Results for announcement to the market - ASX:SIL Appendix 4E Preliminary Final Report

Name of Entity	Smiles Inclusive Limited (subject to a deed of company arrangement) ACN 621 105 824

Reporting period	1 July 2019 - 30 June 2020
Previous corresponding reporting period	1 July 2018 - 30 June 2019

This page and the following 18 pages comprise the year end information given to the ASX under listing rules 4.3A. The 2020 Smiles Group annual financial reports will be released in September 2021.

This report is based on accounts which are in the process of being audited. During the voluntary administration of the Smiles Group the substantial majority of the assets of the Group were sold. After the conclusion of the voluntary administration in July 2021, former management of the Group resigned and new management was appointed. The financial information has been prepared on a realisation basis, using available information about the actual realised value of assets as reported at the conclusion of the administration. The independent audit report is likely to be modified in respect of obtaining sufficient appropriate audit evidence. This is because, at the date of this report, none of the directors, CEO or senior executives as at 30 June 2020 remain with the Company. The current Directors consider that this is likely to result in a modified audit report, because the independent auditor may be unable to verify some information or may only be able to verify information by reference to documents.

	$'000	**Change from previous corresponding period**
Revenue from ordinary activities	27,283	down 21.2%
Profit / (loss) from ordinary activities after tax	(61,228)	down 97.4%
Net profit / (loss)	**(61,228)**	**down 97.4%**

	Current period	**Previous corresponding period**
Basic earnings per share	**(52.3)**	**(53.3)**
Diluted earnings per share	**(51.7)**	**(53.3)**

It is not proposed to pay dividends.

	Current period	**Previous corresponding period**
Net tangible assets per ordinary security	(36.2 cents)*	(46.6) cents

* The net tangible asset per ordinary security of (36.2) cents presented above is inclusive of right-of-use assets and liabilities.

By Order of the Board
31 August 2021

Smiles Inclusive Limited
(subject to a deed of company arrangement)
ACN 621 105 824

Preliminary Final

Report

30 June 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	30 Jun 20 $'000	30 Jun 19 $'000
Practice revenue	1	**27,283**	**34,629**
Other income	1	3,140	146
Direct costs		(6,214)	(4,185)
Consumables supplies expenses		(2,522)	(2,560)
Employee expenses		(13,403)	(18,634)
Marketing expenses		(276)	(767)
Occupancy expenses		(651)	(3,843)
Administration and other expenses	2	(12,116)	(9,121)
Depreciation and amortisation expense	2	(4,174)	(1,410)
Loss before finance costs, income tax, impairment and changes in fair value		**(8,933)**	**(5,745)**
Impairment of goodwill, right-of-use assets and property, plant & equipment		(51,262)	(31,059)
Change in fair value of joint venture partner contribution		1,265	7,102
Net impairment and changes in fair value		(58,930)	(23,957)
Loss before finance costs and income tax		**(58,930)**	**(29,702)**
Net Finance Cost	2	(2,298)	(1,300)
Loss before income tax		**(61,228)**	**(31,002)**
Income tax benefit / expense		-	-
Loss for the year		**(61,228)**	**(31,002)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(61,228)**	**(31,002)**

Earnings per share for loss attributable to the ordinary equity holders of the company

	Note	30 Jun 20	30 Jun 19
Basic earnings per share (cents per share)	9	(52.3)	(53.3)
Diluted earnings per share (cents per share)	9	(51.7)	(53.3)

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 2020

	Note	30 Jun 20 $'000	30 Jun 19 $'000
Assets			
Current Assets			
Cash and cash equivalents	10	260	1,595
Receivables and other assets	3	2,175	2,837
Inventories		340	558
Deferred tax assets		-	2,687
Property, plant & equipment		4,007	8,270
Right-of-use assets		2,218	-
Intangible assets		-	34,438
Total Assets		**9,000**	**50,385**
Liabilities			
Current Liabilities			
Interest bearing liabilities		19,651	23,413
Payables		5,360	6,927
Lease liabilities		21,322	-
Deferred revenue		439	570
Provisions		4,738	2,405
Joint Venture Partner Contribution		11,457	13,730
Total Liabilities		**62,967**	**47,045**
Net Assets		**(53,967)**	**3,340**
Contributed equity	5	43,168	39,297
Reserves		50	-
Retained earnings / (accumulated losses)	11	(97,185)	(35,957)
Total Equity		**(53,967)**	**3,340**

The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognised in retained earnings at the date of initial application. See Note 13(b).

