Smiles Inclusive Limited

Combined Financial Statements

for the year ended 30 June 2017

Smiles Inclusive Limited
Combined Statement of Profit or Loss
for the year ended 30 June 2017

	Note	Combined 30 June 2017 $
Gross practice revenue		45,315,705
Employee expenses		14,767,022
Clinician Fees		5,274,790
Consumables supplies expenses		3,414,019
Occupancy expenses		3,310,464
Marketing expenses		711,602
Professional Fees		617,727
Practice administration and other expenses		5,060,488
Earnings before interest, tax, depreciation and amortisation		**12,159,594**
Depreciation and amortisation		1,239,435
Earnings before interest and tax		**10,920,159**

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

Smiles Inclusive Limited
Combined Statement of Financial Position
as at 30 June 2017

	Combined 30 June 2017 $
Assets	
Cash and cash equivalents	5,677,443
Receivables	221,660
Prepayments and other assets	542,728
Property, plant and equipment	5,327,162
Total assets	**11,768,993**
Liabilities	
Trade and other payables	1,591,533
Other tax liabilities	1,041,639
Borrowings	3,219,060
Provisions	1,894,416
Total liabilities	**7,746,648**
Net assets	**4,022,345**
Equity	
Contributed equity	4,022,345
Total equity	**4,022,345**

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

Smiles Inclusive Limited
Notes to the Combined Financial Statements
for the year ended 30 June 2017

1. BASIS OF PREPARATION

(a) Reporting Entity

Smiles Inclusive Limited was incorporated on 15 August 2017 and, through its subsidiary entity Totally Smiles Pty Ltd, has entered into Business Sale Agreements ('BSA's') with various unrelated business structures, including sole traders, family trusts, partnerships and private companies to acquire the business operations of independently operated dental practices, as part of the proposed listing process (hereinafter collectively referred to as 'The Smiles Inclusive Combined Group' or 'The Combined Group'). These Combined Financial Statements have been prepared for the purpose of presenting historical financial information in a prospectus to be issued by Smiles Inclusive Limited and comprise The Combined Group. As such, these Combined Financial Statements have been prepared as special purpose financial statements.

The Combined Group is domiciled in Australia. The address of The Combined Group is Unit 3/38-40 Township Drive, West Burleigh, QLD, 4219.

The Combined Group is for-profit and it is proposed to be primarily involved in operating dental practices throughout Australia at which independent dentists practice and provide clinical treatments and services to patients.

(b) Statement of Compliance

The Combined Financial Statements of The Combined Group have been drawn up as a special purpose financial report for distribution to the Directors and does not comply with the *Corporations Act 2001*.

The special purpose Combined Financial Statements have been prepared in accordance with the recognition and measurement aspects of all applicable Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standard Board ('AASB'), except for:

- AASB 101 *Presentation of Financial Statements* as the Combined Statement of Profit and Loss presents the combined profit and loss to earnings before interest and taxation ('EBIT') level only and does not present interest and taxation income and expenses;
- AASB 112 *Income Taxes* as taxes are not considered to form part of the business assets and liabilities being acquired. These rights and obligations rest with the individual owners as the business operations are being acquired and not the legal structures;
- IFRS 10 *Consolidated Financial Statements* as there is no single parent entity, the combination of The Combined Group is not a consolidation and therefore, the Combined Financial Statements have not been prepared on a consolidation basis.

The Combined Financial Statements do not include the disclosure requirements of all AASBs.

The Combined Financial Statements do not comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The Combined Financial Statements have been prepared by management and they have determined that the accounting policies and disclosures adopted are appropriate for the purpose of the users of the Combined Financial Statements.

Consistent accounting policies are employed in the preparation and presentation of the Combined Financial Statements.

The Combined Financial Statements are presented in Australian dollars.

The Combined Financial Statements were authorised for issue by management on 12 March 2018.

1. BASIS OF PREPARATION (continued)

(c) Historical cost convention

The Combined Financial Statements has been prepared on an accrual basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected assets, financial assets and financial liabilities.

