Smiles Inclusive Limited (ASX: SIL)

Appendix 4D

Results for Announcement to the Market

Reporting period:	Half year ended 31 December 2018
Previous corresponding period:	Half year ended 31 December 2017

Statutory Financial Results	**31 Dec 18 $'000**	**31 Dec 17 $'000**	**Movement up/(down) $'000**	**%**
Revenue from ordinary activities	16,132	-	16,132	N/A
Profit/(loss) from ordinary activities after tax attributable to members	(1,592)	(643)	(949)	(147.6)%
Net profit/(loss) attributable to members	(1,592)	(643)	(949)	(147.6)%
Earnings per share (basic and diluted) - cents per share	(2.75)	(0.54)	(2.21)	(409.3)%
Underlying Financial Results[1]	**31 Dec 18 $'000**	**31 Dec 17 $'000**	**Movement up/(down) $'000**	**%**
Revenue from ordinary activities	15,396	-	15,396	N/A
Profit/(loss) from ordinary activities after tax attributable to members	585	(643)	1,228	191.0%
Net profit/(loss) attributable to members	585	(643)	1,228	191.0%
Earnings/(loss) per share (basic and diluted) - cents per share	1.01	(0.54)	1.55	287.0%

[1] Underlying Financial Result are non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group which have not been audited/reviewed.

Reconciliation from Statutory to Underlying Financial Results	**31 Dec 18 $'000**	**31 Dec 17 $'000**	**Movement up/(down) $'000**	**%**
Statutory net profit/(loss) after tax	**(1,592)**	**(643)**	**(949)**	(147.6)%
Integration costs	1,554	-	**1,554**	**N/A**
Business acquisition costs	519	-	**519**	**N/A**
Significant practice events	930	-	**930**	**N/A**
Income tax effect of adjustments	(826)	-	**(826)**	**N/A**
Underlying net profit/(loss) after tax	**585**	**(643)**	**1,228**	191.0%

For further explanation of the statutory and underlying figures above refer to the accompanying Interim Report for the half year ended 31 December 2018, which includes the Directors' Report.

The Interim Results Presentation released in conjunction with this Results Announcement provides further analysis of the results for the half year ended 31 December 2018.

Dividends	**Amount per security (cps)**	**Franked amount**
<u>Dividends paid</u>		
FY 2018 final dividend	Nil	N/A
<u>Dividends declared</u>		
FY 2018 interim dividend declared	Nil	N/A
Record date for determining entitlements to the dividend		N/A
Date dividend payable		N/A

The Company does not currently offer a dividend reinvestment plan.

Net Tangible Assets Per Security	31 Dec 18 Cents	31 Dec 17 Cents	Movement up/(down) Cents	%
Net tangible assets per ordinary security	26.16	228.69	(202.53)	(88.6)%

Independent Review by Auditor
The financial statements were reviewed by the auditor and the review report is attached as part of the Interim Report.

Joint Ventures, Foreign Entities and Control Gained or Lost Over Entities
Not applicable during the period of the previous corresponding period.

David Herlihy
Chairman
Smiles Inclusive Limited

Date: 28 February 2019

smiles inclusive

ABN 27 621 105 824
ACN 621 105 824

Smiles Inclusive Limited

Interim Report

31 December 2018

This half-year financial report constitutes the Appendix 4D prepared in accordance with the Australian Securities Exchange Listing Rules and the half-year financial report in accordance with the Corporations Act 2001. This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Smiles Inclusive Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Smiles Inclusive Limited
Interim Report
31 December 2018

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Directors' Report
31 December 2018

Your directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Smiles Inclusive Limited ("the Company") and the entities it controlled during the half year ended 31 December 2018.

Directors

The following persons were directors of Smiles Inclusive Limited during the half year and up to the date of this report:

Mr. David Herlihy
Mr. David Usasz
Mr. Mike Timoney
Ms. Tracy Penn
Mr. Peter Evans (appointed 1 August 2018)
Mr. Joshua Lowcock (appointed 17 September 2019 and resigned 27 February 2019)

Principal Activities

During the period the principal continuing activities of the group consisted of the 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.

