Coventry Group Ltd

ABN 37 008 670 102

Appendix 4D
Half-year report for the six months ended 31 December 2018

Reporting period

Report for the half-year ended 31 December 2018

Previous corresponding period is the financial year ended 30 June 2018 and the half-year ended 31 December 2017

Results for announcement to the market

	31 Dec 2018	31 Dec 2017	Change	Change
	$M	$M	$M	%
Revenue from continuing operations	89,618	83,310	6,308	7.6%
Loss from continuing operations	(2,373)	(5,210)	2,837	-
Net (loss)/profit after tax from continuing and discontinued operations attributable to members	(2,373)	8,742	(11,115)	-

Dividends

No dividends have been declared in relation to the half-year ended 31 December 2018.

No ordinary dividends were paid during the period.

Amount of dividend per security

		Amount per security	Franked amount security at 30%
Interim dividend	current year	Nil	Nil
	previous year	Nil	Nil
Final dividend	current year	Nil	Nil
	previous year	Nil	Nil
Total dividend current year		Nil	Nil
previous year		Nil	Nil

The Company's Dividend Reinvestment Plan remains suspended.

Net Tangible Assets Per Security	
As at 31 December 2018	1.02
As at 31 December 2017	1.39

The financial information provided in Appendix 4D is based on the half-year condensed consolidated financial report (attached).

The attached financial statements and Directors' declaration have been subject to an independent review.

Coventry Group Ltd
and its controlled entities

Financial report for the half year ended 31 December 2018

This half year financial report is to be read in conjunction with the financial report for the year ended 30 June 2018.

Coventry Group Ltd

OUR VALUES

At Coventry Group we value Respect, Fairness, Teamwork, Integrity and Professionalism.

Above all, we value Our People and Our Customers.

Coventry Group Ltd and its controlled entities
Financial report for the half year ended 31 December 2018

Contents

The directors present their report on the Consolidated entity consisting of Coventry Group Ltd and controlled entities at the end of, or during, the half year ended 31 December 2018. Throughout the report, the Consolidated entity is referred to as the Group.

Directors

The directors of the Company at any time during the half year ended 31 December 2018 and up to the date of this report are:

Neil George Cathie, Chairman
Robert James Bulluss, Managing Director and Chief Executive Officer
Andrew William Nisbet
James Scott Charles Todd (appointed 3 September 2018)

Review of operations

The trading performance of the Group improved in the first half of FY19. Group sales increase, excluding acquisitions, for the first half of FY19 when compared with the prior corresponding period (PCP) of +5.2% (+7.6% including acquisitions). Underlying Group EBIT loss of -$1.5m (-$3.3m PCP excluding non-continuing operations), an improvement of $1.8m. Net loss after tax of -$2.3m (-$5.2m PCP excluding non-continuing operations).

As at 31 December 2018, the Group had a strong working capital position with Current Assets exceeding Current Liabilities by $50.3m, a cash position of $8.5m with no debt.

The Executive Leadership Team was further strengthened by the appointment of Peter Shaw to the role of General Manager – Trade Distribution Australia (TDA).

The Torque acquisition was completed 31 October 2018. Trading for the first two months has been in line with expectations.

The Group has entered into an agreement to acquire all of the shares of Nubco Proprietary Limited for $36.0m, comprising $34.2m in cash and $1.8m in new Coventry shares. The acquisition is expected to complete on 1 March 2019.

Revenue

Percentage revenue change in the half year of FY19 when compared with the prior corresponding period (PCP) is shown below:

Revenue change	**Half year FY19 Vs Half year FY18**
Cooper Fluid Systems	13.2%
Trade distribution	0.5%
Consolidated Group excluding discontinuing operations and acquisitions	**+5.2%**

Note 1: The discontinuing operations of AA Gaskets have not been included.

Note 2: Sales from the Torque acquisition have not been included

Cooper Fluid Systems

Cooper Fluid Systems sales have again seen solid growth with first half sales up 13.2% on PCP excluding Torque. Sales growth is continuing to be driven by our strong value proposition and increase in service, maintenance, upgrade and new equipment activity in the mining and resources sector.

