smiles inclusive

ABN 27 621 105 824
ACN 621 105 824

Smiles Inclusive Limited (ASX: SIL) - Appendix 4E
23 August 2018

Reporting period

Reporting period: 15 August 2017 to 30 June 2018
Comparative period: Not applicable

Results for announcement to the market

Smiles Inclusive Limited is pleased to announce its results to the market, which are based on audited financial statements:

	$'000	Up/Down	Movement %
Revenue from ordinary activities	7,211	N/A	N/A
Loss from ordinary activities after tax attributable to members	(4,987)	N/A	N/A
Net loss attributable to members	(4,987)	N/A	N/A

The net loss for the period of $5.0m is after acquisition and integration related costs of $5.7m. Practice revenue for the period was $7.2m and practice EBITDA was $1.9m. Practice results were impacted by later than forecast settlement of the initial portfolio, deferred revenue as a result of timing of third party contracted dental services and minor disruption in the process of consolidating a small number of practices within the initial portfolio. Further details are provided in the attached financial report.

Dividend information

No dividend has been proposed to be paid or payable for the year ended 30 June 2018.

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Unit 3/38-40 Township Drive
West Burleigh QLD 4219
PO Box 382
West Burleigh QLD 4219
Phone 07 5568 7645
admin@smilesinc.com.au
Phone 07 5568 7645
totallysmiles.com.au

Net tangible assets/(liabilities) per security

Net tangible liabilities per security at 30 June 2018 is $0.05 cents.

Details of entities over which control has been gained or lost during the period

During the period, Smiles Inclusive Limited obtained control over the following entities:

Name of the entity	Date of the gain of control	Contribution to profit ($'000)	Previous year profit ($'000)
Totally Smiles Pty Ltd	24 August 2017	(2,290)	-
Smiles Southport Pty Ltd	26 February 2018	(112)	(689)
Distinctive Dental Care Pty Ltd	20 April 2018	N/A	143

Details of associates and joint ventures

Not applicable.

Audit

This report is based on accounts which have been audited.

Attachments

The audited Financial Report of Smiles Inclusive Limited for the period ended 30 June 2018 is attached.

Additional Appendix 4E disclosure requirements can be found in the Financial Report which contains the Directors' Report and the 30 June 2018 Financial Statements and accompanying notes.

-ends-

Smiles Inclusive Limited
ACN 621 105 824

Financial

Report

30 June 2018

Table of Contents

Corporate Directory

Principal Registered Office
C/- Talbot Sayer
Level 27, 123 Eagle Street Brisbane QLD 4000

Directors
D Herlihy (Chairman)
D Usasz (Deputy Chairman)
P Evans
M Timoney
T Penn

Company Secretaries
Mr P Innes
Ms J Watter

Auditor
KPMG

Share Registry
Link Market services

Stock Exchange Listing
Smiles Inclusive Limited shares are listed on the Australian Security Exchange under the code "SIL".

Review of operations and activities

Overview of FY18 results

The Group listed on the Australian Securities Exchange (ASX) in April 2018 following completion of a fully underwritten Initial Public Offer (IPO). The Company issued 35,000,000 new shares at $1.00 per share to raise $35.0 million before costs.

Operational highlights included:

- Practice revenue (net of direct costs) in line with the prospectus forecast, after adjustments for the timing of actual settlement of practices and other adjustments outlined on page 5;
- Practice margins of 31% in line with forecast statutory margins of 31%;
- Integration progress ahead of 120-day target;
- Growing acquisition pipeline; and
- Cashflow in line with the prospectus forecast.

Financial highlights

Key financial outcomes of the Group's 30 June 2018 results are:

- statutory loss after tax of $5.0million;
- practice revenue (net of direct costs) of $6.1m in line with the prospectus forecast.

The following table summarises key reconciling items between the Group's statutory revenue and practice revenue (net of direct costs):

	2018 $'000
Practice revenue	7,211
Direct costs	(1,156)
Practice revenue (net of direct costs)	**6,055**

Review of operations and activities

Results of operations

	Prospectus statutory forecast	*Change in pro forma based on revised settlement dates*	Restated prospectus statutory forecast	*Other variances*	Year ended 30 June 2018
	$'000	$'000	$'000	*$'000*	$'000
Practice revenue (net of direct costs)	10,340	*(3,447)*	6,893	*(838)*	6,055
Practice EBITDA	***3,222***	***(1,089)***	***2,133***	***(266)***	***1,867***
Corporate & Integration Costs	(3,383)	*1,127*	(2,256)	*387*	(1,868)
EBITDA	***(161)***	***38***	***(123)***	***122***	***(1)***

Practice revenue (net of direct costs) is in line with expectations after considering the following factors:

- $3.4 million reduction as a result of timing of the acquisitions made throughout FY18. The prospectus assumed that settlement of the initial portfolio had occurred in full on 1 April 2018. Actual settlement of the initial portfolio commenced on 20 April 2018 and completed on 29 May 2018. Smiles settled 50 of the initial 52 practices, with two replacement practices brought forward from the acquisition pipeline to ensure completion on 52 practices as per the prospectus;
- $0.6 million recognised as deferred revenue as a result of timing of third party contracted dental services; and
- $0.2 million impact due to minor disruption in the process of consolidating a small number of practices within the initial portfolio, with management taking the opportunity to bring forward a number of planned initiatives on these practices.

The practice EBITDA of $1.9 million for FY18 was in line with pro forma and statutory expectations after adjustments outlined above, with practice EBITDA margins maintained at 31%.

Capital Metrics

	2018
Gearing[1]	18.4%
Net debt[2]	$9.2m
Gross interest-bearing liabilities	$11.2m
Undrawn facilities	$24.6m
Weighted average borrowing cost	8.6%
Weighted average debt maturity	4.2 yrs

[1] Measured as net debt divided by total assets net of cash and joint venture partner contributions.
[2] Net debt is net of cash and liquid investments.

The Group successfully entered in to an acquisition facility that expires in April 2023 and secured total facilities of $36m (including bank guarantees).

Debt remains unhedged.

Risk

There are a number of risks that could affect the Group's ability to achieve its guidance of an underlying net profit after tax of at least $6.0 million pre-acquisition for FY19. These include:

- The Group's revenues may be affected by changing economic conditions. Fees earned by dental practitioners (and, in turn, the Group) may reduce in the event of economic downturn, as patients may cut spending on dental services and, in particular, discretionary services such as teeth whitening and cosmetic treatments;
- Material reductions in private health insurance coverage, composition of policy coverage between dental services and other services and/or in membership rates could impact total expenditure in the dental industry. If private health insurance membership, or the insured amounts for dental services reduced, then this could potentially impact demand for the Group's services and put downward pressure on fees charged to patients in the industry. This could negatively impact the Group's revenues and financial performance, as the service fee paid to it by dental practitioners is calculated principally with reference to patient fees generated by the practitioner. These effects could occur as a result of annual premium rounds;
- The industry in which the Group operates is highly competitive. The actions of existing and new competitors in the dental industry could, among other things, affect the establishment and growth of the Totally Smiles brand, result in a decline in the number of patients that visit the Practices and/or result in the Group experiencing lower than anticipated revenue and margins; and
- The Group's model has been developed on the basis that JV Partners contribute capital to participate in the Joint Venture Partner Programme. If a significant number of JV Partners wished to exit the Joint Venture Partner Programme and the Group (or the exiting JV Partner) were unable to procure new JV Partners in respect of the relevant practice, or if JV Partners are unable to be procured in respect of future dental practice acquisitions, this will increase the Group's capital requirements and also its capital exposure to the relevant practices. This may also negatively affect the Group's financial position and growth, its ability to implement its proposed business strategy and model, and its alignment with practice management.

Outlook

The Group enters FY19 well positioned with the integration of the initial practice portfolio substantially complete.

With the benefit of observing practice trading performance since IPO, the Group is providing FY19 underlying NPAT guidance of at least $6.0 million.

The guidance excludes any benefits that may result from accretive acquisitions that could occur in FY19, which would be funded from acquisition debt facilities with undrawn capacity of $19.3 million.

Directors' report

The Directors present their report on the consolidated entity consisting of Smiles Inclusive Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the period ended 30 June 2018. Throughout the report, the consolidated entity is referred to as the Group.

Directors and company secretary

The following persons were Directors of the Company at any time during or since the end of the financial year:

D Herlihy (Chairman)

D Usasz (Deputy Chairman)

P Evans

M Timoney

T Penn

D Herlihy, D Usasz, M Timoney and T Penn were appointed as Directors on 15 August 2017 respectively and continue in office at the date of this report.