Review of Operations

Overview of results

Despite having successfully completed the core elements of integration of the initial portfolio of 52 practices during the period, a number of operational matters impacted the result for the half year. These matters were disclosed in the Company's presentation at the AGM on 21 November 2018 and included:

- Non-disclosure of legal proceeding by practice vendor
- Unexpected deaths of lead practitioner and key business manager
- Delays in physical and digital branding
- Failure to put appropriate practitioner monitoring and staff rostering systems in place
- Under-estimation of change management requirements of systems upgrades and implementation
- Additional integration and stamp duty costs.

Smiles Inclusive Chief Executive, Mike Timoney said that the undisclosed legal proceeding and deaths of two key people within the first 90 days of operations had distracted management efforts in ensuring key foundations were in place and operating effectively.

"The impact of a number of significant events over the last six months drew management attentions away from ensuring that key processes and systems were firmly bedded down".

"We are however now fully committed to this and to continuing the organic growth initiatives previously outlined and executing additional operational efficiencies".

Key results

Key financial outcomes of the Group's 31 December 2018 results are:
- statutory loss after tax of $1.6 million;
- practice revenue (net of direct costs) of $16.1 million;
- underlying profit after tax of $0.6 million;
- cash balances $1.0 million;
- undrawn debts facilities of $17.8 million.

Review of Operations (continued)

The following table summarises key reconciling items between the Group's statutory profit and underlying profit:

31-Dec-18							
$'000	**Practice EBITDA[1]**	**Corporate and Integration Costs[1]**	**EBITDA[1]**	**EBIT[1]**	**INTEREST**	**TAX**	**NPAT[1]**
Statutory	**3,299**	(4,438)	(1,139)	(1,522)	(616)	546	**(1,592)**
Significant Practice Events							
Mobile Dentistry	**765**	-	765	791	-	(218)	**573**
NSW JVP tragedy	**137**	-	137	139	-	(38)	**101**
Acquisition Related Costs							
Integration Costs	**-**	1,554	1,554	1,554	-	(427)	1,127
Acquisition Costs	**-**	519	519	519	-	(143)	376
Underlying[1]	**4,201**	**(2,365)**	**1,836**	**1,481**	**(616)**	**(280)**	**585**

[1] EBITDA, EBIT, Underlying EBITDA, Underlying EBIT and Underlying NPAT are non-IFRS profit measures used by Directors and Management to assess the underlying performance of the Group which have not been audited/reviewed.

The underlying performance of the business for the half year ended 31 December was in line with expectations after considering the impacts of a small number of underperforming practices and operational deficiencies highlighted above. This resulted in practices earnings before interest, tax, depreciation and amortisation of $4.2 million.

Underlying corporate costs of $2.4 million are in line with expectations and reflect the previously disclosed increases in the cost base due to compliance and resourcing requirements. The company remains focused, however on achieving further cost efficiencies.

The practices which were impacted by significant events during the period have returned to operations with the first of the mobile dentistry bookings undertaken in late February 2019.

As previously disclosed cash flows improved through the period with the completion of the integration of the initial portfolio, rectification of operational deficiencies and a continued focus on extracting value from organic growth opportunities

At the end of December 2018, the Group held cash balances of $1.0 million with a further $0.3 million on deposit. The available facilities at 31 December 2018 of $19.4 million comprise a $17.6m of acquisition facility, a $0.2m working capital facility and $1.6m of ancillary facilities (bank guarantee and corporate card facility).

Capital Metrics

	31 December 2018	**30 June 2018**
Gearing[1] (%)	**28.6%**	**18.4%**
Net Debt[2] ($m)	**15.9**	**9.2**
Gross interest-bearing liabilities ($m)[3]	**16.9**	**11.2**
Undrawn facilities ($m)	**19.4**	**24.6**
Weighted average borrowing cost (%)	**6.7%**	**8.6%**
Weighted average debt maturity (yrs)	**3.6**	**4.2**

[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 and excludes finance lease liabilities.
[3] Excludes finance lease liabilities.

Review of Operations (continued)

The Group's acquisition facility expires in April 2023 and the working capital facility expires in October 2019. The secured facilities total $36m at 31 December 2018 (including bank guarantees). Debt remains unhedged.

Risk

There are a number of risks that could affect the Group's ability to achieve its goals. 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, resulting 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

Smiles Inclusive maintains its belief that the fundamentals of the dental industry are unchanged and the Company remains focused on capitalising on its scale and unique Joint Venture Partner model in a disaggregated sector by providing commitment to care, innovation and choice for patients across its national practice network.