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Note	Contributed Equity $'000	Reserves $'000	Retained Earnings/ (accumulated losses) $'000	Total $'000
Balance at 1 July 2018		**38,085**	**-**	**(4,955)**	**33,130**
Total comprehensive loss for the year		-	-	(31,002)	(31,002)
Transactions with owners of the Company, recognised directly in equity:					
Issue of securities	9	1,217	-	-	1,217
Share issue costs, net of tax	9	(5)	-	-	(5)
Balance at 30 June 2019		**39,297**	**-**	**(35,957)**	**3,340**
Balance at 1 July 2019		**39,297**	**-**	**(35,957)**	**3,340**
Total comprehensive loss for the year		-	-	(61,228)	(61,228)
Transactions with owners of the Company, recognised directly in equity:					
Issue of securities	9	3,871	-	-	3,759
Options granted - employees		-	50	-	50
Share issue costs, net of tax	9	(234)	-	-	(234)
Balance at 30 June 2020		**43,168**	**50**	**(97,185)**	**(53,967)**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	30 Jun 20 $'000	30 Jun 19 $'000
Cash flow from operating activities			
Receipts from patients		37,685	47,240
Other income		2,436	-
Payments to suppliers and employees		(44,344)	(51,602)
Interest received		-	3
Finance costs including interest and joint venture partner profits paid		(1,252)	(2,752)
Net cash flows from/(used in) operating activities		**(5,475)**	**(7,111)**
Cash flows from investing activities			
Payments for property, plant and equipment		(225)	(1,341)
Proceeds from disposal of property, plant and equipment		-	56
Payments for practices, net of cash received		-	(2,749)
Proceeds from disposal of practices		2,000	-
Payment for rental bond term deposits		-	(63)
Net cash flows (used in)/ from investing activities		**1,775**	**(4,097)**
Cash flow from financing activities			
Proceeds from issue of securities		3,871	1,217
Costs associated with issue of securities		(234)	(6)
Net proceeds from borrowings		(300)	8,433
Proceeds from sale & leaseback of property, plant and equipment			1,939
Lease payments		(972)	(783)
Payment for debt issue costs		-	(6)
Net cash flows (used in)/ from financing activities		**2,365**	**10,794**
Net increase/(decrease) in cash and cash equivalents		(1,335)	(414)
Cash and cash equivalents at the beginning of the year		1,595	2,009
Cash and cash equivalents at the end of the year	**10**	**260**	**1,595**

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

The financial information included in this document for the year ended 30 June 2020 is unaudited and has been derived from the draft Financial Report of the Group for the year ended 30 June 2020. The financial information does not constitute the Group's full statutory accounts for the year ended 30 June 2020, which will be approved by the Board, reported on by the auditors and subsequently provided to the ASX.

Smiles Inclusive Limited (subject to a deed of company arrangement) 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 and principal place of business is located at 62 Aston Terrace, Spring Hill, QLD, 4000.

The financial statements are presented in Australian dollars which is the Company's functional currency. The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report was originally prepared in draft form on the basis the group was a going concern and was able to realise its assets and settle its liabilities in the ordinary course of business. On 9 November 2020 the Group entered voluntary administration. The voluntary administrators expressed the view that the Group was likely insolvent from 31 December 2019, if not earlier. Accordingly, the Directors determined that this report be prepared on a liquidation or realisation basis.

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.

List of Notes to the Financial Statements

1. Revenue and Other Income

	30 Jun 20 $'000	30 Jun 19 $'000
Revenue		
Dental service fees	26,671	33,824
Laboratory fees	612	805
Total practice revenue	**27,283**	**34,629**
Other Income		
Government grant	3,018	-
Other income	122	146
Total Other income	**3,140**	**146**

Dental service fees include 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.

