



ABN 27 621 105 824
ACN 621 105 824

1 October 2019

Lisa Banh
Senior Adviser, Listings Compliance (Sydney)
ASX Compliance Pty Ltd
20 Bridge Street
Sydney, NSW 2000

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Dear Lisa

Response to Aware Query

Smiles Inclusive Limited (ASX: **SIL**) (**Company**) refers to your letter dated 16 September 2019 regarding the Company's financial condition.

The Company provides the following responses to your questions:

- 1. Please confirm the date on which SIL's auditors advised it that SIL's audited results would be subject to an impairment of its assets that materially exceed the impairment to its goodwill recognised by SIL for the purposes of the Appendix 4E released on MAP on 30 August 2019.**

While the Company has worked constructively with its auditor since 30 August 2019 on all aspects of the Company's accounts, the Company's audit process had not been sufficiently progressed for the Company's auditor to provide an indication of its views on impairment until the evening of 24 September 2019.

The actual impairment finally disclosed in the Company's annual report released on 1 October 2019 was only determined late in the evening on 30 September 2019.

- 2. Does SIL consider the advice from its auditor that the actual impairment it expected to recognise in SIL's accounts would be materially greater than that which SIL previously disclosed, being \$13,700,000 and representing 73% of the loss reported at that time, to be information to which listing rule 3.1 would apply?**

No.

- 3. If the answer to question 3 is:**

- a. no, why not?**

The valuation of the Company's goodwill is a non-cash item. The market is well aware of the issues that the Company has faced and that it is in the early stages of a turnaround designed to improve cash flows and the underlying value of the Company.

The market is also aware that the Company is required to assess the carrying value of goodwill at least annually and that the impairment announced on 30 August was subject to confirmation as part of the Company's audit process.

The Company notes that neither the announcement on 30 August nor the announcement on 25 September nor the release of the Company's annual report on 1 October resulted in a material movement in the price or volume of trading in the Company's shares.

b. yes, why has SIL not:

i. released a stand-alone announcement on MAP disclosing this?

Not applicable.

ii. requested a suspension to the quotation of its securities until its audited results for FY19 are finalised?

Not applicable.

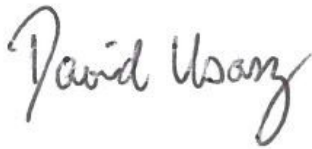
4. Please confirm that SIL is complying with listing rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.

Confirmed.

5. Please confirm that SIL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SIL with delegated authority from the board to respond to ASX on disclosure matters.

Confirmed.

Yours faithfully



David Usasz
Chairman

1 October 2019

Reference: 06511

Ms Emma Corcoran
Company Secretary / CFO
Smiles Inclusive Limited
PO Box 382
West Burleigh, QLD 4219

By email

Dear Ms Cocoran

Smiles Inclusive Limited ('SIL'): Query Letter

ASX refers to:

- A. the "Appendix 4E – Preliminary Final Report" released by SIL on the ASX market announcements platform ('MAP') on 30 August 2019, disclosing:
 - i. a loss after tax of \$18,878,000; and
 - ii. a net impairment of \$13,700,000.
- B. question 3 of its query letter to SIL dated 5 September 2019, which said (relevantly):

"Please advise:

 - a) when SIL became aware that its Goodwill would be subject to an impairment of \$13,700,000 ..."*
- C. SIL's response to the question referred to in paragraph B, released on MAP on 5 September 2019, which said (relevantly):

"SIL has and continues to work constructively with its auditor and met with its auditor to discuss impairment on the afternoon of 30 August 2019.