In addition to the operational matters that impacted results for the six months to December 2018, trading performance in January has been below management expectations. The five-point turnaround plan is being implemented as a priority and the Board is confident that it will deliver a substantial improvement in business performance over time. However, the Company expects to report a break-even position or small loss for FY19 as these actions take effect.

Going Concern

During the period ended 31 December 2018, the Group incurred a net loss before tax of $2.1 million and net cash outflows from operating activities of $4.7 million. As at 31 December 2018, the Group had net assets of $31.5 million, including cash of $1.0 million.

The Group has financing facilities with National Australia Bank (refer to note 5) which are drawn to $16.6 million at 31 December 2018. The facilities consist of an acquisition facility, a working capital facility and other ancillary facilities. The facilities have covenant requirements which must be complied with at all times. Based on the Group's ongoing operational matters that have impacted trading performance to date, and considering the Group's projected cash flows to 30 June 2019, there is a significant risk in relation to the Group's ability to maintain compliance with these covenants. The Directors have sought a waiver in relation to these potential covenant breachers. As at 28 February 2019, a waiver has not been granted by the financier.

In addition, the working capital financing facility (drawn to $3.85m as at 31 December 2018) has an expiry date in October 2019 and an annual review date of 30 April 2019. As part of their negotiations with the financier the Directors are seeking to extend this facility.

The Directors have prepared cash flow projections for the coming 12 months that support the ability of the Group to continue as a going concern. The cash flow projections assume the operational matters are resolved, the trading results of the Group improve, the working capital facility is extended and the financier provides a waiver in relation to compliance with the covenants. In the event the waiver is not provided and/or the working capital facility is not extended, the Group may not be in compliance with the terms of its facilities and the facilities may become due and payable.

These conditions give rise to material uncertainties that may cast doubt upon the Group's ability to continue as a going concern. In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

Dividends

No dividends were declared by the group for the half year ended 31 December 2018 or up to the date of signing.

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 6.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191. 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.

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

David Herlihy
Chairman

Gold Coast

28 February 2019

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 review of Smiles Inclusive Limited for the half-year ended 31 December 2018 there have been:

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

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

KPMG

KPMG

Adam Twemlow

Partner

Gold Coast

28 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2018

	Note	31-Dec-18 $'000	31-Dec-17 $'000
Practice revenue		**16,132**	**-**
Consumables supplies expenses		(827)	-
Employee expenses		(10,060)	(181)
Marketing expenses		(383)	(63)
Occupancy expenses		(1,823)	-
Administration and other expenses		(4,178)	(399)
Depreciation and amortisation expense		(383)	-
Loss before finance costs and income tax		**(1,522)**	**(643)**
Net Finance Cost		(616)	-
Loss before income tax		**(2,138)**	**(643)**
Income tax benefit		546	-
Loss for the year		**(1,592)**	**(643)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(1,592)**	**(643)**
Basic and diluted loss per share attributable to ordinary equity (cents per share)		(2.75)	(0.54)

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 31 December 2018

	Note	31-Dec-18 $'000	30-Jun-18 $'000 Restated[1]
Assets			
Cash and cash equivalents		1,010	2,009
Receivables & other assets		4,011	2,813
Inventories		758	-
Deferred tax assets		3,210	2,631
Property, plant & equipment		6,166	3,681
Intangible assets	11	66,462	62,208
Total Assets		**81,617**	**73,342**
Liabilities			
Payables		5,278	5,186
Deferred revenue		1,065	564
Provisions		2,196	2,087
Interest bearing liabilities	5	20,108	10,940
Joint Venture Partner Contribution	6	21,432	21,435
Total Liabilities		**50,079**	**40,212**
Net Assets		**31,538**	**33,130**
Contributed equity		38,085	38,085
Retained earnings/(accumulated losses)		(6,547)	(4,955)
Total Equity		**31,538**	**33,130**

[1] Refer to note 10

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

Consolidated Statement of Changes in Equity
For the half year ended 31 December 2018

	Note	Contributed Equity	Retained Earnings/ (accumulated losses)	Total
		$'000	$'000	$'000
Balance at 15 August 2017		-	-	-
Total comprehensive loss for the half year		-	(643)	(643)
Transactions with owners of the Company, recognised directly in equity:				
Contribution to Owners[1]		-	(1,523)	(1,523)
Balance at 31 December 2017		-	(2,166)	(2,166)
Balance at 1 July 2018		38,085	(4,955)	33,130
Total comprehensive loss for the half year		-	(1,592)	(1,592)
Balance at 31 December 2018		38,085	(6,547)	31,538

[1] Contribution to owners relates to conversion of convertible notes to equity.