Trade Distribution

Trade Distribution New Zealand continued to perform strongly with 1st half sales up 14.7% on PCP. Preparation for opening a new branch in Rotorua is advanced.

Trade Distribution Australia sales are in line with PCP excluding one-off project sales to Chevron in WA in H1 FY18 ($1.282m) and the impact of unprofitable store closures ($474k). With sales momentum in TDA slowly building, we are pleased with project sales wins for Q3 in the order of $1.6m including Hyatt Hotel Hobart, Melbourne Metro Tunnel, ANI Ship Building Facility South Australia, Sydney North Tunnel, WA equipment shutdown and Roads and Bridges upgrade on the NSW South Coast. After years of failing to be an attractive option for larger works, we are now in a much stronger position to compete. TDA will continue to implement improvements to make it a viable option for large projects and customers. This involves building expertise and using the branch network to provide agile service through high stock availability and our new delivery fleet. Plans for the opening of two new branches before the end of FY19 are underway.

Corporate

Net corporate costs of $4.6m (PCP $3.6m). The FY18 result included $1.1m of income from the Redcliffe WA property and Cyber insurance claim not repeated in FY19. Otherwise corporate costs are slightly down on PCP.

Minimal additional corporate costs required post the acquisition of Torque and Nubco.

Balance sheet

Cash position of $8.5m ($5.0m – 30 June 2018) with no debt.

The Group has a strong working capital position with Current Assets exceeding Current Liabilities by $50.3m as at 31 December 2018.

Acquisition of Torque Industries

On 31 October 2018, the Group completed the acquisition of the business and assets of Torque Industries. The acquisition of the diversified engineering services provider expands the Group's Australian presence and positions Cooper Fluid Systems as a leading engineering services business in South Australia.

Trading results post completion have been in line with expectations.

Further information regarding the acquisition is included in Note 3 in the half year financial report.

Capital Raising

On 26 September 2018, the Company announced a capital raising comprising:

- An institutional placement; plus
- An Accelerated Non-Renounceable Pro-Rata Entitlement Offer.

Under the Entitlement Offer, eligible shareholders were entitled to 1 new share for every 5 existing ordinary shares held on 28 September 2018.

On 5 October 2018, the Company completed the institutional component of the entitlement offer and placement where 9,414,292 ordinary shares were issued. On 19 October 2018, the Company completed the 1 for 5 accelerated non-renounceable retail offer, where 3,669,241 ordinary shares were issued. A total of 13,083,533 new fully paid ordinary shares were issued raising approximately $15.0 million.

Dividends

The Board has determined that no interim dividend be declared.

Outlook

Market conditions remain positive in our key markets of construction, industrial and mining and resources. The current downturn in the residential housing sector has limited impact on the Group as we focus on the commercial construction market.

Overall, we remain positive about the outlook for the Group.

Events since the end of the financial half year

Acquisition of Nubco

Coventry Group has entered into an agreement to acquire all of the shares of Nubco Proprietary Limited for $36.0m, comprising $34.2m in cash and $1.8m in new Coventry shares. The acquisition is expected to complete on 1 March 2019.

Nubco is Tasmania's largest independent supplier of industrial and hardware supplies. Nubco's FY18 adjusted EBITDA of $6.0m from $39.4m of revenue. Nubco expands Coventry Group's Tasmanian presence with an additional 7 stores.

The acquisition will be funded through a fully underwritten pro rata 1 for 1.37 accelerated non-renounceable entitlement offer at $0.75 per share to raise approximately $27.6m before costs and debt through the company's existing facility.

Except as disclosed above, the directors are not aware of any matter or circumstance having arisen since the end of the half year and the date of this report that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Significant changes in the state of affairs

Except for the capital raising and acquisition of Torque Industries, there have been no other significant changes in the state of affairs of the Group during the period.

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 Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.

N.G. Cathie
Chairman

Melbourne
22 February 2019

R.J. Bulluss
Chief Executive Officer and Managing Director

Melbourne
22 February 2019

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

To the Directors of Coventry Group Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of Coventry Group Ltd 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

J.Carey.