P Evans was appointed a Director on 1 August 2018 and continues in office at the date of this report.

The joint company secretaries are Mr P D Innes CA B.Bus (Acc) and Ms J Watter LLB. Mr Innes was appointed to the position of company secretary on 10 January 2017 and Ms Watter was appointed on 15 May 2018. Before joining the Company, Mr Innes held senior financial positions within other listed public companies and larger government owned corporations. Ms Watter is currently a lawyer at Talbot Sayers and advises on a wide range of corporate governance and advisory matters, including continuous disclosure, board responsibilities and general meetings. She has had experience acting for other listed public companies in similar roles.

Principal activities

During the period the principal continuing activities of the group consisted of the acquisition and operation of dental practices. The Group owns and operates fully serviced treatment rooms, providing materials, marketing, and administrative services to dentists through the Totally Smiles Dental Group.

Dividends

No dividends were declared by the group for the period ended 30 June 2018 or up to the date of signing.

Review of operations

The Group recorded a loss after tax of $5.0m for the period ended 30 June 2018.

Information on the operations and financial position of the Group and its business strategies and prospects are set out in the review of operations and activities on pages 4 – 6 of this annual report.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial period were as follows:

- The Company incorporated Totally Smiles Pty Ltd in August 2017, a wholly owned subsidiary, which was the entity used to acquire 52 dental practices in April and May 2018;
- The Company acquired Smiles Southport Pty Ltd in February 2018, a director related entity, that had previously incurred acquisition and capital raising costs in relation to dental practice acquisitions and the ASX listing;
- The Company raised $35.0m through the issue of 35,000,000 shares as part of an initial public offering in April 2018; and
- The Company entered into debt facilities totalling $36.0m.

Events since the end of the financial year

No matter or circumstance has arisen since 30 June 2018 that has significantly affected the Group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

The Group will continue to pursue its plans for future growth as outlined in the prospectus.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

More information on these developments is included in the review of operations and activities on pages 4 – 6.

Environmental regulation

The group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

The following information is current as at the date of this report:

D Herlihy – B.Arts, FAICD – Chair & Independent Non-Executive Director		
Experience and expertise	Independent non-executive Director and Chair since incorporation. In his capacity as Chairman and Director of various entities, he has overseen a broad range of matters including governance, funding, acquisitions and strategy.	
Other current directorships	None	
Former directorships in last 3 years	None	
Special responsibilities	Chair of the Board Chair of Nomination and Remuneration Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	500,000

Information on Directors (continued)

D Usasz – B. Com FCA – Independent Non-Executive Director		
Experience and expertise	Independent Non-Executive Director and Deputy Chair since incorporation. Provides counsel on financial and strategic matters drawing on 31 years of service at PricewaterhouseCoopers, including 20 years as partner.	
Other current directorships	GARDA Investments GARDA Group	
Former directorships in last 3 years	None	
Special responsibilities	Deputy Chair of Board Chair of Audit and Risk Committee Member of Nomination and Remuneration Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	1,330,000

P Evans - BCom, GradDipAdvAcc, F Fin, FSIA – Independent Non-Executive Director		
Experience and expertise	Independent Non-Executive Director. 30-year stockbroking career and extensive Board experience with a range of private and ASX-listed companies.	
Other current directorships	Intrepid Mines Limited	
Former directorships in last 3 years	Talon Petroleum Limited	
Special responsibilities	Member of Audit and Risk Committee Member of Nomination and Remuneration Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	373,000

M Timoney – MAICD – Chief Executive Officer & Executive Director		
Experience and expertise	Chief Executive Officer since incorporation. Former chief executive of Abano Healthcare Group Limited's (NZX: ABA) Dental Group. Founder and former Chief executive of Dental Partners Dental Group.	
Other current directorships	None	
Former directorships in last 3 years	None	
Special responsibilities	None	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	9,668,000

Information on Directors (continued)

T Penn – Deputy CEO & Executive Director		
Experience and expertise	Deputy Chief Executive Officer. Over 30 years of practice management experience in the dental industry and related fields.	
Other current directorships	None	
Former directorships in last 3 years	None	
Special responsibilities	Member of Audit and Risk Committee Member of Nomination and Remuneration Committee	
Interests in shares and options	Ordinary shares – Smiles Inclusive Limited	412,000

Meetings of Directors

The numbers of meetings of the company's board of Directors and of each board committee held during the year ended 30 June 2018, and the numbers of meetings attended by each Director were:

	Full Meetings of Directors		Meeting of Non-Executive Directors		Committee Meetings			
					Audit and Risk		Nomination and Remuneration	
Director	A	B	A	B	A	B	A	B
D Herlihy	9	9	-	-	3	3	2	2
D Usasz	9	9	-	-	3	3	2	2
P Evans (appointed 1 August 2018)	-	-	-	-	-	-	-	-
M Timoney*	9	9	-	-	-**	-**	2	2
T Penn*	9	9	-	-	3	3	-**	-**

A= Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year
* = Not a non-executive Director
** = Not a member of the relevant committee

Remuneration Report (Audited)

This Remuneration Report for the year ended 30 June 2018 outlines the Directors and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 (Cth) (Corporations Act) and the Corporations Regulations 2001 (Cth). For the purposes of this Report, key management personnel (KMP) of the Group are defined as those personnel having authority and responsibility for planning, directing and controlling major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise).

The disclosure in this Report have been audited. This Report is presented under the following sections:

a) Introduction
b) Overview of remuneration policy
c) Summary of senior executive remuneration structure
d) Details of performance-based remuneration elements
e) Relationship between remuneration policy and company performance
f) Remuneration details of Non-Executive Directors
g) Remuneration details of Senior Executives
h) Key management personnel disclosures

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Remuneration Report (continued)

(a) *Introduction*

The remuneration disclosures in this Report cover the following persons:

Non-executive Directors

David Herlihy	Non-Executive Chairman
David Usasz	Non-Executive Director

Executive Directors

Mike Timoney	Managing Director and Chief Executive Officer
Tracy Penn	Executive Director and Deputy Chief Executive Officer

Other Executives

Paul Innes	Chief Financial Officer and Company Secretary

In this Report the group of persons comprised of the executive Directors and other executives (listed above) are referred to as "Senior Executives".

(b) Overview of remuneration policy

Philosophy

Smiles Inclusive is a company that provides outstanding dental services and, to remain competitive, Smiles must continue to enhance the experience of all patients who visit Smiles practice's. As a result, the performance of the Group is highly dependent upon the quality of its Directors, Senior Executives, practitioners and employees. The Group seeks to attract, retain and motivate skilled Directors and Senior Executives in leadership positions of the highest calibre. The Group's remuneration philosophy is to ensure that remuneration packages properly reflect a person's duties and responsibilities, that remuneration is appropriate and competitive both internally and against comparable companies and that there is a direct link between remuneration and performance. The Group has in place different remuneration structures for Non-executive Directors and Senior Executives.

Non-executive Directors

The process for determining remuneration of the Non-Executive Directors has the objective of ensuring maximum benefit for the Group by the retention of a high-quality Board.

The Nomination and Remuneration Committee bears the responsibility of determining the appropriate remuneration for Non-Executive Directors. Non-Executive Directors' fees are reviewed periodically by the Nomination and Remuneration Committee with reference to the fees paid to the Non-executive Directors of comparable companies. The Nomination and Remuneration Committee is subject to the direction and control of the Board.

In forming a view of the appropriate level of Board fees to be paid to Non-Executive Directors, the Nomination and Remuneration Committee may also elect to receive advice from independent remuneration consultants, if necessary. Details regarding the composition of the Nomination and Remuneration Committee and its main objectives are outlined in the Corporate Governance Statement. The Nomination and Remuneration Committee is comprised of a majority of independent Non-executive Directors.

At the 2017 Annual General Meeting, shareholders approved an increase in the aggregate Non-Executive Directors' fee cap in Smile's Constitution to $800,000.

Remuneration Report (continued)

No performance-based fees are paid to Non-Executive Directors. Non-Executive Directors are not entitled to participate in the Group's incentive plans (described more fully below). Non-Executive Directors are not provided with retirement benefits other than statutory superannuation at the rate prescribed under the Superannuation Guarantee (Administration) Act 1992 (Cth) (Superannuation Legislation).

Senior Executives

The remuneration structure for Senior Executives incorporates a mix of fixed and performance-based remuneration. The following section provides an overview of the fixed and performance-based elements of executive remuneration. The summary tables provided later in this Report indicate which elements apply to each Senior Executive.