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

Consolidated Statement of Cash Flow
For the Half Year Ended 31 December 2018

	Note	31-Dec-18 $'000	31-Dec-17 $'000
Cash flow from operating activities			
Receipts from patients		23,195	-
Payments to suppliers and employees		(27,399)	(812)
Interest received		3	-
Finance costs including interest and other costs of finance paid		(538)	-
Net cash flows from/(used in) operating activities		**(4,739)**	**(812)**
Cash flows from investing activities			
Payments for property, plant and equipment		(751)	(4)
Proceeds from disposal of PP&E		56	-
Payments for practices	10	(2,749)	-
Payment for rental bond term deposits		(63)	(141)
Net cash flows from/(used in) investing activities		**(3,507)**	**(145)**
Cash flow from financing activities			
Proceeds from issue of convertible notes		-	3,351
Proceeds from sale & leaseback of PP&E		1,711	-
Net proceeds from borrowings		5,750	-
Lease payments		(214)	-
Net cash flows from/(used in) financing activities		**7,247**	**3,351**
Net increase/(decrease) in cash and cash equivalents		(999)	2,394
Cash and cash equivalents at 1 July		2,009	-
Cash and cash equivalents at 31 December		**1,010**	**2,394**

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

1. Statement of Significant Accounting Policies

(a) Statement of compliance

This condensed consolidated interim financial report for the half year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Smiles Inclusive Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

This interim financial report was approved by the Board of Directors on 28 February 2019.

(b) Basis of preparation

These financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. Cost is based on the fair value of consideration given in exchange for assets.

All amounts are presented in Australian dollars, which is the Group's functional currency.

Except as described below, the accounting policies adopted in preparation of the half year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 30 June 2018. If applicable, additional accounting policies are presented for new types of transactions that have occurred since the end of the previous financial year.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191. 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.

Judgements and Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Except as described below, in preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimating uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2018.

During the half year ended 31 December 2018 management reassessed its estimates in respect of:

- Note 6 Joint venture partner contribution
- Note 10 Business combinations
- Note 11 Intangible assets
- Note 12 Going concern.

1. Statement of Significant Accounting Policies (continued)

New Accounting Standards and Accounting Interpretations

The Group has adopted all of the new and revised standards issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new and revised standards that are not yet mandatory have not been early adopted.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various services are set out below.

(i) Initial adoption of AASB 15 Revenue from contracts with customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations. Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The Group's adoption of AASB 15 did not have a significant impact on the Group's accounting policies with respect to its revenue streams. There was no material impact of transition to AASB 15 on the opening balance of retained earnings.

Facility and Service fees:
The Group provides facilities and services to dentists practicing out of Totally Smiles owned dental centres. Facilities and services include use of fully equipped surgeries, staff, marketing and other support infrastructure. The fee Totally Smiles invoices the practitioner is a percentage of receipts net of direct costs. Revenue is recognised over time as the service is provided to dentists in accordance with the underlying contracts.

Professional Dental fees:
Employed and contracted dentists provide a range of dental services to patients. Revenue is recognised at the time of the service being provided.

(ii) Initial adoption of AASB 9 'Financial Instruments
AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. There was no material impact of transition to AASB 9 on the opening balance of retained earnings. The details of this new significant accounting policy is set out below.

(c) Financial risk management

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. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows to ensure sufficient liquidity is always available to meet liability obligations as they fall due. It also monitors levels of exposure to interest rate risk and assesses market forecasts for interest rates. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk.

2. 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. Management review segment performance on a practice level, or where two or more practices share cashflows, at a joint venture partner level. This represents the lowest level at which cash generating units are measured.

Individual cash generating units are aggregated for segment purposes as the Group's activities are within the dental sector located in Australia and are consistent for the Group as a whole.

The majority of revenue relates to the provision of dental services to Australian customers.