J Carey
Partner
Melbourne
22 February 2019

Coventry Group Ltd and its controlled entities
Condensed consolidated statement of profit or loss
For the half year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Continuing operations			
Revenue from sale of goods		**89,618**	83,310
Cost of sales		**(55,441)**	(52,069)
Gross profit		**34,177**	31,241
Other income		**1,862**	2,753
Employment costs		**(21,829)**	(21,495)
Depreciation and amortisation expense	4, 5	**(669)**	(672)
Occupancy costs		**(5,054)**	(5,800)
Communication costs		**(1,039)**	(1,173)
Freight		**(2,652)**	(3,004)
Vehicle operating costs		**(856)**	(783)
Restructuring and other significant costs		**(357)**	(136)
Other expenses		**(5,426)**	(4,339)
Loss before financial income and tax		**(1,843)**	(3,408)
Financial income, including net foreign exchange gain		**9**	4
Financial expense, including net foreign exchange loss		**(219)**	(902)
Net financial expense		**(210)**	(898)
Loss before income tax		**(2,053)**	(4,306)
Income tax expense		**(320)**	(904)
Loss for the half year from Continuing Operations		**(2,373)**	(5,210)
Discontinued operation			
Profit from Discontinued operation, net of tax	7	**-**	14,278
(Loss)/profit for the half year from Continuing and Discontinued operation		**(2,373)**	9,068
(Loss)/profit attributable to:			
Owners of the Company		**(2,373)**	8,742
Non-controlling interests		**-**	326
Earnings/(loss) per share:			
Basic loss from Continuing operations per share:		**(5.5 cents)**	(13.8 cents)
Diluted loss from Continuing operations per share:		**(5.5 cents)**	(13.8 cents)

The condensed consolidated statement of profit or loss is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Coventry Group Ltd and its controlled entities
Condensed consolidated statement of comprehensive income
For the half year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
(Loss)/profit for the half year from Continuing and Discontinued operation		**(2,373)**	9,068
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences		**70**	(536)
Effective portion of changes in fair value of cash flow hedges		**(18)**	(25)
Other comprehensive income/(loss) for the half year, net of income tax		**52**	(561)
Total comprehensive (loss)/profit for the half year		**(2,321)**	8,507
Total comprehensive (loss)/profit attributable to:			
Owners of the Company		**(2,321)**	8,207
Non-controlling interests		**-**	300
Total comprehensive (loss)/profit for the half year		**(2,321)**	8,507

The condensed consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Coventry Group Ltd and its controlled entities
Condensed consolidated statement of financial position
As at 31 December 2018

	Note	**31 December 2018 $'000**	**30 June 2018 $'000**
Assets			
Cash and cash equivalents		**8,451**	4,966
Trade and other receivables		**25,656**	30,504
Inventories		**48,352**	46,444
Other financial assets at amortised cost		**1,578**	-
Other current assets		**1,511**	-
Derivative financial instrument		**219**	-
Total current assets		**85,767**	81,914
Deferred tax assets		**6,254**	6,120
Property, plant and equipment	4	**4,839**	4,581
Intangible assets	5	**14,194**	6,071
Total non-current assets		**25,287**	16,772
Total assets		**111,054**	98,686
Liabilities			
Trade and other payables		**30,682**	30,522
Employee benefits		**4,455**	3,701
Income tax payable		**351**	416
Provisions		**22**	90
Total current liabilities		**35,510**	34,729
Other payables		**3,212**	3,197
Employee benefits		**140**	146
Total non-current liabilities		**3,352**	3,343
Total liabilities		**38,862**	38,072
Net assets		**72,192**	60,614
Equity			
Issued capital	6	**121,669**	107,770
Reserves		**(4,917)**	(4,969)
Retained earnings		**(44,560)**	(42,187)
Total equity attributable to equity holders of the Company		**72,192**	60,614
Non-controlling interests		**-**	-
Total equity		**72,192**	60,614

The condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Coventry Group Ltd and its controlled entities
Condensed consolidated statement of changes in equity
For the half year ended 31 December 2018