The Group's key strategies and business focuses are taken into consideration as part of performance-based remuneration.

(c) Summary of Senior Executive remuneration structure

Fixed Remuneration

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate to the Senior Executive's responsibilities, the geographic location of the Senior Executive and competitive conditions in the appropriate market.

Fixed remuneration is therefore determined with reference to available market data, the scope and any unique aspects of an individual's role and having regard to the qualifications and experience of the individual. From time to time, the Group may seek a range of specialist advice to help establish the competitive remuneration for its Senior Executives.

Fixed remuneration typically includes base salary and superannuation at the rate prescribed under the Superannuation Legislation, mobile telephone costs, and may include, at the election of the Senior Executive, other benefits such as a motor vehicle, additional contributions to superannuation, and car parking, aggregated with associated fringe benefits tax to represent the total employment cost (TEC) of the relevant Senior Executive to the Group.

Fixed remuneration for the Senior Executives is reviewed annually by the Chairman and is approved by the Nomination and Remuneration Committee.

The review process measures the achievement by the Senior Executives of their Key Performance Objectives (KPOs) established at the beginning of the financial year, the performance of Smiles, relevant comparative remuneration in the market and relevant external advice.

Any payments relating to redundancy or retirement are as specified in each relevant Senior Executive's contract of employment.

For summaries of Senior Executive contracts of employment, see page 16 of this Report.

Remuneration Report (continued)

Performance based remuneration

The performance-based components of remuneration for Senior Executives seek to align the rewards attainable by Senior Executives with the achievement of particular annual and long-term objectives of the Group and the creation of shareholder value over the short and long term. The performance-based components which applied to the Senior Executives during the year were as follows:

- Short Term Incentives (STI)

The Board are developing a long-term incentive plan to be put in place in order to incentivise selected Senior Executives to remain with the Group to assist it to achieve the Group's strategic plans. It is expected that the long-term incentive plan will be in place for the year ended 30 June 2019.

(d) Details of performance-based remuneration elements

Short Term Incentives (STI)

The remuneration of Senior Executives is linked to the Group's short-term annual performance through a cash-based STI. Individuals may be paid an STI following an assessment of the performance of the Group in the previous year and the performance of the individual against agreed annual Key Performance Objectives (KPOs). Senior Executives have a potential or target STI, which is subject to the Group's performance and the achievement of the Senior Executive's KPOs established at the beginning of each financial year. In summary, the typical KPO structure might comprise the following elements:

Financial Performance Objectives

- Performance against budgeted normalised EBIT and/or net profit after tax.

Typical Non-Financial Objectives

- Management of acquisition and integration programs to ensure practices are integrated in a timely manner, while minimising disruption at relevant practices as well as the subsequent delivery of anticipated benefits from those acquisitions.
- Reinforcement and delivery of outstanding patient experiences through continuous improvement in the Group's service culture.
- Successful management of the Group's stakeholders, including joint partners and associates to achieve targeted outcomes.
- Achievement of successful expansion of patient base for the Group's practices through marketing or other relevant activities.
- Growth in engagement levels of employees across the Group.
- Achievement of margin improvement targets through the implementation of approved programs aimed at cost efficiency.
- Achievement (or maintenance) of improvements in key occupational health and safety statistics.

Financial performance objectives are derived from the Group's Annual Business Plan and Budget as the Board considers this as the best way to ensure that the Group meets the Annual Business Plan and Budget, aligning performance outcomes with shareholder value.

A failure to achieve relevant financial performance objectives will result in Senior Executives receiving either no STI bonus or, where relevant financial performance objectives are only partially met, a reduced STI bonus. The Board retains discretion, however, to pay an STI bonus where financial performance objectives have not been met, but other objectives have been achieved.

Appropriate non-financial performance objectives (such as those set out above) are also included in a Senior Executive's KPOs where they are within that Senior Executive's sphere of influence and are relevant to the Senior Executive's area of work. These metrics are aligned with the achievement of the Group's Annual Business Plan and Budget.

Remuneration Report (continued)

The performance of each Senior Executive against financial and non-financial KPOs is reviewed on an annual basis. Whether KPOs have been achieved is determined by the Chairman, having regard to the operational performance of the business or function in which the Senior Executive is involved and the CEO's assessment of the attainment of the individual's KPOs.

The Chairman reviews performance-based remuneration entitlements and recommends the STI payments, subject to final approval by the Nomination and Remuneration Committee and the Board.

(e) Relationship between remuneration policy and company performance

Remuneration linked to performance

As detailed above in the sections on Fixed Remuneration and Performance Based Remuneration, various elements of the Group's remuneration policy are linked to the Group's performance, in particular, the achievement of the Board approved Annual Budget and Business Plan.

The Board has sought to achieve this link by requiring the achievement of an annual level of normalised EBIT and net profit after tax.

Full details of how these links have been achieved are set out in the above sections of this Report, but, in summary:

- an STI may be payable if the Group achieves its budgeted financial objectives and where an individual achieves his or her annual KPOs, assessed using a combination of financial and non-financial measures.

(f) Remuneration details for Non-executive Directors

Non-executive Directors are entitled to a base fee per annum for acting as a Director of the Group.

Non-executive Directors of the Group are entitled to additional fees if they act as either chair or a member of an active Committee (the Audit and Risk Committee, or the Nomination and Remuneration Committee).

Details of the remuneration of the non-executive Directors of the Group for the financial period are set out in the following table.

	Short-term employee benefits		Other	Long term benefits	Total
	Salary and fees	Superannuation		Long Service Leave	
2018	$	$	$	$	$
Non-executive Directors					
D Herlihy	81,000	-	-	-	81,000
D Usasz	53,550	-	-	-	53,550

Remuneration Report (continued)

(g) Remuneration details for Senior Executives

Remuneration and other terms of employment for the executives are formalised in employment contracts.

The employment contracts specify the remuneration arrangements, benefits, notice periods and other terms and conditions. Participation in the STI and LTI arrangements are subject to the Board's discretion.

The current executive contracts do not have fixed terms. Contracts may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances involving serious or wilful misconduct.

	Termination notice by executive	Termination notice or payment in lieu of notice by Company
Senior Executives		
M Timoney	6 months	6 months
T Penn	3 months	3 months
P Innes	3 months	3 months

Details of the remuneration of the senior executives of the Group for the financial period are set out in the following table:

	Short-term employee benefits			Other	Long term benefits	Total
	Salary and fees	STI	Superannuation		Long Service Leave	
2018	$	$	$	$	$	$
Senior Executives						
M Timoney	238,175	-	5,399	4,372	-	247,946
T Penn	155,729	-	14,370	9,930	-	180,029
P Innes	197,375	-	4,786	3,875	-	206,036

Remuneration Report (continued)

(h) Key management personnel disclosures

Shareholdings of key management personnel

Set out below is a summary of equity instruments held directly, indirectly or beneficially by KMPs, close family or controlled entities.

Ordinary Shares

	Balance at start of year	Net Change	Balance at end of year
Non-executive Directors			
D Herlihy	-	500,000	500,000
D Usasz	-	1,330,000	1,330,000
Senior Executives			
M Timoney	-	9,668,000	9,668,000
T Penn	-	412,000	412,000
P Innes	-	100,000	100,000

Loans to key management personnel

There have been no loans made, guaranteed or secured, directly or indirectly by the Company or any of its subsidiaries in the reporting period in relation to KMPs, close family or controlled entities.

Transactions entered into with Key Management Personnel

Key management personnel, their close family and controlled entities entered into a number of transactions with the Company. Amounts recognised in respect of other transactions with key management personnel were:

	2018 $
Property leasing expenses	12,273
Consulting expenses	158,158
Management fee recharge	1,600,583

This concludes the remuneration report, which has been audited.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

Details of any amounts paid or payable by the Group for non- audit services provided during the period are given in note 25 to the financial statements.

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 20.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Pursuant to this instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Insurance of Officers

During the financial period, the Group paid a premium in respect of a contract to insure the Directors and Executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium. During or since the end of the financial period, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

This report is made in accordance with a resolution of the Board of Directors.