The Group provides a range of laboratory services for dental practitioners. Fees for the services are recognised as revenue as the services are provided.

JobKeeper Wage Subsidy

The group received JobKeeper Wage subsidy payments as part of the Australian government's response to Covid-19. The fortnightly JobKeeper payments have been accounted for as a government grant and are recognised as grant income as each payroll is processed.

2. Particular expenses

	30 Jun 20 $'000	30 Jun 19 $'000
Profit from continuing operations before income tax includes the following significant costs		
Administration and other expenses		
Accounting, legal and professional fees	(962)	(1,438)
IT and telecommunication costs	(1,532)	(1,539)
Travel and accommodation	(490)	(875)
Insurance	(1,216)	(873)
Contractor and director fees	(513)	(1,417)
Provision for doubtful debts	27	(357)
Provision for Liquidator Fees	(3,000)	(3,000)
Other expenses	(4,430)	(2,622)
Total administration and other expenses	**(12,116)**	**(9,121)**
Depreciation and amortisation		
Plant and equipment	(695)	(361)
Leasehold improvements	(352)	(252)
Leased assets	-	(783)
Amortisation of intangible	(16)	(14)
Right-of-use assets	(3,111)	-
Total depreciation and amortisation	**(4,174)**	**(1,410)**
Finance costs		
Interest from bank loans and borrowings	(1,153)	(1,376)
Interest from Right-of-use Assets	(1,147)	-
Joint Venture Partner profit share	52	125
Amortisation of borrowing costs	(50)	(49)
Total finance costs	**(2,298)**	**(1,300)**

For the year ended 30 June 2020 the Group reduced its provision for doubtful debts by $27,000 to more closely reflect the actual recoveries of trade receivables reported by the administrators.

3. Receivables and other assets

	30 Jun 20 $'000	30 Jun 19 $'000
Trade receivables	540	1,472
Other assets	2,082	1,689
Prepayments	93	243
Bad Debts to be Written Off	(540)	(567)
Total Receivables and other assets	**2,175**	**2,837**
Expected to be recovered		
No more than twelve months	2,175	2,158
More than twelve months	-	679
Total receivables and other assets	**2,175**	**2,837**

4. Payables and other liabilities

	30 Jun 20 $'000	30 Jun 19 $'000
Trade accounts payable	3,558	2,880
Interest accrued	462	265
Other payables and accruals	1,340	3,782
Total payables	**5,360**	**6,927**
Deferred revenue	439	570
Total deferred revenue	**439**	**570**
Expected to be settled		
No more than twelve months	5,699	7,497
More than twelve months	-	-
Total payables and deferred revenue	**5,699**	**7,497**

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.

5. Contributed equity

	30 Jun 20 No. '000	30 Jun 19 No. '000	30 Jun 20 $'000	30 Jun 19 $'000
Issued capital				
Ordinary securities fully paid	148,962	66,623	43,168	39,297
Total issued capital	**148,962**	**66,623**	**43,168**	**39,297**
Movement in issued securities during the period				
Balance at the beginning of the period	66,623	57,933	39,297	38,085
Securities issued	82,338	8,690	3,871	1,217
Transaction costs on issue of securities, net of tax	-	-	(234)	(5)
Ordinary securities fully paid	**148,962**	**66,623**	**43,168**	**39,297**

On 3 October 2019, the Company issued 12,722,666 new ordinary shares at 5 cents, raising $0.6 million to assist with the implementation of the Company's turnaround plan and to meet working capital requirements. The shares rank equally with existing fully paid ordinary shares.

On 21 October 2019, the Company issued 53,900,169 new ordinary shares at 5 cents, raising $2.7 million to assist with the implementation of the Company's turnaround plan and to meet working capital requirements. The shares rank equally with existing fully paid ordinary shares.

On 10 March 2020, the Company issued 11,315,789 new ordinary shares at 3.8 cents, raising $0.43 million to assist with the implementation of the Company's turnaround plan and to meet working capital requirements. The shares rank equally with existing fully paid ordinary shares.