	Hedge reserve	Translation reserve	Other reserve	Total reserves	Share capital	Retained earnings	Total for owners of the Company	Non-controlling interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2018	**192**	**(1,587)**	**(3,574)**	**(4,969)**	**107,770**	**(42,187)**	**60,614**	**-**	**60,614**
Total comprehensive (loss)/income for the half year									
Loss for the half year	**-**	**-**	**-**	**-**	**-**	**(2,373)**	**(2,373)**	**-**	**(2,373)**
Other comprehensive (loss)/income for the half year:									
Foreign currency translation differences	**-**	**70**	**-**	**70**	**-**	**-**	**70**	**-**	**70**
Effective portion of changes in fair value of cash flow hedges	**(18)**	**-**	**-**	**(18)**	**-**	**-**	**(18)**	**-**	**(18)**
Total other comprehensive (loss)/income	**(18)**	**70**	**-**	**52**	**-**	**-**	**52**	**-**	**52**
Total comprehensive (loss)/income for the half year	**(18)**	**70**	**-**	**52**	**-**	**(2,373)**	**(2,321)**	**-**	**(2,321)**
Transactions with owners, recorded directly in equity									
Share issue	**-**	**-**	**-**	**-**	**15,046**	**-**	**15,046**	**-**	**15,046**
Share issue costs	**-**	**-**	**-**	**-**	**(1,147)**	**-**	**(1,147)**	**-**	**(1,147)**
Balance at 31 December 2018	**174**	**(1,517)**	**(3,574)**	**(4,917)**	**121,669**	**(44,560)**	**72,192**	**-**	**72,192**

Amounts are stated net of tax

	Hedge reserve	Translation reserve	Other reserve	Total reserves	Share capital	Retained earnings	Total for owners of the Company	Non-controlling interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017	(44)	(771)	-	(815)	108,063	(47,838)	59,410	2,165	61,575
Profit for the half year	-	-	-	-	-	8,742	8,742	326	9,068
Other comprehensive (loss)/income:									
Foreign currency translation differences	-	(510)	-	(510)	-	-	(510)	(26)	(536)
Effective portion of changes in fair value of cash flow hedges	(25)	-	-	(25)	-	-	(25)	-	(25)
Total other comprehensive (loss)/income for the half year	(25)	(510)	-	(535)	-	-	(535)	(26)	(561)
Total comprehensive (loss)/income for the half year	(25)	(510)	-	(535)	-	8,742	8,207	300	8,507
Transactions with owners, recorded directly in equity									
Acquisition of non-controlling interest	-	-	(3,574)	(3,574)	-	-	(3,574)	(2,327)	(5,901)
Dividends to equity holders	-	-	-	-	-	-	-	(138)	(138)
Balance at 31 December 2017	(69)	(1,281)	(3,574)	(4,924)	108,063	(39,096)	64,043	-	64,043

Amounts are stated net of tax

Coventry Group Ltd and its controlled entities
Condensed consolidated statement of cash flows
For the half year ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Cash flows from operating activities			
Cash receipts from customers		**100,305**	88,947
Cash paid to suppliers and employees		**(101,210)**	(92,680)
Cash used in operations		**(905)**	(3,733)
Interest paid		**(181)**	(902)
Income taxes refunded/(paid)		**(335)**	150
Net cash used in operating activities		**(1,421)**	(4,485)
Cash flows from investing activities			
Proceeds from Discontinued operation		**-**	21,012
Proceeds from sale of property, plant and equipment		**-**	83
Interest received		**9**	4
Payment for acquisition of business, net of cash acquired	3	**(8,522)**	-
Acquisition of property, plant and equipment	4	**(505)**	(777)
Acquisition of intangible assets	5	**(47)**	(57)
Net cash (used in)/from investing activities		**(9,065)**	20,265
Cash flows from financing activities			
Proceeds from Borrowings		**98,524**	68,897
Repayment of Borrowings		**(98,524)**	(76,942)
Proceeds from issue of shares	6	**15,046**	-
Share issue costs		**(1,147)**	-
Transactions with non-controlling interests		**-**	(5,927)
Dividends paid to non-controlling interests		**-**	(138)
Net cash from/(used in) financing activities		**13,899**	(14,110)
Net increase in cash and cash equivalents		**3,413**	1,670
Cash and cash equivalents at the beginning of the half year		**4,966**	5,149
Effects of movements in exchange rates on cash and cash equivalents		**72**	(510)
Cash and cash equivalents at 31 December		**8,451**	6,309

The condensed consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated financial statements.