David Herlihy
Chairman

Gold Coast

23 August 2018

Corporate governance statement

Smiles Inclusive Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. Smiles Inclusive Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2018 corporate governance statement is dated as at 30 June 2018 and reflects the corporate governance practices in place for the 2018 financial period. The 2018 corporate governance statement was approved by the Board on 12 March 2018. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at www.smilesinc.com.au.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Smiles Inclusive Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Smiles Inclusive Limited for the financial period ended 30 June 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

A Twemlow

Partner

Gold Coast

23 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period 15 August 2017 to 30 June 2018

	Note	2018 $'000
Practice revenue	1	7,211
Direct costs – commissions and laboratory fees		(1,156)
Consumables supplies expenses		(443)
Employee expenses		(4,156)
Marketing expenses		(231)
Occupancy expenses		(605)
Administration and other expenses	2	(6,420)
Depreciation and amortisation expense	2	(154)
Loss before finance costs and income tax		**(5,954)**
Net finance costs	2	(207)
Loss before income tax		**(6,161)**
Income tax benefit	3	1,174
Loss for the year		**(4,987)**
Other comprehensive income		-
Total comprehensive loss for the year		**(4,987)**
		Cents
Earnings per share for loss attributable to the ordinary equity holders of the company		
Basic earnings per share	19	(32.6)
Diluted earnings per share	19	(32.6)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Balance Sheet
As at 30 June 2018

	Note	2018 $'000
Assets		
Cash and cash equivalents	20	2,009
Receivables & other assets	4	2,946
Deferred tax assets	10	2,608
Property, plant & equipment	8	5,180
Intangible assets	9	60,439
Total Assets		**73,182**
Liabilities		
Payables & other liabilities	5	5,058
Deferred revenue	5	564
Provisions	21	2,087
Interest bearing liabilities	6	10,940
Joint venture partner contribution	7	21,435
Total Liabilities		**40,084**
Net Assets		**33,098**
Contributed equity	11	38,085
Retained earnings	22	(4,987)
Total Equity		**33,098**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the period 15 August 2017 to 30 June 2018

	Note	Contributed Equity $'000	Retained Earnings $'000	Total $'000
Consolidated Balance at 15 August 2017		**-**	**-**	**-**
Total comprehensive loss for the year		-	(4,987)	(4,987)
Transactions with owners of the Company, recognised directly in equity:				
Issue of securities	11	35,200	-	35,200
Issue of securities on conversion of notes	11	5,287	-	5,287
Share issue costs, net of tax	11	(2,402)	-	(2,402)
Consolidated Balance at 30 June 2018		**38,085**	**(4,987)**	**33,098**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the period 15 August 2017 to 30 June 2018

$'000	Note	2018 $'000
Cash flow from operating activities		
Receipts from patients		7,303
Payments to suppliers and employees		(8,530)
Interest received		1
Finance costs including interest and other costs of finance paid		(3)
Income tax paid		-
Net cash flows (used in) / from operating activities	**23**	**(1,229)**
Cash flows from investing activities		
Payments for property, plant and equipment		(1,575)
Payments for practices, net of cash received	**17**	(41,831)
Investments in term deposits		(200)
Net cash flows (used in) / from investing activities		**(43,606)**
Cash flow from financing activities		
Proceeds from issue of securities	**11**	35,000
Proceeds from issue of convertible notes		3,950
Costs associated with issue of securities		(3,036)
Net proceeds from borrowings	**6**	11,175
Payment for debt issue costs		(245)
Net cash flows from / (used in) financing activities		**46,844**
Net increase/(decrease) in cash and cash equivalents		2,009
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	**20**	**2,009**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

These are the consolidated financial statements of the Smiles Inclusive Group, comprising Smiles Inclusive Limited and its subsidiaries. A list of subsidiaries is given in note 18 in section C.

Smiles Inclusive Limited is a public company limited by shares, incorporated and domiciled in Australia. On 27 April 2018 the Company was listed on the ASX. Its registered office is located at Level 27, 123 Eagle Street, Brisbane, Qld, 4000 and its principal place of business is located at 38-40 Township Drive, Burleigh Heads, Qld, 4220.

The financial statements are presented in the Australian currency. The Company was incorporated on 15 August 2017 and the financial statements are prepared for the period from 15 August 2017 to 30 June 2018.

The financial report was authorised for issue by the Directors on 23 August 2018.

Liquidity basis of preparation

The Group has adopted the liquidity basis for presenting its balance sheet, under which assets and liabilities are presented in order of their liquidity.

The Group continues to disclose the amounts expected to be recovered or settled not more than, and more than, twelve months from reporting date for each asset and liability line item that combines amounts expected to be recovered or settled in those periods. This information is given in the note for each relevant line item.

This change has not affected the measurement of amounts presented in the financial statements or the notes.

Notes to the consolidated financial statements

The notes to the consolidated financial statements are set out in the following main sections. Each section or note explains the accounting policies relevant to that section or note. Other significant accounting policies are given in note 31 in Appendix 2.

The notes include all disclosures that the Group considers material, either quantitatively or qualitatively. In determining materiality, the Group considers whether the inclusion or omission of a disclosure could reasonably be expected to influence the economic decisions that users make based on the financial statements.

SECTION A. HOW THE NUMBERS ARE CALCULATED

This section provides details of those individual items in the financial statements that the Directors consider most relevant in the context of the operations of the Group. It also explains what accounting policies have been applied to determine these items and how their amounts were affected by significant estimates and judgements. The section includes the following notes on the relevant pages:

Section A1. Profit and loss information

1. Revenue

	2018 $'000
Practice revenue	7,211
Practice revenue	**7,211**

Practice revenue includes gross patient fees for dental services rendered by dentists contracted by the Group and service fees charged to dentists for the provision of facilities and services.

(a) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. No revenue is recognised if there is significant uncertainty regarding recoverability of the consideration due or if the costs incurred or to be incurred cannot be measured reliably. The following specific criteria must also be met before revenue is recognised:

- Revenue from the rendering of services is recognised once the services have been provided and is measured in accordance with contractual calculations methods and rates; and
- Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

2. Particular expenses

	2018 $'000
Profit from continuing operations before income tax includes the following significant costs	
Administration and other expenses	
Stamp duty on acquisitions	(1,713)
Management fee charge from related party	(1,324)
Professional fees	(960)
IT and telecommunication expenses	(476)
Travel and accommodation	(296)
Other expenses	(1,651)
Total administration and other expenses	**(6,420)**
Depreciation and amortisation	
Plant and equipment	(111)
Leasehold improvements	(43)
Total depreciation	**(154)**
Net finance costs	
Interest revenue	1
Interest from bank loans and borrowings	(198)
Amortisation of borrowing costs	(10)
Net finance costs	**(207)**

3. Income tax expense

(a) Income tax expense

	2018 $'000
Current income tax	
Current income tax expense	-
Deferred income tax	
Current year movement	1,174
Under/(over) provision	-
Income tax benefit reported in the income statement	**1,174**
Income tax benefit recognised directly in equity	**911**

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated at the statutory income tax rate

	2018 $'000
Accounting loss before income tax	(6,161)
Income tax at the Australian small business tax rate of 27.5%	(1,694)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income	
Non-assessable income	-
Non-deductible expenses	520
Other	-
Under/(over) provision	-
Income tax benefit	**(1,174)**

(c) Accounting for current income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Section A2. Financial assets and liabilities

Accounting for financial assets

Financial assets within the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'loans and receivables' or 'available-for-sale financial assets'. The classification depends on the purpose for which the investments were acquired.

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group does not presently have any financial assets classified as 'financial assets at fair value through profit or loss', 'held-to-maturity investments' or 'available-for-sale financial assets'.

4. Receivables and other assets

	2018 $'000
Trade receivables	1,677
Other receivables	-
Other assets	893
Prepayments	376
Allowance for impairment	-
Total Receivables and other assets	**2,946**
Expected to be recovered	
No more than twelve months	2,787
More than twelve months	159
Total receivables and other assets	**2,946**

(a) Accounting for receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

4. Receivables and other assets (continued)

Individual debts that are known to be uncollectible are written off when identified. An impairment is recognised when there is objective evidence that the Group will not be able to collect the receivable. Indicators of impairment include where there is objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment. The amount of the impairment loss is the receivable’s carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(b) Accounting for other assets

The Group has utilised Bartercard over the period, which is an alternative currency and operates as a trade exchange. Included in other assets at 30 June 2018 are Bartercard trade dollars of $0.5 million, which are recorded at cost, being the face value. The Group intends to utilise Bartercard in ongoing expenditure and accept Bartercard from sales of dental vouchers to various third parties.

(c) Fair value and credit risk

The maximum exposure to credit risk is the fair value of receivables. The fair values of receivables approximate their carrying amount.