On 30 June 2020 the Company issued 4,400,000 new ordinary shares at 2.5 cents, of which $0.1 million of the issue price for those shares was set off against existing debt of the Company owed to the issuee.

6. Dividends and Distributions

No dividends were declared or paid by the Group for the year ended 30 June 2020.

No dividend or distribution reinvestment plan was in operation during the reporting period.

7. 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.

Management considers that the business operates as a segment. This conclusion has been made in accordance with requirements of IFRS 8 which requires consideration of:

- Identify the CODM
- Can the component generate revenue and incur expenses from its business activities?
- Are the component's operating results regularly reviewed by the CODM as a basis for resource allocation and performance assessment?
- Is discrete financial information available for the component?

In the case of Smiles, during the reporting period the chief operating decision maker in respect of the business, and all practices was the CEO. Whilst each practice generated discrete revenues and expenses, could produce discrete financial information and had operating results that were capable of regular review, the CODM monitored the business as one segment being dental practices in Australia.

8. Interests in other entities

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

Entity	Date Acquired/ Incorporation	Place of Incorporation	2020
Smiles Southport Pty Ltd	26 February 2019	Australia	100%
Totally Smiles Pty Ltd (in liquidation)	24 August 2017	Australia	100%
Distinctive Dental Care Pty Ltd	20 April 2019	Australia	100%

There were no entities over which control was gained or lost during the period.

9. Earnings per security

(a) Calculating earnings per share

	30 Jun 20	30 Jun 19
	$'000	$'000
Loss after income tax attributable to the owners of the Group	(61,228)	(31,002)
	#'000	#'000
Weighted average number of ordinary shares used in calculating basic earnings per share	116,989	58,171
	Cents	Cents
Basic earnings per share	(52.3)	(53.3)
Diluted earnings per share	(51.7)	(53.3)

10. Cash and cash equivalents

	30 Jun 20 $'000	30 Jun 19 $'000
Cash at bank	260	1,595
Total cash and cash equivalents	**260**	**1,595**

11. Retained profits/(accumulated losses)

	30 Jun 20 $'000	30 Jun 19 $'000
Retained earnings/(accumulated losses) at the beginning of the period	(35,957)	(4,955)
Net profit/(loss) from ordinary activities after income tax	(61,228)	(31,002)
Retained earnings/(accumulated losses) at the end of the period	**(97,185)**	**(35,957)**

12. Events occurring after balance date

Directors and senior management

In September 2020, Mr Peter Evans resigned as Non-executive Director and was replaced by Dr Genna Levitch.

In November 2020, Mr Peter Fuller resigned as Non-executive Director.

In November 2020 the Group entered voluntary administration and the powers of directors and senior management were suspended.

In July 2021 David Usasz, Genna Levitch and Michelle Aquilina resigned as directors, and Dr Iain Gray, Marsha Thulkanam and Mark von Wyk were appointed directors.

Financing arrangements

The Group's primary financier agreed, subject to conditions, to release and discharge the Company from liability under its various banking facilities upon receipt of $12.0 million plus repayment of amounts outstanding on the corporate credit card and temporary JobKeeper facilities. Upon settlement of the agreement, the expected debt forgiveness by the financier would have been approximately $6.0 million. Ultimately, the Group was unable to meet the requirements to secure the release and entered voluntary administration on 9 November 2020.

Capital raising

The Group was undertaking a rights issue to raise approximately $7.6 million after capital raising costs, with proceeds used to repay existing debt facilities as outlined above. Ultimately, this was not completed.

Business turnaround and sale of practices

The Group sold its Miranda and Yarram practices in July 2020 and August 2020 respectively, with proceeds used for the reduction of debt and working capital purposes. In addition, the Group restructured the dentures and mobile divisions, resulting in the consolidation of 15 tenancies. The Group also entered into a JVP buyout for Clayfield and Glen Waverley practices, which formed part of the Company's multi-faceted strategy.