3. Income Tax Expense

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The effective tax rate applicable for the half year to 31 December 2017 was 27.5%. The effective tax rate for the half year to 31 December 2018 is also 27.5%.

4. Dividends

No dividends were declared or paid by the Group for the half year ended 31 December 2018.

5. Financing Arrangements

	31-Dec 2018 $'000	30-Jun 2018 $'000
Secured		
Bank Loans[1]	16,225	11,175
Borrowing Costs (Deferred)	(210)	(235)
Lease liability[2]	3,393	-
Other loans[3]	700	-
	20,108	**10,940**
Drawn at Balance Date[1]	16,590	11,380
Undrawn	19,410	24,620
	36,000	**36,000**

[1]The facilities used at balance date comprise $16.2 million of bank loans drawn, $0.3 million of bank guarantees securing operating leases for premises and a $0.1 million corporate card facility. The available facilities at 31 December 2018 comprise a $17.6m of acquisition facility, a $0.2m working capital facility and $1.6m of ancillary facilities (bank guarantees and corporate card facility). As outlined in note 12 the group has financial covenants which are required to be complied with at all times in relation to its bank facilities.

The Group's acquisition facility expires in April 2023 and the working capital facility expires in October 2019. The secured facilities total $36m at 31 December 2018 (including bank guarantees). Debt remains unhedged.

[2]During the period the Group entered into an equipment lease agreement with Macquarie Equipment Rentals Pty Ltd for dental, computer and other equipment. The lease terms vary per lease from 3-6 years with interest rates ranging between 5-13%. Principal and interest payments are made monthly.

[3]During the period the group was advanced $0.7m by a joint venture partner. No formal agreement was signed and the interest rate on the loan is 8%. The loan is due to be repaid by 30 June 2019.

Security
Bank bills, bank loans and asset finance provided by the bank are secured by registered equitable mortgage over the whole of the assets and undertakings of the Group, including uncalled capital and inter-entity guarantees.

Fair Value
The fair value of financial assets and liabilities held by the Group approximate the individual carrying values of those assets and liabilities

6. 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.

6. Joint venture partner contribution (continued)

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

	31-Dec 2018 $'000	30-Jun 2018 $'000
Expected to be paid		
No more than twelve months	-	-
More than twelve months	21,432	21,435
Total joint venture partner contributions	**21,432**	**21,435**

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

	31-Dec 2018 $'000	30-Jun 2018 $'000
Opening balance	21,435	-
Items recognised in profit or loss		
Change in fair value of joint venture partner contributions	-	-
JVP Liability Forgiveness	(432)	-
Acquisition of practices	1,354	21,435
Accumulated joint venture partner losses	(925)	-
Net receipts on joint venture partner departures and arrivals	-	-
Total joint venture partner contributions	**21,432**	**21,435**

The table on the following page analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

1. Fair value measurements are those instruments valued based on quoted priced (unadjusted) in active markets for identical assets or liabilities.
2. Fair value measurements are those instruments valued based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
3. Fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. Joint venture partner contribution (continued)

	Level 1 $'000	Level 2 $'000	Level 3 $'000
31 December 2018			
Joint Venture Partner Contribution	-	-	21,432
30 June 2018			
Joint Venture Partner Contribution	-	-	21,435

All financial liabilities at fair value through profit and loss relate to the joint venture partner contribution liability.
There have been no transfers between the levels of valuation method for each classification of the financial liabilities held during the period ended 31 December 2018.

Sensitivity Analysis

Fair value measurements designated as level 3 carry the highest level of estimation when determining fair value. Changing one or more of the inputs to reasonably possible alternative assumptions could change fair value significantly.

The fair value of the Joint Venture Partner Contribution liability reflects the expected payments to be made to the Joint Venture Partners, discounted to present value. These expected payments have been calculated based upon the contractual profit share percentage of the forecast cash flow performance of each Joint Venture Partner (utilising the same underlying forecast cash flow performance assumptions adopted in impairment testing performed over goodwill).

The present value of the forecast payments has been determined using a pre-tax discount rate of 22% (15.95% post-tax) and calculates a terminal value under the Gordon Growth method.