5. Payables and other liabilities

	2018 $'000
Trade accounts payable	1,901
Interest accrued	195
Other payables and accruals	2,962
Total payables	**5,058**
Deferred revenue	564
Total deferred revenue	**564**
Expected to be settled	
No more than twelve months	5,622
More than twelve months	-
Total payables and deferred revenue	**5,622**

5. Payables and other liabilities (continued)

(a) Accounting for payables

Payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(b) Deferred revenue

Deferred revenue arises as a result of the benefit received from the sale of dental vouchers to third parties. The recognition of revenue is deferred until the services have been provided.

6. Interest bearing loans and borrowings

	2018 $'000
Secured	
Bank Loans (note 23c)	11,175
Borrowing Costs (Deferred)	(235)
Total interest-bearing loans and borrowings	**10,940**
Expected to be settled	
No more than twelve months	500
More than twelve months	10,440
Total interest-bearing loans and borrowings	**10,940**

(a) Accounting for interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

(b) Bank loans

The Group's bank loans are non-amortising revolving facilities and do not require principal repayment prior to maturity (refer note 15).

The weighted average interest rate including margin and line fees on all bank loans (including both drawn and undrawn amounts) at 30 June 2018 was 8.6%.

6. Interest bearing loans and borrowings (continued)

(c) Financing arrangements

The Group has access to the following lines of credit:

	2018		
	Facility Limit	Drawn	Undrawn
	$'000	$'000	$'000
Secured			
Acquisition facility	30,000	10,675	19,325
Working capital facility	4,000	500	3,500
Multi-option facility[1]	2,000	205	1,795
	36,000	**11,380**	**24,620**

[1]Multi-option facility includes bank guarantees (see note 28) and amounts due on credit cards.

(d) Restrictions as to use or withdrawal

The facilities are subject to the Group complying with covenants concerning such matters as net leverage ratio and fixed charges ratio (see note 16).

(e) Assets pledged as security

In accordance with the security arrangements of the bank loans, all current and non-current assets of the Group are secured by floating charge.

(f) Defaults and breaches

During the current period, there were no defaults or breaches on any of the loans.

7. Joint venture partner contribution

Joint venture partner contributions are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the income statement. Fair value is the amount payable on demand and is measured at the principal amount plus the joint venture's share of any increases or decrease in market value to reporting date.

Joint venture partner contributions are non-interest bearing and are payable at the end of the joint venture agreement. A Joint venture partner may at any time, but not within the first 12 months, request the Group to procure a purchaser to buy out the joint venture partner. The Group has 12 months from the date the buy out is requested to procure a purchaser before it is required to pay the joint venture partner the buy out price.

The agreements provide the joint venture partner with a right to a profit share payment, being a defined percentage of the relevant practices' earnings before interest and tax.

7. Joint venture partner contribution (continued)

The estimates of amounts expected to be settled less than and more than twelve months after reporting date are:

	2018 $'000
Expected to be paid	
No more than twelve months	-
More than twelve months	21,435
Total joint venture partner contributions	**21,435**

The following table presents the changes in joint venture partner contributions for the financial period;

	2018 $'000
Opening balance	-
Items recognised in profit or loss	
Change in fair value of joint venture partner contributions	-
Acquisition of practices	21,435
Net receipts on joint venture partner departures and arrivals	-
Total joint venture partner contributions	**21,435**

Section A3. Non-financial assets and liabilities

8. Property, plant and equipment

	2018 $'000
Leasehold improvements at cost	2,003
Less accumulated depreciation and impairment	(43)
	1,960
Plant and equipment at cost	3,331
Less accumulated depreciation and impairment	(111)
	3,220
Total property, plant and equipment	**5,180**

The following table presents the changes in property, plant and equipment for the financial period:

	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
2018			
Carrying amount at the beginning of period	-	-	-
Additions	2,003	3,331	5,334
Disposals	-	-	-
Depreciation	(43)	(111)	(154)
Carrying amount at the end of the period	**1,960**	**3,220**	**5,180**

(a) Accounting for property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation, amortisation and accumulated impairment losses.

8. Property, plant and equipment (continued)

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 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 cost of assets, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements 5 to 20 years
- Plant and equipment 3 to 10 years

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

9. Intangibles

	2018 $'000
Goodwill	60,439
Less: Accumulated impairment losses	-
Total intangible assets	**60,439**

9. Intangibles (continued)

	Goodwill	Total
	$'000	$'000
2018		
Carrying amount at the beginning of period	-	-
Additions – refer note 17	60,439	60,439
Impairment	-	-
Carrying amount at the end of the period	**60,439**	**60,439**

(a) Accounting for intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. The determination of the fair value of individual assets and liabilities acquired including goodwill remains provisional due to the proximity of the acquisition dates to the end of the financial year. The measurement period may extend to 12 months from the date of acquisition as allowed by AASB 3 Business Combinations (refer to note 17). Goodwill on acquisitions of businesses is included in intangible assets.

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

(b) Impairment of assets

Goodwill is not subject to amortisation and is tested at least annually for impairment. Other assets, including those that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 of disposal 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). 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 judgment has been used in testing assets for impairment and in determining the amounts recognised as impairment losses at reporting date. Further details of any material impairment losses recognised in the financial statements are provided in the notes dealing with the relevant asset category.

10. Deferred tax assets and liabilities

(a) Deferred tax assets

	2018 $'000
The balance comprises temporary differences attributable to:	
Amounts recognised in the income statement	
Difference between tax base and carrying amount of fixed assets	
Accruals	85
Employee entitlements	347
Tax losses	1,231
Share issue costs	729
Other provisions	227
Deferred tax assets	2,619
Less: amounts set off against deferred tax liabilities	(11)
Net deferred tax assets	**2,608**
Movements	
Balance at the beginning of the period	-
Accruals	85
Employee entitlements	347
Tax losses	1,231
Share issue costs – recognised in profit or loss	(182)
Share issue costs – recognised directly in equity	911
Other provisions	227
Balance at the end of the period	2,619
Less: amounts set off against deferred tax liabilities	(11)
Net deferred tax assets	**2,608**

10. Deferred tax assets and liabilities (continued)

b) Deferred tax liabilities

	2018 $'000
The balance comprises temporary differences attributable to:	
Amounts recognised in the income statement	
Other	(11)
Deferred tax liabilities	**(11)**
Movements	
Balance at the beginning of the period	-
Other	(11)
Deferred tax liabilities	**(11)**

c) Tax losses

The Group does not have any unused tax losses for which a deferred tax asset has not been recognised at 30 June 2018. Australian tax losses do not have any expiry date, however, tests in relation to continuity of ownership or same business must be satisfied to utilise the tax losses.

d) Accounting for deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted, or substantially enacted, by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

10. Deferred tax assets and liabilities (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Section A4. Equity

11. Contributed equity

	2018 No. '000	2018 $'000
Issued capital		
Ordinary securities fully paid	57,933	38,085
Total issued capital	**57,933**	**38,085**
Movement in issued securities during the period		
Balance at the beginning of the period	-	-
Securities issued	11,506	200
Conversion of notes	11,427	5,287
Securities issued – Initial Public Offer	35,000	35,000
Transaction costs on issue of securities, net of tax	-	(2,402)
Ordinary securities fully paid	**57,933**	**38,085**

(a) Accounting for contributed equity

Incremental costs directly attributable to the issue of ordinary securities are shown in equity as a deduction, net of tax, from the proceeds.

(b) Terms and conditions

Holders of ordinary securities are entitled to receive dividends and distributions as declared from time to time and are entitled to one vote per security at securityholders' meetings. In the event of winding-up of the Parent, ordinary securityholders rank equally with all other securityholders and unsecured creditors and are fully entitled to any proceeds of liquidation.

The terms and conditions of convertible notes which were issued and redeemed during the period are as follows:

- $1,337,500 of tranche 1 notes and $3,949,500 of tranche 2 notes were issued by the Company at a face value of $1;
- The notes comprise tranche 1 and tranche 2 which each had differing conversion ratios. Tranche 1 notes converted at 5 times face value while tranche 2 notes converted at 1.2 times face value;
- The notes were unsecured and interest free;
- The notes matured and converted to ordinary shares on the business day immediately prior to the listing of the Company's shares on the Australian Stock Exchange;
- In the event the IPO did not proceed the notes would have converted to ordinary shares in accordance with the agreements;
- In limited circumstances, including an insolvency event, the notes become due and payable.

12. Dividends and distributions

No dividends were declared or paid by the Group for the year ended 30 June 2018.

Section A5. Segment information

13. Segment Information

An operating segment is a component of the Group that:

- engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The Group also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board.