(d) Critical accounting estimates and judgements

The preparation of the Combined Financial Statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Combined Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of combination

The Combined Financial Statements are an aggregation of the assets and liabilities of all dental practices identified in Note 3 as at 30 June 2017 and the results of the dental practices for the year ended 30 June 2017. No business combination accounting adjustments have been made to the aggregated financial information. Consistent accounting policies have been applied in the preparation and presentation of financial information.

Each of the dental practices listed in Note 3 have entered in to conditional Business Sale Agreements (BSA's) with Smiles Inclusive Limited. The BSA's will become unconditional at the time of the initial public offering. At this time Smiles Inclusive Limited will complete business combination accounting in accordance with AAB 3 Business Combinations. As such no goodwill has been recognised or fair value adjustments, including the associated tax effects, within these Combined Financial Statements.

The net assets of each dental practice represent the net equity positions of each of the respective current owners. The net assets have been aggregated and described as Contributed Equity.

There are no intercompany transactions, balances or unrealised gains between the dental practices of The Combined Group.

(b) Revenue recognition

The Combined Group provides dental services to patients. Revenue is recognised at the fair value of consideration received or receivable, being the amount of fees charged to the patient.

The Combined Group recognises revenue from the rendering of dental services when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity, which is once the services have been provided.

Revenue from treatment plans, which are generally provided over a period of greater than one month, is recognised on an accrual basis as the services are provided.

Government subsidies are recognised at their fair value when the dental services have been rendered and when there is reasonable assurance that the subsidy will be received and The Combined Group will comply with the attached conditions.

Interest income is recognised as it accrues in profit and loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Employee benefits

Short-Term Obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The liabilities are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Long-Term Obligations

The Combined Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

The obligations are presented as a liability in the balance sheet if The Combined Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in liabilities in the balance sheet.

(e) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment if applicable. Trade receivables are generally due for settlement within 30 days.

(f) Property, plant and equipment

Items of property, plant and equipment are measured at cost less depreciation, amortisation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to The Combined Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the costs of assets, net of their residual values, over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 1(j)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Payables

These amounts represent liabilities for goods and services provided to The Combined Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(h) Borrowings

Borrowings are measured at amortised cost. Borrowing costs are expensed as incurred.

(i) Impairment of assets

Financial assets

Collectability of financial assets, such as trade receivables, is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that The Combined Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

The Combined Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics

In assessing collective impairment, The Combined Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit and loss within other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit and loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

Non-financial assets

Non-financial assets, such as goodwill and intangible assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Other assets, including those that are subject to depreciation or amortisation, are reviewed at each balance date to determine whether there is any indication of impairment. If such an indicator exists, then the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Cash inflows considered for the purposes of impairment testing are discounted to present value.

Significant judgement has been used in testing assets for impairment and in determining the amounts recognised as impairment losses at reporting date.

(k) Provisions

A provision is recognised if, as a result of a past event, The Combined Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Make Good Provision

Dental practices are generally required to restore most leased premises to their original condition at the end of their respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements and repair any associated damage. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases

Leases of property, plant and equipment where The Combined Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The interest element of the finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to The Combined Group as lessee are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to profit and loss on a straight-line basis over the period of the lease.

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

3. COMBINED DENTAL PRACTICES

The Combined Financial Statements are based on the aggregated assets and liabilities, and results of operations, of the following dental practices as at and for the year-ended 30 June 2017:

- HiQu Dental
- MK Dental
- Warren Dental
- M.A Dental Pty Ltd
- Cairns Square Dental
- Redbank Plaza Dental
- Distinctive Dental Care
- Moroney Family Trust (Dental Central)
- Whitehouse Dental
- Q Dental
- Ken Gover Dental
- Gympie Family Dental
- Surfers Dental Surgery
- GP Nichols Dental
- Clayfield Family Dentist
- Peninsula Dental
- James Street Dental
- Basil Fletcher Periodontist
- Graham Irving & Assoc
- Packenham Dental Group
- Yarram Dental Group
- Dentserve
- SPA Dental (Sean and Li Kar-Yee Parsonage)
- Kippax Dental
- Smiles on Site (AADC)
- The Smile Club
- Delregis Pty Ltd (Prime Children's Dental)
- Dalyellup Dental
- Dentures Direct (Denturist Australia, Denture Ventures, VIP Dentures)
- Laidley Dental Surgery
- Gatton Dental Surgery
- Dentures Direct (SA) Trust
- Watkins Dental & Orthodontics
- North Brisbane Dental Central
- Refresh Dental