Reasonably possible alternative discount factors of +/-1% have been considered, and the impact this would have on the fair value of the Joint Venture Partner Contribution at 31 December 2018 is as follows:

Rate	Fair Value $'000	Change in fair value $'000
21%	22,202	770
22%	21,432	-
23%	20,198	(1,234)

7. Contributed Equity

	31-Dec 2018 $'000	30-Jun 2018 $'000
Issued capital		
Ordinary securities fully paid	38,085	38,085
Total issued capital	**38,085**	**38,085**
Number of Ordinary securities fully paid	**57,932,900**	**57,932,900**

8. Earnings Per Share

	31-Dec 2018 $'000	31-Dec 2017 $'000
Profit/(loss) after income tax attributable to the owners of the Group	**(1,592)**	**(643)**
	#'000	**#'000**
Weighted average number of ordinary shares used in calculating basic earnings per share	**57,933**	**1,174**
	Cents	**Cents**
Basic earnings per share	**(2.75)**	**(0.54)**
Diluted earnings per share	**(2.75)**	**(0.54)**

9. Related Party Transactions

Other than remuneration for their positions as directors and executives of the Company, key management personnel or entities related to them entered into a few 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:

The Company paid fees for consultancy services to Pink Diamond Events Pty Ltd and Investment Centre. These entities are related to Mike Timoney, fees were based on an agreement approved by the Board and totaled $13,234.

10. Business Combinations

(a) Summary of Acquisitions

FY18 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 $64.1 million. This transaction was accounted for on a provisional basis using the acquisition method of accounting as at 30 June 2018, pending further assessment of the value of assets and liabilities acquired. These valuations have since been completed and resulted in the following adjustments to the provisional amounts recognised at 30 June 2018:

FY18 Acquisitions	Final acquisition accounting 30 Jun 2018	Provisional acquisition accounting 30 Jun 2018	Change[1] 30 Jun 2018
	$'000	$'000	$'000
Cash and cash equivalents	35	35	-
Trade Receivable	350	502	(152)
Property, plant & equipment	3,076	3,838	(762)
Deferred tax asset	558	522	36
Other payables	(252)	(136)	(116)
Lease make good provision	(827)	(827)	-
Employee entitlements	(1,072)	(1,072)	-
Net identifiable Assets acquired	1,868	2,862	(994)
Goodwill on acquisition of practices	62,223	60,439	1,784
Acquisition price[2]	**64,091**	**63,301**	**790**

[1]Above amounts relate to accounting adjustments for assets and liabilities taken on at acquisition date but not finalised until 31 December 2018.
[2]As part of the commercial negotiations with vendors, separate agreements were entered into for certain assets. These agreements in conjunction with the Business Sale Agreements reflected the overall consideration for the acquired practices. At 30 June 2018, these contracts were recognised as seperate equipment purchase contracts and not initially included in the provisional acquisition price of the practices. At 31 December 2018 management determined that these balances should form part of the purchase price.

1H19 Acquisitions

In November and December 2018, the Group acquired 100% of the business assets of 4 dental practices for the total consideration transferred of $4.4m. The acquired businesses contributed gross practice revenues of $0.2 million and profit before tax of $0.01m to the Group for the period from date of acquisition to 31 December 2018. If the acquisitions occurred on 1 July 2018, management estimate the full year contributions would have been gross practice revenues of $3.7 million and profit before tax of $0.9 million.

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

1H19 Acquisitions	31 Dec 2018
	$'000
Trade Receivable	27
Property, plant and equipment	255
Other assets	9
Deferred tax asset	32
Other payables	(11)
Lease make good provision	(50)
Employee entitlements	(68)
Net identifiable Assets acquired	194
Goodwill on acquisition of practices	4,239
Acquisition price	**4,433**

10. Business Combinations (Continued)

The above amounts for 1H19 acquisitions 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

1H19 Acquisitions	31 Dec 2018 $'000
Consideration	4,433
Less: Joint venture partner contribution	(1,354)
Less: Deferred Consideration	(330)
Total outflow of cash – investing activities	**2,749**
Transaction costs (operating activities)	-
Total outflow of cash	**2,749**

11 Intangible Assets

	31 Dec 2018 $'000	30 June 2018 $'000
Goodwill	66,462	62,208
Less: Accumulated impairment losses	-	-
Total intangible assets	**66,462**	**62,208**

(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 is outlined in Note 10. 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.

11 Intangible Assets (continued)

(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.