Operating segments are identified based on internal reports that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance.

The Group's activities are within the dental sector and are located throughout Australia.

The financial results from this segment are consistent with the financial statements for the Group as a whole.

Section B. Risk Management

This section discusses the Group's exposure to various financial risks, explains how these affect the Group's financial position and performance and what the Group does to manage these risks. It includes the following notes:

14. Critical judgements and estimates

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

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- Estimation of current tax payable and current tax expense
- Recognition of deferred tax asset and carried forward tax losses
- Estimation of the fair value of the joint venture partner contribution
- Allocation of the purchase price on businesses acquired during the period
- Fair value of the Bartercard trade account

(b) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, the Group makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the consolidated financial statements.

15. Financial risk management

(a) Financial risk management objectives

The Group's principal financial instruments comprise receivables, payables, bank loans, joint venture partner contributions, cash and short-term deposits.

The Board has ultimate responsibility for the financial risk management process for the Group. The Board reviews and approves the approach to the management of financial risks.

Day-to-day responsibility for the monitoring of financial risk exposure, market movements and the development of an appropriate response, rests with the Chief Financial Officer.

15. Financial risk management (continued)

The Group's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance. The Group uses different methods to measure and mitigate the different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk.

(b) Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates, resulting in an adverse impact on financial performance. The Group's exposure to market interest rates relates primarily to the Group's borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The impact of an increase or decrease in average interest rates of 0.75% (75 basis points) throughout the period, with all other variables held constant, is shown in the table below. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The analysis is based on the interest rate risk exposures in existence at reporting date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on equity apart from the effect on profit.

	2018 $'000
Effect on profit before tax and equity	
+0.75% (75 basis points)	(84)
-0.75% (75 basis points)	84

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet contractual obligations, with the maximum exposure being equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group, which includes cash and cash equivalents and receivables.

The credit risk on receivables is limited due to the majority of patients paying for their services up front and no concentration of credit risk exists.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, assigned by international credit rating agencies.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's objective is to achieve continuity of funding and flexibility, due to the dynamic nature of the underlying business, using bank overdrafts, bank loans, finance leases and committed available credit lines, in addition to other sources of funds.

The Group regularly reviews existing funding lines and assesses future requirements based upon known and forecast information. This assists flexibility by matching profiles of short-term investments with cash flow requirements and assists in timing the negotiation of credit facilities. Cash forecasts are prepared for review by the CFO and for presentation to the Board as appropriate. In order to ensure that the Group is able to meet short-term commitments (i.e. less than 12 months) and has sufficient time to plan and fund longer term commitments, forward commitment tests must be satisfied unless exemptions are approved by the Board.

15. Financial risk management (continued)

Management monitors the maturity and amortisation profile of all debt facilities on a regular basis and reports these to the Board. The CFO intends to present a refinancing plan for the approval of the Board well in advance of material debt facilities maturity.

The Group's current debt facilities have maturity dates between October 2019 and April 2023, with the current weighted average debt maturity being 4.2 years.

The table below reflects the contractual maturity of the Group's fixed and floating rate financial liabilities. It shows the undiscounted cash flows, including interest and fees, required to discharge the liabilities. Cash flows for financial liabilities without fixed amount or timing are based on conditions existing at 30 June 2018.

$'000	Less than 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total Contractual Amounts
2018					
Bank loans	460	956	14,197	-	15,613
Payables and accruals	5,058	-	-	-	5,058
Joint venture contribution	-	-	21,435	-	21,435
	5,518	**956**	**35,632**	**-**	**42,107**

(e) Fair value

All financial instruments carried at fair value may be grouped into three categories, defined as follows:

Level 1 The fair value is calculated quoted prices in active markets.
Level 2 The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at reporting date, the Group held the following financial instruments measured at fair value:

$'000	Level 1	Level 2	Level 3	Total
2018				
Financial Assets	-	-	-	-
Financial Liabilities	-	-	-	-
Joint venture partner contributions	-	-	21,435	21,435
	-	**-**	**21,435**	**21,435**

Joint venture partner contributions are considered a level 3 financial instrument measured at fair value. The fair value at 30 June 2018 is based on the fair value of contributions made by joint venture partners due to the short period of time between the date of the contribution and the end of the financial period.

16. Capital management

When managing capital, management's objective is to ensure that the Group uses a mix of funding options, while remaining focused on the objective of optimising returns to security holders. Management aims to maintain a capital structure that ensures the lowest weighted average cost of capital available. The Group aims to maintain reported gearing, measured as net debt divided by cash adjusted assets, in the range of 20% to 40%.

At 30 June 2018, reported gearing was 18.4%.

Management may adjust the Group's capital structure to take advantage of favourable changes in the cost of capital. This could include changing the amount of dividends to be paid to security holders, returning capital to security holders or adjusting debt levels.

Under the terms of the Group's major borrowing facility, it is required to comply with certain main financial covenants. The main covenants, their required and actual values were:

	Required	2018 $'000
Group Facility		
Net leverage ratio	Less than 2.50 to 1	1.32
Fixed charge cover ratio	Not less than 2.00 to 1	2.27

SECTION C. GROUP STRUCTURE

This section explains significant aspects of the Group's structure and the effect of changes on the Group. It includes the following notes:

17. Business combination

(a) Summary of acquisitions
Between 20 April 2018 and 29 May 2018, the Group acquired 100% of either the business assets or shares in the operating entity of the acquired practices, consisting of 52 dental practices for the total consideration transferred of $63.3m. The acquired businesses contributed net practice revenues of $6.1 million and profit before tax of $2.0m to the Group for the period from date of acquisition to 30 June 2018. If the acquisitions occurred on 1 July 2017, management estimate the full year contributions would have been gross practice revenues of $57.6million and profit before tax of $12.0 million.

The fair value of assets and liabilities recognised as a result of the acquisitions are as follows:

	52 Dental Practices Fair Value $'000
Cash and cash equivalents	35
Trade Receivable	502
Property, plant and equipment	3,838
Deferred tax asset	522
Other payables	(136)
Lease make good provision	(827)
Employee entitlements	(1,072)
Net identifiable Assets acquired	**2,862**
Goodwill on acquisition of practices	60,439
Acquisition price	**63,301**

The above amounts have been measured on a provisional basis. If new information is obtained within one year of the date of acquisitions about facts and circumstances that existed at the date of acquisitions identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisitions, then the accounting for the acquisitions will be revised accordingly.

(b) Purchase consideration – cash outflow

	52 Dental Practices Cash Outflow $'000
Cash consideration paid	63,301
Less: Joint Venture Partner Contribution	(21,435)
Less: Cash and cash equivalents acquired	(35)
Total outflow of cash – investing activities	**41,831**
Transaction costs (operating activities)	4,248
Total outflow of cash	**46,079**

17. Business combination (continued)

(c) Accounting for business combinations

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, equity instruments issued, or liabilities incurred or assumed. The consideration also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 9).

18. Interests in other entities

The consolidated financial statements of the Group include the following material entities:

Entity	Date Acquired/ Incorporation	Place of Incorporation	2018
Smiles Southport Pty Ltd	26 February 2018	Australia	100%
Totally Smiles Pty Ltd	24 August 2017	Australia	100%
Distinctive Dental Care Pty Ltd	20 April 2018	Australia	100%

Appendices

The appendices set out information that is required under the Standards, the Act or the Regulations, but that, in the Directors' view, is not critical to understanding the financial statements.

Appendix 1. How the Numbers Are Calculated – Other Items

This section provides information about the basis of calculation of line items in the financial statements that the Directors do not consider significant in the context of the Group's operations. It includes the following notes:

19. Earnings per security

(a) Calculating earnings per share

	2018 $'000
Profit/(loss) after income tax attributable to the owners of the Group	**(4,987)**
	#
Weighted average number of ordinary shares used in calculating basic earnings per share	**15,303**
	Cents
Basic earnings per share	**(32.6)**
Diluted earnings per share	**(32.6)**

(b) Accounting for earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the period.

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financial costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

20. Cash and cash equivalents

	2018 $'000
Cash at Bank	2,009
Deposits on call	-
Total cash and cash equivalents	**2,009**

(a) Accounting for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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.