1. Significant accounting policies

Coventry Group Ltd (the "Company") is a for profit company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the half year ended 31 December 2018 comprises the Company and its controlled entities (together referred to as the "Group").

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2018 are available upon request from the Company's registered office at 235 Settlement Road, Thomastown VIC 3074, Australia or at www.cgl.com.au.

The Group primarily is involved in the distribution of industrial products and the provision of fluid products and services.

These condensed consolidated interim financial statements were approved by the Board of Directors on 22 February 2019.

a) Statement of compliance

The condensed consolidated interim financial statements 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. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2018. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2018.

b) Basis of preparation

The interim report is presented in Australian Dollars. The interim report is prepared on the historical cost basis except share based payments and derivative financial instruments are stated at their fair value.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that instrument, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

c) Change in accounting policies

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

<u>New and amended standards adopted by the Group</u>
The Group has applied the following standards and amendments for the first time for their interim reporting period commencing 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout the interim financial report has not been restated to reflect the requirements of the new standards.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 9 below.

A number of other new or amended standards are also effective from 1 July 2018 but do not have a material or significant impact on the Group's financial statements.

d) Judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Group's accounting policies, and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018, except as follows:

1. Significant accounting policies (continued)

d) Judgements and estimates (continued)

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the input to the impairment calculation, based on the Group's history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and input used are disclosed in note 9.

e) Going concern

In preparing the financial report, the Directors have made an assessment of the ability of the Group to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business and at the amounts stated in the financial report.

The Directors have assessed the forecast trading results and cash flows for the Group, including the impact of restructuring and other initiatives implemented by management to adjust to market conditions. These forecasts are based on best-estimate assumptions that are subject to influences and events outside of the control of the Group. The forecasts are supported by the performance of the Group in the six months to 31 December 2018.

Should trading conditions not improve or unexpectedly deteriorate, the Group could seek to:

- Utilise available cash and cash equivalents ($8.5m);
- Make further adjustments to business operations;
- Raise additional funds from shareholders or other parties; and
- Utilise available funds ($25m) in the Scottish Pacific securitised trade receivables facility.

After making enquiries and considering the matters described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue to meet its obligations as they fall due. For these reasons, the Directors continue to adopt the going concern basis in preparing the financial report.

2. Segment information

The Group has reportable segments as described below. For each of the strategic operating segments, the CEO reviews internal management accounts on a monthly basis. The following summary describes the operations of each of the Group's reportable operating segments:

- Trade Distribution: Includes the importation, distribution and marketing of industrial fasteners and associated products and cabinet making hardware.
- Fluids: Includes the design, manufacture, distribution, installation and maintenance of lubrication and hydraulic fluid systems and hoses. This segment includes the acquisition of Torque Industries from 31 October 2018 (Refer to Note 3).

Information regarding the results of each reportable operating segment is included below. Performance is measured based on operating segment profit before income tax as included in the internal management reports that are reviewed by the CEO.

Information about reportable segments 31 December 2018	***Note***	**Trade Distribution**	**Fluids**	**Other business units and consolidation adjustments**	**Total reportable continuing segments**
		$'000	**$'000**	**$'000**	**$'000**
External sales		**52,584**	**37,034**	**-**	**89,618**
Other income		**561**	**173**	**1,128**	**1,862**
Total revenue		**53,145**	**37,207**	**1,128**	**91,480**
Timing of revenue recognition					
at point in time		**53,145**	**37,207**	**1,128**	**91,480**
over time		**-**	**-**	**-**	**-**
		53,145	**37,207**	**1,128**	**91,480**
Reportable segment (loss)/profit before finance costs, income tax and significant items		**(428)**	**3,590**	**(4,648)**	**(1,486)**
Net financial loss		**-**	**-**	**(210)**	**(210)**
Other significant items:					
Restructuring and other related costs		**(57)**	**-**	**(300)**	**(357)**
Reportable segment (loss)/profit before income tax		**(485)**	**3,590**	**(5,158)**	**(2,053)**
Reportable segment assets		**52,915**	**40,480**	**17,659**	**111,054**
Reportable segment liabilities		**(16,191)**	**(10,766)**	**(11,905)**	**(38,862)**
Capital employed		**36,724**	**29,714**	**5,754**	**72,192**

