(226)
Balance at 31 December 2020	131	32,017	1,555	760	34,463

	31 December 2020 \$'000	30 June 2020 \$'000
Intangible assets		
Cost	38,064	38,004
Accumulated amortisation	(3,601)	(3,696)
	34,463	34,308

Notes to the financial statements
For the half-year ended 31 December 2020

	31 December 2020 \$'000	30 June 2020 \$'000
Note 15: Trade and other payables		
<i>Current</i>		
Trade payables	2,518	2,343
Sundry payables and accruals	1,409	1,293
Unearned revenue	338	429
Other payables	-	235
	4,265	4,300
<i>Non-current</i>		
Other payables	357	401
Note 16: Other liabilities		
<i>Current</i>		
Contingent settlement payable	225	1,315
<i>Non-current</i>		
Contingent settlement payable	186	260
Total	411	1,575
<i>Contingent settlement payable</i>		
Opening balance	1,575	2,225
Additions through business combinations	100	-
Settled – cash	(377)	(100)
Settled – non-cash	(814)	-
De-recognised	(73)	(550)
Closing balance	411	1,575
Note 17: Loans payable		
<i>Non-current:</i>		
Loans payable	10,500	15,000

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 1.81%
- 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

Notes to the financial statements

For the half-year ended 31 December 2020

Note 17: Loans payable (continued)

- 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 2020, the net leverage ratio and the fixed cover ratio were 0.38x and 5.54x respectively.

Note 18: Contingencies and commitments

The group had total facilities of \$1,153,000 (30 June 2020: \$1,153,000) with \$991,000 used at reporting date (30 June 2020: \$1,153,000) in respect of property guarantees.

Note 19: Business combinations

The group acquired one dental practice, Central Point Dental in Bundaberg, Queensland, on 7 December 2020. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Total \$'000
Purchase consideration:	
Cash paid	468
Contingent consideration	100
Total purchase consideration	<u>568</u>
Property, plant and equipment	<u>(189)</u>
Provisional goodwill	<u>379</u>
Net assets acquired	<u><u>189</u></u>

Note 20: Events occurring after balance sheet date

A fully franked dividend of 14.50 cents per share has been declared and is payable on 18 March 2021.

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.

Director's Declaration

31 December 2020

In the directors' opinion:

- a) the financial statements and notes set out on pages 9 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 2020 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
16 February 2021

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), which comprises the consolidated balance sheet as at 31 December 2020, 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 2020, 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.

PKF Brisbane Audit ABN 33 873 151 348

Level 6, 10 Eagle Street, Brisbane, QLD 4000 | GPO Box 1568, Brisbane, QLD 4001 | T: +61 7 3839 9733

Brisbane | Rockhampton www.pkf.com.au

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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 2020 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



TIM FOLLETT
PARTNER

16 FEBRUARY 2021
BRISBANE

Directors

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

Company secretary

Patrick Wyatt

Registered office and principal business office

1300SMILES Limited
Ground Floor
105 Denham Street
Townsville QLD 4810
T: + 61 7 4720 1300
F: + 61 7 4771 5217
W: www.1300SMILES.com.au

Auditor

PKF Brisbane Audit
Level 6, 10 Eagle Street
GPO Box 1568
Brisbane QLD 4000

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 Limited
Level 1, 200 Mary Street
Brisbane QLD 4000
W: www.computershare.com/au

Legal advisers

Thomson Geer Lawyers
Level 28 Waterfront Place
1 Eagle Street
Brisbane QLD 4000

Private Legal Pty Ltd
PO Box 2354
Townsville QLD 4810

Wilson Ryan Grose Lawyers
15 Sturt Street
Townsville QLD 4810

1300 **S** **M** **I** **L** **E** **S**
Dentists

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