21. Provisions

	2018 $'000
Employee provisions	1,260
Provision for make-good	827
Other provisions	-
Total provisions	**2,087**
Expected to be settled	
No more than twelve months	1,008
More than twelve months	1,079
Total provisions	**2,087**

(a) Accounting for provisions

A provision is recognised where there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying the economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

21. Provisions (continued)

(b) Accounting for employee entitlements

Short-term Employee Benefits

Liabilities for wages and salaries, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities, and are measured as the amounts expected to be paid when the liabilities are settled inclusive of on-costs. Sick leave is non-vesting and is expensed as paid.

Long-term Employee Benefits

The liabilities for annual leave and long service leave expected to not be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given for expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields as at the reporting date on corporate bond rates with the terms to maturity that match, as closely as possible, the estimated future cash outflows.

22. Retained profits/(accumulated losses)

	2018 $'000
Retained earnings/(accumulated losses) at the beginning of the period	-
Net profit/(loss) from ordinary activities after income tax	(4,987)
Retained earnings/(accumulated losses) at the end of the period	**(4,987)**

23. Notes to the cash flow statements

(a) Reconciliation of net cash flow from operating activities to profit after income tax

	2018 $'000
Loss for the period	(4,987)
Adjustment for:	
Depreciation and amortisation	156
Non-cash management fee charge from related party	1,261
Net finance costs	208
Interest received	(1)
Tax benefit	(1,174)
Change in operating assets and liabilities	
(Increase) / decrease in receivables	(1,097)
(Increase) / decrease in other operating assets	(540)
Increase / (decrease) in trade payables	1,523
Increase / (decrease) in other operating liabilities	3,236
Increase / (decrease) in provisions	188
Cash (used in)/from operating activities before interest and tax	**(1,227)**
Interest paid	(3)
Interest received	1
Tax paid	-
Net cash flows (used in)/from operating activities	**(1,229)**

(b) Non-cash Investing and Financial Activities

The Group is party to an arrangement where it acquires goods and services by way of non-cash exchanges. During the period, property, plant and equipment of $2,826 was acquired in this manner.

23. Notes to the cash flow statements (continued)

(c) Net debt

This section sets out an analysis of net debt and the movements in net presented debt for the period.

	2018
	$'000
Net Debt	
Cash and cash equivalents	(2,009)
Liquid investments	-
Borrowings repayable within one year	-
Borrowing repayable after one year	11,175
Net Debt	**9,166**
Cash and liquid investments	(2,009)
Gross debt - fixed interest rates	-
Gross debt - variable interest rates	11,175
Net Debt	**9,166**

	Other Assets		Liabilities from financing activities		
	Cash	Liquid Investments	Borrow (due within 1 year)	Borrow (due after 1 year)	Total
	$'000	$'000	$'000	$'000	$'000
Net Debt					
Net debt as at 15 August 2017	**-**	**-**	**-**	**-**	**-**
Cash flows	(2,009)	-	-	11,175	9,166
Net Debt as at 30 June 2018	**(2,009)**	**-**	**-**	**11,175**	**9,166**

Appendix 2. Other Information

This appendix covers other information that is not directly related to specific line items in the financial statements, as well as information about related party transactions and other statutory information. It includes the following notes:

24. Related party transactions

(a) Aggregate remuneration of key management personnel

	2018 $
Short-term employment benefits	768,561
Long-term benefits	-
Termination benefits	-
Key management personnel compensation	**768,561**

(b) Other transactions with key management personnel

Other than remuneration for their positions as directors and executives of the Company, key management personnel or entities related to them entered into a number of transactions with the Company. Information on these transactions is set out below.

Key management personnel or their related parties held shares in the Company during 2018, and as such, are entitled to participate in dividends.

Amounts recognised in respect of other transactions with key management personnel were:

	2018 $
Dividends paid	-
Revenue from rendering of services	-
Property leasing expenses	12,273
Consulting expenses	158,158

24. Related party transactions (continued)

(c) Other transactions with other related parties

Amounts recognised in respect of other transactions with other related parties were:

	2018 $
Management fee recharge	1,600,583

The management fee recharge represents costs incurred by a related party in relation to the acquisition of dental practices.

In addition to the above, the Group acquired Smiles Southport Pty Ltd, a Director related entity, on 26 February 2018 for nil consideration. The fair value of net assets as at the date of acquisition was nil.

25. Auditor's remuneration

Details of the amounts paid to the auditor of the Group, KPMG, and its network firms for audit and non-audit services provided during the period are set out below:

	2018 $
KPMG	
Audit and assurance services	
Audit and review of the financial reports of the Group	120,000
Non-assurance	653,303
Total auditor's remuneration	**773,303**

Non-assurance services provided during the year relate to KPMG's Investigating Accountants Report contained within the prospectus.

26. Parent entity

(a) Parent financial information

The financial information for the parent entity Smiles Inclusive Limited has been prepared on the same basis as the Group's financial statements except as set out below.

Controlled entities

Investments in these entities are carried in the Parent's balance sheet at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the income statement when they are declared.

Tax consolidation

Smiles Inclusive Limited and its wholly-owned Australian controlled entities intend to form a tax-consolidated group. The entities in the tax group will entered into a tax sharing agreement to limit the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Smiles Inclusive Limited. A tax funding agreement where the wholly-owned entities fully compensate the head entity for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation will also been entered into. The transfer of such amounts to the head entity is recognised as inter-company receivables or payables.

Each entity in the tax-consolidated group continues to account for its own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Parent also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

26. Parent entity (continued)

(b) Summary financial information

	2018 $'000
Assets	
Total assets	46,578
Liabilities	
Total liabilities	11,236
Net Assets	**35,342**
Shareholders' equity	
Contributed equity	38,085
Retained earnings	(2,743)
Total Equity	**35,342**
Loss for the year	(2,743)
Total comprehensive loss	**(2,743)**

(c) Guarantees

Smiles Inclusive Limited has provided the following financial guarantees:

- Bank guarantees of $0.2m; and
- Cross guarantees under the Deed of Cross Guarantee to the subsidiaries listed in note 18. No deficiencies of assets exist in any of these companies.

No liability was recognised by the Parent in relation to these guarantees, as the fair value is not considered material.

27. Deed of cross guarantee

Smile Inclusive Limited, Totally Smiles Pty Limited and Smiles Southport Pty Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

(a) Consolidated statement of profit or loss, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'closed group' for the purposes of the instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Smiles Inclusive Limited, they also represent the 'extended closed group'.

The consolidated income statement and balance sheet of the entities that are parties to the Deed of Cross Guarantee are as follows:

	Closed Group 2018 $'000
Practice revenue	**7,211**
Direct costs	(1,156)
Consumables supplies expenses	(443)
Employee expenses	(4,156)
Marketing expenses	(231)
Occupancy expenses	(605)
Administration and other expenses	(6,420)
Depreciation and amortisation expense	(154)
Net Finance Cost	(207)
Loss before income tax	**(6,161)**
Income tax benefit	1,174
Loss for the year	**(4,987)**
Other comprehensive income	-
Total comprehensive loss for the year	**(4,987)**

27. Deed of cross guarantee (continued)

	2018 $'000
Assets	
Cash and cash equivalents	2,009
Receivables	2,823
Property, plant & equipment	4,881
Deferred tax assets	2,708
Investments in subsidiaries	1,869
Intangible assets	58,853
Total Assets	**73,143**
Liabilities	
Payables	5,003
Provisions	2,035
Interest bearing liabilities	10,940
Deferred revenue	518
Joint venture partner contribution	21,435
Deferred tax liabilities	114
Total Liabilities	**40,045**
Net Assets	**33,098**
Contributed equity	38,085
Reserves	-
Retained earnings	(4,987)
Total Equity	**33,098**

28. Contingent assets and liabilities

The Group had contingent liabilities at 30 June 2018 in respect of:

	2018 $'000
Rental Guarantee contracts	181
	181

The bank guarantees at the end of the financial year relate to security provided under operating leases for premises.

29. Commitments

(a) Operating lease commitments

	2018 $'000
Non-cancellable operating leases contracted at the reporting date but not recognised as liabilities are as follows:	
Payable within one year	2,505
Payable later than one year but not more than five years	10,795
Payable later than five years	-
	13,290

(b) Accounting for leases

Leases of property, plant and equipment where the 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 lease 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 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.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

30. Events occurring after balance date

No matter or circumstance has arisen since 30 June 2018 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

31. Other accounting policies

Significant accounting policies relating to particular items are set out in the financial report next to the item to which they relate. Other significant accounting policies adopted in the preparation of the financial report are set out below. All these policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report has been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss which have been measured at fair value. Smiles Inclusive Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

The Group has adopted as of 15 August 2017 all of the new and revised Standards and Interpretations issued by the AASB with mandatory effective dates impacting the current period. The adoption of the new and revised Standards and Interpretations had no material impact on the financial position or performance of the Group.