2. Segment information (continued)

Information about reportable segments 31 December 2017	***Note***	**Trade Distribution $'000**	**Fluids $'000**	**Other business units and consolidation adjustments $'000**	**Total reportable continuing segments $'000**	**Gaskets (discontinued) $'000**	**Total $'000**
External sales		52,321	30,989	-	83,310	7,292	90,602
Other income		462	132	2,159	2,753	260	3,013
Total revenue		52,783	31,121	2,159	86,063	7,552	93,615
Reportable segment (loss)/profit before finance costs, income tax and significant items		(1,929)	2,294	(3,637)	(3,272)	1,564	(1,708)
Net financial loss		-	-	(898)	(898)	-	(898)
Other significant items:							
Gain on sale of AA Gaskets	7	-	-	-	-	13,094	13,094
Restructuring and other related costs		-	-	(136)	(136)	-	(136)
Reportable segment (loss)/profit before income tax		(1,929)	2,294	(4,671)	(4,306)	14,658	10,352
Reportable segment assets		56,407	24,017	17,369	97,793	919	98,712
Reportable segment liabilities		13,938	8,364	11,871	34,173	496	34,669
Capital employed		42,469	15,653	5,498	63,620	423	64,043

3. Business combination

On the 31 October 2018, the Group acquired the business and assets of Torque Industries Pty Ltd, a South Australian based diversified engineering services provider trading under the name Torque Industries.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration	
Cash paid	8,522
Deferred consideration (ii)	895
Total purchase consideration	**9,417**

The provisional fair value of the identifiable assets and liabilities recognised at acquisition date are as follows:

	Provisional fair value $'000
Inventories	1,302
Prepayments	45
Property, plant and equipment (note 4)	309
Employee benefit obligations	(614)
Net deferred tax assets	184
Net identifiable assets acquired (iii)	**1,226**
Add: Goodwill on acquisition (note 5) (iv)	8,191
Purchase consideration	**9,417**

3. Business combination (continued)

(i) Related costs

The total of transaction costs directly attributable to the issue of shares of $1,147,000 was deducted from share capital.

(ii) Deferred consideration

The deferred consideration arrangement required the Group to pay Torque Industries a maximum of $1.05 million 2 years from the acquisition date. The deferred amount acts as a security for future warranty claims.

The fair value of the deferred consideration arrangement of $895,000 was estimated as the present value of the future cash flows. The estimates are based on the Group's incremental borrowing rate of 8.32%.

(iii) Provisional assessment

The net assets recognised in the financial statements are based on a provisional assessment of fair value at reporting date.

(iv) Goodwill

The goodwill is attributable to Torque Industries' strong profitability and a number of identified growth opportunities. The acquisition provides the Group with a large and fully equipped South Australian based facility that will generate a more diversified and de-risked revenue stream, also allowing the Group to gain a more stable footing in the South Australian market. It has been allocated to the Fluids business segment. Refer to note 5 for the changes in goodwill as a result of the acquisition.

(v) Revenue and profit contribution

The acquired business combination contributed revenues of $1,961,000 and net profit of $425,000 to the Group for the period from 31 October 2018 to 31 December 2018 (two months trading). If the acquisition had occurred on 1 July 2018, Group consolidated revenue and consolidated loss after tax for the half year ended 31 December 2018 would have been $94,927,000 and $1,119,000 respectively.

