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25 June 2020

Mr Corey Lian
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ASX, 20 Bridge Street
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ASX ref: 18373

Smiles Inclusive Limited ('SIL'): Query Letter

SIL's refers to your letter dated 15 June 2020, and provide the following responses as requested:

1. With respect to SIL's announcement titled "Appendix 4C – Amendment" released on 1 June 2020 and the statements contained within the announcement, SIL provides the following responses as requested in your letter:

a. How were the errors uncovered?

The errors were uncovered when the response to your email (on behalf of the ASX) on 18 May 2020 was being prepared in relation to miscalculations and amendments for the Appendix 4C for the March 2020 quarter. As the ASX had requested a clarifying announcement be issued by SIL it was discovered the errors also related to the December 2019 Appendix 4C.

b. What does SIL mean by "transposition" and "flow-through" errors?

Upon review of the December 2019 and March 2020 Appendix 4C statements, it was clear that incorrect figures had been recorded in the statements lodged, which had a flow through impact and resulted in errors. The following are two examples of these errors for the original Appendix 4C statements lodged:

Dec 2019: Item 4.1 shows an incorrect opening cash balance of nil, which differs to the closing cash balance reported for the previous quarter. In addition, item 4.6 should show the same balance however the values were different.

Mar 2020: Item 3.10 showed an incorrect subtotal of \$242k, however item 4.4 showed the correct value of \$(118)k. In addition, Item 4.1 showed an incorrect opening cash balance of nil and was different to the closing cash balance reported in the previous quarter.

c. Where these human errors, system errors, or a combination of both?

The errors were a combination of human and system errors, however SIL have addressed this issue (refer to 1e below).

d. Did the same errors occur in relation to both the quarter ended 31 December 2019 and the quarter ended 31 March 2020?

Refer to the response provided in 1a above.

e. Has SIL considered whether changes to its systems and / or processes are required to avoid errors in the future?

As noted above, SIL have addressed the issue by reviewing its systems and resource capability. An experienced consultant with a background in senior finance and ASX listed organisation has been engaged to assist with SIL's reporting and to finalise the half-year financial report. The recruitment of a permanent CFO is also being progressed.

2. What did SIL's bank report its bank balance to be on 31 December 2019 and 31 March 2020?

The following bank balances were reported as at 31 December 2019 and 31 March 2020:

- 31 December 2019: \$1,106,204
- 31 March 2020: \$ 145,060

As noted in the Amended Appendix 4C for the March 2020 quarter, the opening cash balance (ie 31 December 2019) has been recorded as \$1,107k (includes rounding adjustment), and the closing cash balance (ie 31 March 2020) has been recorded as \$145k. Therefore, the Amended Appendix 4C for the March 2020 quarter was amended to ensure the correct bank balances are reflected.

As requested, a copy of the bank statements has been separately provided to the ASX (not for public release).

3. Please describe in more detail the circumstances that led to the staff costs for the March 2020 quarter being revised upwards by approximately \$1,114,000.

As noted in the response provided in 1b above, the original Appendix 4C for the March quarter incorrectly showed an opening cash balance (ie as at 31 December 2019) of nil. Following on from the review of the cash flow calculations, and the reconciliation of the cash balances to the bank statements noted in the response to question 2 above, it was discovered that \$1,114k of cost was not recorded for the quarter. From analysing the cash flow workings, the costs were related to staff expenses.

4. Has SIL considered whether changes to its systems and / or processes are required to avoid the error referred to in question 3 from occurring again?

Yes, please refer to the response provided in 1e above.

5. How many of the 16 dentists identified are seeking to terminate their service agreements?

At the time of writing, 10 of the 16 dentists identified have terminated their service agreements.

For completeness, we note that the majority of the identified dentists SIL contacted on the date Dr John Camacho gave SIL the purported notice of terminations were unaware of the notice. While this was the case at the time, subsequent factors (including those associated with government movement restrictions and other personal reasons) have apparently caused a number of these dentists to nevertheless proceed with the terminations.

6. Of the dentists identified in question 5, does SIL consider their termination either individually or in concert to have a material impact on SIL's business?

No.

7. If the answer to question 6 is:

- "Yes", please provide an update to the market that outlines the impact.**
- "No", please explain the basis for that view.**

The business owns 51 practices with 106 contracted dentists. Our dentist numbers naturally fluctuate over time, and this is an issue SIL actively monitors.

The COVID-19 global pandemic saw the shutdown of all practices following advice from the Australian Health Protection Principle Committee (AHPPC). The business continues to monitor performance closely and, as at the time of writing, does not consider the termination of the 10 practitioners to have materially impacted business performance in the circumstances, particularly when contrasted with the broader and unavoidable impacts caused by COVID-19.

Given the terminations happened when SIL's practices were temporarily closed, SIL has used this downtime to conduct a recruitment drive to seek to replace the outgoing dentists, and the recent easing of restrictions has enabled the business to now provide full services under COVID-19 guidelines. We are encouraged with the increasing patient visits, good dentist retention from our existing cohort of dentists and new dentist recruitment.

8. ASX notes SIL has not updated the market since announcing on 17 April 2020 that it was in "advanced negotiations" to improve its capital position. Is this deal still likely to be completed and if so, when?

The timing for completion of the transaction is still not yet known. SIL confirms it remains in negotiations with potential investors.