During the year ended 30 June 2020 the Group incurred a net loss before tax of $61.2 million and had net cash outflows from operating activities of $5.4 million. As at 30 June 2020, the Group had a net asset deficiency of $55.3 million, and cash of $260,000.

As a result of significant ongoing operational issues and poor trading performance during the year the Group has recorded an impairment expense of $51.3 million in relation to goodwill, property, plant and equipment and right of use assets. The Group is also a party to a number of ongoing and threatened legal matters which may result in the further liabilities arising, the outcome and quantum of which was unknown at 30 June 2020.

The Group had financing facilities with National Australia Bank (NAB) which were drawn to $19.7 million at 30 June 2020. The facilities consist of an acquisition facility, a working capital facility and other ancillary facilities. The facilities had covenant requirements which must be complied with at all times. In March 2019 NAB advised the Group that they were in breach of financial covenants. During the year and subsequent to 30 June 2020, the Group continued to be in breach of these covenants. The Group also had additional overdue loan facilities.

The Group continued to implement its turnaround plan and a new Sustainability Improvement Strategy, which commenced in June 2019 and included the following actions:

- The appointment of key management personnel with significant industry experience, including Managing Director in April 2020, Chief Operating Officer in January 2020, and Chief Financial Officer expected to be appointed in the second half of FY21;
- Consolidation of dentures and mobile divisions, including the exit of associated property leases;
- Divestment of non-core and underperforming practices, including the exit of associated property leases;
- Improved engagement of dentists and staff together with investment in frontline services to drive revenue;
- Right-sizing of practice and corporate staffing levels;
- Rigorous operating cost control throughout the organisation; and
- Improved supply chain strategy to capitalise on scale, ensuring competitively priced practice consumables and equipment.

The ability to execute this turnaround plan was dependent upon the continued support of stakeholders including but not limited to financiers, creditors and joint venture partners.

During the year, the Group raised net equity of $3.3 million after capital raising costs through a non-renounceable entitlement offer, which was utilised for the partial repayment of temporary banking facilities and working capital. In addition, the Group raised $2.0 million from the sale of two dental practices. These funds were further used for working capital purposes.

During the year and subsequent to 30 June 2020, the Group was significantly impacted by the COVID-19 pandemic which resulted in the closure and/or limited operating capacity of certain practices within Government directed restrictions. The Group was a recipient of JobKeeper subsidies, which contributed to working capital for the continuation of operations.

Subsequent to 30 June 2020, NAB agreed, subject to conditions, to release and discharge the Group from liability under its various banking facilities upon receipt of $12.0 million plus repayment of amounts outstanding on the corporate credit card and temporary JobKeeper facilities by 4 November 2020, resulting in an expected debt forgiveness of approximately $6.0 million. The Group had previously entered into a similar agreement with NAB, but was unable to raise the necessary funds to comply with the timeframes for repayments specified in that agreement.

The Group was in negotiation with potential financiers to provide the funding to repay the NAB facilities and raise additional working capital. The Group planned to complete a rights issue with a proposed completion in December 2020 to raise $7.6 million (net of associated fees). At 30 June 2020 the Group was yet to finalise either the financing or rights issue arrangements.

The Group had prepared cash flow projections for the coming 12 months that supported the ability of the Group to continue as a going concern. The cash flow projections included significant assumptions. These were critically dependent upon:

- the Group continuing to receive JobKeeper subsidies for the period to 31 March 2021; and
- the Group improving its trading performance to generate positive cash flows from operations; and
- the Group obtaining sufficient funding from other parties to allow for the repayment of the NAB loan facilities (by 4 November 2020), other debts and outstanding creditors, and to provide additional working capital; and

- the Group's trade creditors and financiers continuing to provide financial support and not enforcing payment of overdue balances where the Group did not have sufficient liquid funds to make payment; and
- the Group resolving legal claims and regulatory compliance related matters; and
- the Group divesting certain poor performing practices to provide additional funding to the Group.

These conditions gave rise to significant material uncertainties that may have cast doubt upon the Group's ability to continue as a going concern. In the event the Group did not achieve the above initiatives within the required time frames, the Group may not have continued as a going concern and may not have been able to realise its assets and extinguish its liabilities in the ordinary course of operations.