The Group experienced lower than expected revenues for the first half of FY19 due to reasons outlined in the review of operations in the Directors Report. Additionally, the share price and market capitalisation of the Group declined significantly in the period, presenting indicators of impairment of intangible assets, and accordingly the Group assessed all intangible assets for impairment at 31 December 2018 as outlined below.

In assessing the cash generating units (CGU's) the Group generally identifies individual practices as a CGU, except in some instances where practices have a common Joint Venture Partner. Practices with a common Joint Venture Partner and shared cashflows (i.e. labour) are generally classified as a CGU at the Joint Venture Partner level.

The recoverable amount of each group of cash generating units to which goodwill is allocated has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- Year one cashflows are based on the 1H19 actual result, adjusted for management's expectations of future performance including planned cost reductions;
- Cash flows in years two to five are based on the expected average percentage growth rate of 3.5% for revenue and 2.25% for expenses;
- A post-tax nominal discount rate of 12.5%;
- An indefinite terminal cash flow calculation has been applied for cash flows beyond year five, using the year 5 cash flow as a base and a growth rate of 2.25%.

Management determined no impairment was required at 31 December 2018.

(c) Significant estimate: Impact of possible changes in key assumptions

The recoverable amounts in respect of CGUs continue to be highly sensitive to a range of assumptions, in particular the growth rates, discount rate and assumed year one adjustments for future performance.

12 Going Concern

These financial statements have been prepared on the basis that the Group is a going concern, able to realise assets in the ordinary course of business and settle liabilities as and when they are due.

During the period ended 31 December 2018, the Group incurred a net loss before tax of $2.1 million and net cash outflows from operating activities of $4.7 million. As at 31 December 2018, the Group had net assets of $31.5 million, including cash of $1.0 million.

The Group has financing facilities with National Australia Bank (refer to note 5) which are drawn to $16.6 million at 31 December 2018. The facilities consist of an acquisition facility, a working capital facility and other ancillary facilities. The facilities have covenant requirements which must be complied with at all times. Based on the Group's ongoing operational matters that have impacted trading performance to date, and considering the Group's projected cash flows to 30 June 2019, there is a significant risk in relation to the Group's ability to maintain compliance with these covenants. The Directors have sought a waiver in relation to these potential covenant breaches. As at 28 February 2019, a waiver has not been granted by the financier.

In addition, the working capital financing facility (drawn to $3.85m as at 31 December 2018) has an expiry date in October 2019 and an annual review date of 30 April 2019. As part of their negotiations with the financier the Directors are seeking to extend this facility.

The Directors have prepared cash flow projections for the coming 12 months that support the ability of the Group to continue as a going concern. The cash flow projections assume the operational matters are resolved, the trading results of the Group improve, the working capital facility is extended and the financier provides a waiver in relation to compliance with the covenants. In the event the waiver is not provided and/or the working capital facility is not extended, the Group may not be in compliance with the terms of its facilities and the facilities may become due and payable.

These conditions give rise to material uncertainties that may cast doubt upon the Group's ability to continue as a going concern. In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

Directors Declaration
For the half-year ended 31 December 2018

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 21 are in accordance with the Corporations Act 2001, including:

   (i) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

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

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

David Herlihy
Chairman

Brisbane

28 February 2019

Independent Auditor's Review Report

To the shareholders of Smiles Inclusive Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Smiles Inclusive Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Smiles Inclusive Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated balance sheet as at 31 December 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 half-year ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises Smiles Inclusive Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half-year.

Material Uncertainties Relating to Going Concern

We draw attention to Note 12, "Going Concern" in the interim financial report. The conditions disclosed in Note 12, indicate material uncertainties exist that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the interim financial report. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Smiles Inclusive Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

KPMG

Adam Twemlow

Partner

Gold Coast

28 February 2019

Smiles Inclusive Limited
Corporate Directory

Principal Registered Office

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

W: smilesinc.com.au

Directors

David Herlihy
Non-executive Chairman

David Usasz
Non-executive Deputy Chairman

Mike Timoney
Managing Director and Chief Executive Officer

Tracy Penn
Executive Director

Peter Evans
Non-executive Director

Joshua Lowcock (resigned 27 February 2019)
Non-executive Director

Company Secretaries

Paul Innes

Jessica Watter

Auditor

KPMG

Share Registry

Link Market Services Limited

Stock Exchange Listing

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