(c) New standards and interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations have been identified as those that may affect the Group on initial application. They have not been applied in preparing these financial statements.

AASB 9 Financial Instruments: Classification and Measurement

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting. The standard is applicable for annual reporting periods beginning on or after 1 January 2018. The potential Group is currently assessing the impact of the standard.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard is expected to be applicable for annual reporting periods beginning on or after 1 January 2018.

The Group is currently assessing the impact of the Standard.

31. Other accounting policies (continued)

AASB 16 Leases

AASB 16 imposes revised requirement for recognising, measuring and disclosing the financial effects of leases.

Lessee accounting

Lessees will be required to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value.

- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Lessor accounting

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

AASB 16 Leases is effective for annual reporting periods beginning on or after 1 January 2019. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2020 and currently has no intention of adopting this standard earlier. The Group is assessing the potential impact of the application of AASB 16 on its financial statements, including the potential impact of the various transition provisions available to the Group. On a high level basis, if the Group was to adopt AASB 16 as at 30 June 2018, the present value of the future minimum lease payments for non-cancellable operating leases as noted in note 29(a) would be recognised as a financial liability in the consolidated balance sheet, and under one of the transition provisions available to the Group, it would recognise a corresponding amount as a right-of-use asset.

(d) Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non- controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.
.

Functional and presentation currency

The Group's financial statements are presented in Australian dollars, which is Smiles Inclusive Limited's functional and presentation currency.

31. Other accounting policies (continued)

(e) 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.

(f) Rounding of amounts

The Company is of a kind referred to ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding instrument). Pursuant to this instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 21 to 63 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial period 15 August 2017 to 30 June 2018;

(ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; 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;

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 27.

Note 31 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

David Herlihy

David Herlihy

Chairman

Gold Coast

23 August 2018

Independent Auditor's Report

To the shareholders of Smiles Inclusive Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Smiles Inclusive Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2018 and of its financial performance for the period since the date of incorporation, being 15 August 2017 to 30 June 2018; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the period since the date of incorporation, being 15 August 2017 to 30 June 2018
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the period end or from time to time during the financial period since the date of incorporation, being 15 August 2017 to 30 June 2018.

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 Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and 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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Acquisition accounting; and
- Revenue recognition;

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Acquisition accounting ($63,300,832)

Refer to Note 17 'Business combinations' to the Financial Report

The key audit matter	How the matter was addressed in our audit
During the period the Group purchased controlling interests in a number of dental practices as part of the Group's IPO. In a number of cases the acquisition accounting remains provisional at period-end. Acquisition accounting related to these transactions is a key audit matter due to: • the combined size of the transactions (total purchase price of $63,300,832); and • the complexity of judgements surrounding estimated fair value of assets and liabilities as determined by the Group in accordance with applicable accounting standards which required our assessment. The Group performed a Purchase Price Allocation ('PPA') to determine the fair value the assets and liabilities acquired using the relevant accounting standards. The significant judgements we focused on included: • the assessment of the provisional fair value of the Joint Venture Partner Agreement liability;	Our procedures included: • Evaluating the methodology used by the Group for the acquisition accounting against the accounting standard requirements and common industry practice for the determination of fair value; • Reading a sample of the underlying agreements to understand the terms of the acquisition and nature of the assets and liabilities constituting the businesses acquired; • Examining the provisional fair value of assets and liabilities recorded by the Group in the PPA calculations and the calculated goodwill balance, and: – comparing property, plant and equipment acquired to underlying fixed asset schedules of the acquirees; – checking selected liability balances to underlying schedules, employment contracts and lease agreements; and – assessing the Group's determination of the provisional fair value of the Joint Venture Partner Agreement liability by performing a calculation, with our valuation specialists, using the obligations identified in the Agreement. We evaluated significant movements from the acquisition date to year end for consistency with our understanding of the liability. • We obtained an understanding of the industry and the acquired businesses through our work during the IPO

KPMG

• the assessment of the provisional fair value of the assets acquired and the liabilities assumed; and • the allocation of goodwill as part of the combined transactions. We involved valuation specialists to supplement our senior audit team members in assessing this Key Audit Matter.	process. Working with valuation specialists we used this knowledge to assess the completeness of separately identifiable intangible assets and the allocation of goodwill at the date of acquisition; • Assessing the adequacy of the Group's disclosures in respect of the acquisitions, including the provisional accounting, against the requirements of the accounting standards and our knowledge of the transactions.

Revenue recognition $7,211,276	
Refer to Note 1 'Revenue' to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the Group's revenue. Specific drivers for this significant audit effort included the,
 	
• high volume of revenue transactions recorded by the Group;
• significant value of revenue recognised by the Group; and
• complexities surrounding the classification of dental practitioners as principal or agent in accordance with the terms of the 'Facilities and Services Agreements' ('FASA's') and the accounting standards.
 	
Certain dental practitioners have entered into a FASA where service fees are charged by the Group to dentists who practice from the Group's fully serviced dental surgeries.
 	
Other dental practitioners are employed directly by the Group and the Group receives revenue from customers through the rendering of their services and pays a commission to the dental practitioners.
	Our procedures included:
	
	• Evaluating the Group's revenue recognition policies in accordance with the accounting standards. We focused on the arrangements with dental practitioners as principal or agent based on terms of the FASAs and the criteria in the accounting standards;
	
	• Testing key controls in the revenue recognition process, including:
	  – management's review and approval of the daily bank account reconciliations;
	  – management's review and approval of monthly revenue reconciliation of cash receipts; and
	  – management's review and authorisation of payments to practitioners.
	
	• Comparing total customer fees received as cash receipts to revenue recognised during the period;
	
	• Comparing a sample of gross receipts of revenue from the Group's bank statements to third party summaries of revenue and to the revenue recorded by the Group;
	
	• Testing a sample of commissions paid to dental practitioners and compared them to contractual terms to ascertain operation under a FASA or employment arrangement to assess presentation of revenue on a net (agent) or gross (principal) basis.

Other Information

Other Information is financial and non-financial information in Smiles Inclusive Limited’s financial reporting which is provided in addition to the Financial Report and the Auditor’s Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report 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 the Directors for the Financial Report

The Directors are responsible for:

• preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*

• implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error

• assessing the Group and Company'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 and Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the Financial Report

Our objective is:

• to obtain reasonable assurance about whether the Financial Report as a whole is 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Smiles Inclusive Limited for the period ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 11 to 17 of the Directors' report for the period ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

A Twemlow

Partner

Gold Coast

23 August 2018

Shareholder Information
As at 22 August 2018

Distribution of Equity Security Holders

Range	Number of equity security holders
1 – 1,000	56
1,001 – 5,000	604
5,001 – 10,000	412
10,001 – 100,000	458
100,001 and over	16
Total	1,546

There were no holders of less than a marketable parcel of ordinary shares.

Twenty Largest Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
J P Morgan Nominees Australia Limited	5,991,148	10.34
Miketim Super Pty Ltd	5,000,000	8.63
Mrt49 Pty Ltd	4,659,000	8.04
National Nominees Limited	2,080,423	3.59
Citicorp Nominees Pty Limited	2,019,882	3.49
HSBC Custody Nominees (Australia) Limited	1,506,298	2.60
Chen's Super Fund	1,390,000	2.40
Morbride Pty Ltd	1,130,000	1.95
Fullercorp Properties Pty Ltd As Trustee For Kingsbury Investment Trust	1,000,000	1.73
Mr & Mrs Stuart R Robert	668,000	1.15
Mr Carl Burroughs	500,000	0.86
Dj Capital Solutions Pty Ltd	500,000	0.86
Dr David John Ritchie & Dr Gillian Joan Ritchie	500,000	0.86
Mr Nicholas Tammik	500,000	0.86
Dj Herlihy Super Fund Pty Ltd	487,000	0.84
Mr Jonathan Peter Hamilton	450,000	0.78
Ycart Holdings Pty Ltd	412,000	0.71
Dr Chen Dental Super Pty Ltd	410,000	0.71
Wittig Super Pty Ltd	400,000	0.69
Mr Sean A Connolly	400,000	0.69
Total	30,003,751	51.79
Other holders	27,929,149	48.21
Total quoted equity securities	57,932,900	100.00

Substantial Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
Mr Michael R Timoney	9,668,000	16.69
MicroEquities	4,084,496	7.05

Voting Rights

Each ordinary share carries the right to one vote.