9. Please confirm that SIL is in compliance with the listing rules and, in particular, listing rule 3.1.

SIL considers that it is complying with listing rule 3.1. For completeness, SIL also notes that it received notification from ASIC under section 1274 of the Corporations Act regarding the non-lodgement of the 31 December 2019 half-year financial report. ASIC have not granted an extension for SIL to lodge the accounts and have advised of their intention to submit an application to the court in respect of SIL's default.

10. 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.

This response has been authorised and approved by the Board of SIL.

For further information please contact:

Michelle Aquilina, Chief Executive Officer
E: michelle.aquilina@totallysmiles.com.au



15 June 2020

Reference: 18373

Mr Andrew Ritter
Company Secretary
Smiles Inclusive Limited
Unit 3, 38-40 Township Dr
West Burleigh, QLD 4219

By email:

Dear Mr Ritter

Smiles Inclusive Limited ('SIL'): Query Letter

ASX refers to the following:

- A. SIL's announcement titled "Appendix 4C - quarterly" released on the ASX Market Announcements Platform ('MAP') on 31 January 2020, which disclosed at item 5.1 that its bank balance was \$709,000 as at 31 December 2019.
- B. SIL's announcement titled "Appendix 4C" released on the ASX Market Announcements Platform ('MAP') on 1 May 2020, which disclosed:
 - i. at item 5.1 that its bank balance was \$242,000 at 31 March 2020; and
 - ii. at item 1.2(e) that its staff costs were \$3,610,000 for the quarter ended 31 March 2020.
- C. SIL's announcement titled "Appendix 4C - Amendment" released on MAP on 1 June 2020, which disclosed:
 - i. its amended bank balance was \$1,017,000 at 31 December 2019;
 - ii. staff costs had been amended to \$4,724,000 from \$3,610,000 for the quarter ending 31 March 2020;
 - iii. operating cash flow had been amended to negative \$614,000 from positive \$500,000 for the quarter ending 31 March 2020; and
 - iv. *"The attached Appendix 4C reflects corrections resulting from transposition and flow-through errors made when the original versions for the quarters ended 31 December 2019 and 31 March 2020 were prepared and lodged."*
- D. SIL's announcement titled "Response to Press Release" released on MAP on 17 April 2020, which disclosed (emphasis added):
 - i. *"Smiles Inclusive Limited (ASX: SIL) today received notice from Dr John Camacho purporting to represent **16 of Totally Smiles' 98 dentists, seeking to terminate their service agreements.**"*
 - ii. *"The Company is in the process of contacting the dentists named in Dr Camacho's letter to understand their intentions and is committed to work with them wherever possible. **The majority of those dentists have informed the Company that they were unaware of Dr Camacho's letter to the Company and have stated that it is not their intention to terminate their service agreements.**"*

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- iii. *“The Company is pleased to confirm that it is in advanced negotiations in respect of a transaction which, if completed, would materially improve its financial position and provide it with capital to continue through the remainder of the current temporary shutdown and beyond.”*

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. With respect to SIL’s statement reproduced at paragraph C.iv, please explain in more detail the circumstances that led to the amendments in the bank balances on each reporting date (see paragraphs B.i and C.i). In your answer, please address the following:
 - a. How were the errors uncovered?
 - b. What does SIL mean by “transposition” and “flow-through” errors?
 - c. Where these human errors, system errors, or a combination of both?
 - d. Did the same errors occur in relation to both the quarter ended 31 December 2019 and the quarter ended 31 March 2020?
 - e. Has SIL considered whether to changes to its systems and / or processes are required to avoid errors in the future?
2. What did SIL’s bank report its bank balance to be on 31 December 2019 and 31 March 2020?

When answering this question, please provide ASX with evidence from SIL’s bank relating to the cash balances on these dates (not for release to the market).
3. Please describe in more detail the circumstances that led to the staff costs for the March 2020 quarter being revised upwards by approximately \$1,114,000 (see paragraph C.ii).
4. Has SIL considered whether changes to its systems and / or processes are required to avoid the error referred to in question 3 from occurring again?
5. How many of the 16 dentists identified are seeking to terminate their service agreements (see paragraphs D.i and ii)?
6. Of the dentists identified in question 5, does SIL consider their termination either individually or in concert to have a material impact on SIL’s business?
7. If the answer to question 6 is:
 - i. “Yes”, please provide an update to the market that outlines the impact.
 - ii. “No”, please explain the basis for that view.
8. ASX notes SIL has not updated the market since announcing on 17 April 2020 that it was in “advanced negotiations” to improve its capital position. Is this deal still likely to be completed and if so, when?
9. Please confirm that SIL is in compliance with the listing rules and, in particular, listing rule 3.1.
10. 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 **8:30 AM AEST Friday, 19 June 2020**.

If we do not have your response by then, ASX will have no choice but to consider suspending trading in SIL's securities under Listing Rule 17.3. 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.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform 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 at **ListingsComplianceSydney@asx.com.au**. 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.

Listing Rule 3.1 and 3.1A

Listing Rule 3.1 requires a listed entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. Exceptions to this requirement are set out in Listing Rule 3.1A. In responding to this letter, you should have regard to SIL's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that SIL's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SIL's securities under Listing Rule 17.1. If you wish to request a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We may require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted.

You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Enquiries

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

Kind regards

Corey Lian
Adviser, Listings Compliance (Sydney)