Whilst SIL's accounts remain subject to audit, SIL's auditor has not expressed a definitive view on impairment, the Company's board [sic] met to consider the Appendix 4E late on 30 August 2019 and resolved to impair goodwill by a net\$13.7m."
- D. question 3 of its query letter to SIL dated 16 September 2019, which said:

"Please advise whether SIL's auditor has yet formed a view as to the quantum of the impairment to be recognised by SIL for FY19."
- E. SIL's response to the question referred to in paragraph D, released on MAP on 18 September 2019, which said:

"The auditor has not yet formed a view as to the quantum of the impairment recognised by the Company for FY19. The Company remains in discussions with the auditor, which are ongoing and productive."
- F. SIL's announcement entitled "Investor Presentation", released on MAP on 25 September 2019, and incorporated in its "Entitlement Offer Information Booklet" released on MAP on 27 September 2019, which contains the following statement on page 21 of the presentation:

"At 25 September 2019 our auditor, KPMG, has advised that we need further impairment. Accordingly, there is the risk that the final audited results may differ from those disclosed to date. ..."

Adjustments to date since the issue of our Appendix 4E total (\$140,000). In addition, the auditors have not completed their work on Debtors at this time. There is a possibility that our provision for doubtful debts may increase up to \$200,000, resulting in an underlying result of (\$4.819M).

Risk Areas Impacting the Appendix 4E reported statutory result of (\$18.878M)

Asset Impairment Under Australian accounting standards, SIL is required to test the carrying value of its assets to ensure they are not carried at more than their recoverable amount. This assessment is required to be done at least annually and is completed with reference to the expected future cashflows of this business.

Given the poor performance of the business for FY19, the assessment has resulted in an impairment of the Goodwill, Bartercard and Fixed Assets of the Company, that was estimated at 30 August 2019 to have a likely net impact of (\$13.7 Million) on the Net Asset position of the Company.

*Discussions with our auditors, KPMG, continue and as at 25 September 2019 **the value of this impact is expected to increase by \$11.1 Million** with the following impacts: ...” (emphasis original)*

Questions and Request for Information

Having regard to the above, ASX asks SIL to respond separately to each of the following questions and requests for information:

1. Please confirm the date on which SIL’s auditors advised it that SIL’s audited results would be subject to an impairment of its assets that materially exceed the impairment to its goodwill recognised by SIL for the purposes of the Appendix 4E released on MAP on 30 August 2019.
2. Please provide copies of all email communications between SIL and its auditors sent between 30 August 2019 and the date SIL provides in answer to question 1 which records or refers to the advice by its auditors referred to in question 1 (not for release to the market).
3. Noting that:
 - on 28 February 2019, SIL reported a statutory loss after tax for the six months to 31 December 2018 of \$1,590,000, and forecast its FY19 earnings result to be a loss between \$500,000 and \$1,000,000¹; and
 - on 30 August 2019, SIL reported a statutory loss of \$18,878,000 for the 12 months ended 30 June 2019²,does SIL consider the advice from its auditor that the actual impairment it expected to recognise in SIL’s accounts would be materially greater than that which SIL previously disclosed, being \$13,700,000 and representing 73% of the loss reported at that time, to be information to which listing rule 3.1 would apply?
4. If the answer to question 3 is:
 - a. no, why not?
 - b. yes, why has SIL not:
 - i. released a stand-alone announcement on MAP disclosing this?
 - ii. requested a suspension to the quotation of its securities until its audited results for FY19 are finalised?

¹ Refer to SIL’s announcement titled “Half year results, management changes and guidance” released on MAP on 28 February 2019.

² Refer to paragraph A of this letter.

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5. Please confirm that SIL is complying with listing rule 3.1 and that there is no information that should be given to ASX about its financial condition under that rule that has not already been released to the market.
 6. Please confirm that SIL's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of SIL with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under listing rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **5:00 pm AEST on Wednesday, 2 October 2019**.

You should note that if the information requested by this letter is information required to be given to ASX under listing rule 3.1 and it does not fall within the exceptions mentioned in listing rule 3.1A, SIL's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph.

For the purpose of preparing its answers to the above questions concerning when it was aware of particular matters, ASX also directs SIL to the following definition in chapter 19 of the listing rules³:

aware *an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity.*

ASX reserves the right to release a copy of this letter and your response on MAP under listing rule 18.7A.

Accordingly, your response should be in a form suitable for release to the market. Your response should be sent to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Enquiries

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely,

Lisa Banh
Senior Adviser, Listings Compliance (Sydney)

³ Refer also to the commentary at section 4.4 in Guidance Note 8.