4. Property, plant and equipment

	Plant and equipment $'000
Cost at 1 July 2018	41,582
Accumulated depreciation at 1 July 2018	(37,001)
Carrying amounts at 1 July 2018	4,581
Additions	505
Acquisition through business combination (note 3)	309
Depreciation for the period	(556)
Carrying amount at 31 December 2018	4,839

5. Intangible assets

The intangible assets of the Group increased as a result of the acquisition of Torque Industries. Refer to Note 3 for further information. All goodwill is attributable to the Cooper Fluid Systems cash-generating unit ("CGU").

	Goodwill $'000	Computer software $'000	Total $'000
Carrying amounts at 1 July 2018	3,327	2,744	6,071
Additions	-	47	47
Acquisition through business combination (note 3)	8,191	-	8,191
Amortisation for the period	-	(113)	(113)
Effects of movements in foreign exchange	-	(2)	(2)
Carrying amounts at 31 December 2018	11,518	2,676	14,194

6. Capital and reserves

Share capital
In September 2018, the Group announced a capital raising. Under the Entitlement Offer, eligible shareholders were entitled to 1 new share for every 5 existing ordinary shares held on 28 September 2018.

On 5 October 2018, the Company completed the institutional placement, where 9,414,292 ordinary shares were issued at a price of $1.15.

On 19 October 2018, the Company completed the 1 for 5 accelerated non-renounceable retail offer, where 3,669,241 ordinary shares were issued at a price of $1.15.

Dividends
No dividends have been declared or paid for the half year ended 31 December 2018 (31 December 2017: $Nil).

7. Discontinued operation

On 20 November 2017 the Group announced the sale of the AA Gaskets business assets in Australia and New Zealand to GUD Holdings Limited.

The AA Gaskets business, sold on 1 December 2017, was reported in the financial statements for the half year ended 31 December 2017 as a discontinued operation.

For further information about the discontinued operation please refer to note 3 in the Group's annual financial statements for the year ended 30 June 2018.

8. Events occurring after the reporting period

Debtor financing facility
On 31 January 2019, the Group renegotiated its debtor financing facility with Scottish Pacific. The total available amount under the facility was increased by $12 million to a total of $25 million. The facility is expected to be drawn down over the next 12 months. The facility continues to have a current expiry of August 2020.

Capital Raising
On 5 February 2019, the Company announced an Accelerated Non-Renounceable Pro-Rata Entitlement Offer. Under the Offer, eligible shareholders are entitled to 1 new share for every 1.37 existing ordinary shares held on 8 February 2019.

Acquisition of Nubco
On 5 February 2019, the Group announced its intention to acquire all of the shares of Nubco Proprietary Limited, a supplier of industrial and hardware supplies for consideration of $36 million. The acquisition is expected to complete on 1 March 2019. The acquisition will expand the Group's Tasmanian presence with an additional 7 stores. The financial effects of this transaction have not been recognised at 31 December 2018. The operating results and assets and liabilities of Nubco will be consolidated from 1 March 2019.

These events have no impact on the Financial Statements for the half year ended 31 December 2018. Other than the matters outlined elsewhere in the interim financial statements, no matters or circumstances have arisen since the end of the financial half year that have significantly affected, or may significantly affect, the operations, results of operations or state of affairs of the Group in subsequent accounting periods.

9. Change in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on the Group's interim financial report and also discloses the new accounting policies applied from 1 July 2018, where these differ from those applied in prior periods.

These changes in accounting policies will be reflected in the Group's annual financial statements.

AASB 9 *Financial Instruments*

(i) Accounting policies applied effective 1 July 2018

Investments and other financial assets

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:
- Those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- Those to be measured at amortised cost.

9. Change in accounting policies (continued)

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transactions costs of financial assets carried at FVPL are expensed in profit or loss.

Impairment of financial assets

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its instruments carried at amortised costs and fair value through OCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which required expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same type of contract. The Group has concluded that the expected loss rates of trade receivables are a reasonable approximation to the loss rates for the contract assets.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure to make a contractual payment for a period of greater than 120 days past due.

Derivative and hedging

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in the foreign exchange rates relating to foreign currency borrowing, receivables, and sales. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationship.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve as a separate component of equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss.