Smiles Inclusive Limited
Management's Declaration

1 In the opinion of the management of Smiles Inclusive Limited:

(a) the Group comprising Smiles Inclusive Limited and the various dental practices as set out in Note 3 to the Combined Financial Statements ("the Combined Group") is not a reporting entity;

(b) the Combined Group's Combined Financial Statements and notes, set out on pages 3 to 11:

(i) present fairly the combined financial position of the Combined Group as at 30 June 2017 and its performance, as represented by the results of its operations for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Notes1 and 2; and

(ii) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent described in Notes 1 and 2 and

(c) there are reasonable grounds to believe that the Combined Group will be able to pay its debts as and when they become due and payable.

2 In respect of the year ended 30 June 2017 Smiles Inclusive Limited and the entities in the Combined Group have:

(a) kept such accounting records as correctly record and explain their transactions and financial position;

(b) kept accounting records such that Combined Financial Statements of the Combined Group that are presented fairly can be prepared from time to time; and

(c) kept their accounting records so that the Combined Financial Statements of the Combined Group can be conveniently and properly audited.

Paul Innes
Chief Financial Officer

Gold Coast
12 March 2018

Independent Auditor's Report

To the Directors of Smiles Inclusive Limited

Opinion

We have audited the ***Combined Financial Statements*** of the *Smiles Inclusive Combined Group "**Combined Group**"*.

In our opinion, the accompanying Combined Financial Statements present fairly, in all material respects, the financial position of the ***Combined Group*** as at 30 June 2017, and of its financial performance for the year then ended, in accordance with *Australian Accounting Standards* to the extent described in Note 1 to the Combined Financial Statements for the purpose of satisfying the Directors of Smiles Inclusive Limited in their due diligence in relation to an Initial Public Offering.

The ***Combined Financial Statements*** comprise:

- *Combined statement of financial position* as at 30 June 2017;
- *Combined statement of profit or loss* for the year then ended;
- Notes including a summary of significant accounting policies.

*The **Combined Group** consists of Smiles Inclusive Limited and the business operations of independently operated dental practice's being acquired as part of the planned combination and listing process as set out in Note 3.*

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Combined Financial Statements* section of our report.

We are independent of the Combined Group in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Combined Financial Statements in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Notes 1 to 2 of the Combined Financial Statements, which describe the basis of preparation, including the approach taken to and the purpose for preparing them. The Combined Financial Statements have been prepared for the Directors of Smiles Inclusive Limited for the purpose of Directors' due diligence in relation to a potential Initial Public Offering. As a result, the Combined Financial Statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Our report is intended solely for the Directors of Smiles Inclusive Limited and should not be used by or distributed to parties other than the Directors of Smiles Inclusive Limited. We disclaim any assumption of responsibility for any reliance on this report, or on the Combined Financial Statements to which it relates, to any person other than the Directors of Smiles Inclusive Limited or for any other purpose than that for which it was prepared.

Other Matter

The Combined Financial Statements of the Combined Group for the year ended 30 June 2016 were not audited.

Other Information

Other Information is financial and non-financial information that contains or accompanies the Combined Financial Statements and the Auditor's Report, this includes Management's Declaration. Management are responsible for the Other Information.

Our opinion on the Combined Financial Statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Combined Financial Statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Combined Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Management for the Combined Financial Statements

Management are responsible for:

- the preparation and fair presentation of the Combined Financial Statements in accordance with the agreed combination basis of preparation and applying Australian Accounting Standards to the extent described in Notes 1 to 2 appropriate to meet the needs of the Directors for the purpose of their due diligence in relation to the *Initial Public Offering;*
- implementing necessary internal control to enable the preparation of Combined Financial Statements that are free from material misstatement, whether due to fraud or error;
- assessing the Combined Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Combined Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the Combined Financial Statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Combined Financial Statements.

A further description of our responsibilities for the audit of the Combined Financial Statements is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

12 March 2018