On 9 November 2020, Tim Heenan and Luci Palaghia of Deloitte Restructuring Services were appointed as Voluntary Administrators of the Group. The Creditors Report which was released on 23 June 2021 indicated that the administrators' preliminary investigations supported an opinion that the Group was insolvent.

On 30 June 2021 the second meeting of creditors was held and creditors of Totally Smiles Pty Ltd resolved that the company enter liquidation. The directors do not expect any liability or recovery to flow to Smiles Inclusive Limited (subject to a deed of company arrangement) from the liquidation of Totally Smiles Pty Ltd (in liquidation).

On 2 July 2021 the second creditors meeting was reconvened and creditors voted in favour of a Deed of Company Arrangement (DOCA) being executed with Exit Solutions Ltd in respect of Smiles Inclusive Limited. Due to the appointment of the Voluntary Administrators of the Group and the fact the Group was no longer satisfying the criteria to report as a going concern these financial statements have now been prepared on a liquidation or realisation basis.

The effect of the DOCA is, once it is effectuated, to extinguish any pre-administration liabilities of Smiles Inclusive Limited.

13. 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

This preliminary report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001 as they apply on a liquidation basis. 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 as applicable on a liquidation basis.

Financial statements are normally prepared on a going concern basis where there is neither an intention or need to materially curtail the scale of the entity's operations. If such an intention or need exists, as is the case in this financial report, the financial statements cannot be prepared on a going concern basis.

The directors have applied the requirements of paragraph 25 AASB 101 *Presentation of Financial Statements*:

> *… When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.*

An event after balance date was the appointment of an administrator on 9 November 2020. This caused the company to no longer satisfy the criteria to report as a going concern.

(b) New accounting standards and interpretations adopted

The Group has adopted as of 30 June 2020 all of the new and revised Standards and Interpretations issued by the AASB with mandatory effective dates impacting the current period. The impact of the adoption of the new and revised Standards and Interpretations are as follows:

AASB 16 Leases

The Group had adopted AASB 16 *Leases* using the modified retrospective method from 1 July 2019 but had not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. This method leads to nil impact on net assets at transition. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening Consolidated Statement of Financial Position on 1 July 2019.

The Group leased various properties and equipment in the course of its operations. Lease terms were negotiated on an individual basis and contain a wide range of different terms and conditions, including extension options. Lease agreements did not impose and covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes

Prior to 1 July 2019, leases of property (operating leases) were disclosed as commitments. Payments made under operating leases (net of any incentives received from the lessor) were charged to the profit or loss as occupancy expenses.

From 1 July 2019, the Group applied a single recognition and measurement approach for all leases in which it is the lessee, except for short-term ad low-value assets. Leases were recognised as a right-of-use asset and a corresponding liability as the date at which the leased asset is available for use by the Group. Each lease payment reduces the lease liability and recognises interest expense within finance costs. The interest expense was charged to profit or loss over the lease period to produce a constant periodic rate of interest in the remaining balance of the liability for each period. The right-of-use asset was depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Practical expedients
In applying AASB 16 *Leases* for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- the accounting for operating leases with a cost of $10,000 or less as low value leases:
- the exclusion of initial direct costs for the measurement of the right-of-use asset as the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Measurement of lease liabilities

On adoption of AASB 16 *Leases*, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of AASB 117 *Leases* (the accounting standard in force prior to 1 July 2019). These liabilities were measured as the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 5.73%.

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured using the modified retrospective method from 1 July 2019. The right-of-use assets were measured at the amount equal to the lease liability, adjusted for existing onerous lease provisions, prepayments and make good assets recognised in the Consolidated Statement of Financial Position as at 30 June 2020.

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.

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

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.

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.

Compliance Statement

1. This report has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act 2001. No other standards were used.
2. This report, and the accounts upon which the report is based, use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts which are in the process of being audited.
5. There are expected modifications to the audit report.

MThulkanam

Marsha Thulkanam

Director

Smiles Inclusive Limited (subject to a deed of company arrangement)