(ii) Impact on adoption on 1 July 2018

The Group has adopted AASB 9 using the retrospective approach to implementation (with practical expedients) with the effect of initially applying the standard recognised at the date of initial application which is 1 July 2018. The practical expedients allow for differences in the carrying amounts of financial assets and financial liabilities to be recognised in retained earnings and reserves at 1 July 2018. Accordingly, the information presented for comparative periods has not been restated.

On transition to AASB 9, there was no impact on retained earnings or reserves at 1 July 2018. As such, there was no impact on basic or diluted earnings per share.

Classification and Presentation

On 1 July 2018, the Group's management has reassessed and reclassified its financial assets instruments into the appropriate AASB 9 categories based on the entity's business model.

The Group's financial assets remain classified as amortised cost. There is no impact on the Group's accounting for financial liabilities. The foreign exchange forwards and foreign exchange swap in place at 30 June 2018 qualified as cash flow hedges under AASB 9.

(iii) Impact on the interim financial statements for half year ended 31 December 2018

There was no impact for the half year ended 31 December 2018 in the loss allowance for trade receivables and contract assets compared with the amount that would have been reflected under AASB 139.

The Group has also changed the presentation of certain amounts in the balance sheet to reflect the terminology of AASB 9 as follows:

- Other current receivables, prepayments and derivative financial instruments were previously presented together with trade receivables but are now presented as other financial assets at amortised cost (receivables), other current assets (prepayments) and derivative financial instruments respectively in the balance sheet, to reflect their different nature.

9. Change in accounting policies (continued)

AASB 15 *Revenue from Contracts with Customers*

(i) Accounting policies applied effective 1 July 2018

Under AASB 15, revenue is recognised when control of a good or service transfers to a customer. Determining the timing of the transfer of control – at a point in time or over time - requires judgement. The following amended revenue recognition accounting policies have been applied from 1 July 2018:

Sale of goods – revenue recognised at a point in time

Revenue from the sale of goods that are not subject to contract manufacturing arrangements is measured at the fair value of the consideration received or receivable, net of returns, rebates and goods and services tax payable to the taxation authority.

Revenue is recognised when a customer obtains control of the promised goods and the Group has satisfied its performance obligation in relation to the promised goods. In determining when control of promised goods passes to the customer, the Group considers the transfer of significant risk and rewards of ownership of the goods to the customer to indicate that the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the goods. The timing of the transfer of risk and reward to the customers for the sale of goods occurs either:

- When the goods are despatched or delivered in line with the Incoterms as detailed in the relevant contract of sale or purchase order for the goods. The Group sells a significant proportion of its products on Free-In-Store ("FIS") / Delivered at Place ("DAP") Incoterms. This means the Groups control of the goods passes when the product is delivered to the agreed destination.
- When they are made available to the customer and ownership transfers prior to despatch as detailed in the relevant contract of sale or purchase order for the goods
- On notification (following stocktake) that the product has been used when the goods are consignment products located at customers' premises.

Where cash consideration has been received but the revenue recognition criteria has not been met, such amounts have been recorded on the consolidated statement of financial position as a contract liability.

Sale of goods – contract manufacturing and supply revenue recognised over time

The Group has determined that for bundled contract manufacturing comprising design, build, install and service elements, the customer controls the goods once the goods are finished and installed on premises in accordance with the relevant contract. This is because under the contract, goods are manufactured to a customer's specification, and if a firm order that is placed by the customer in accordance with the agreement is terminated, the Group is entitled to a reimbursement of the costs incurred in manufacturing the goods, including a reasonable margin. Therefore, revenue for the agreements and the associated costs are recognised over time. That is, before the goods are delivered to the customer' premises. Invoices issued according to contractual terms and amounts not yet invoiced are presented as contract assets.

(ii) Impact on adoption on 1 July 2018

The Group has adopted AASB 15 using the cumulative approach to implementation (with practical expedients) with the effect of initially applying the standard recognised at the date of initial application which is 1 July 2018. The practical expedients allow the new standard to be applied only to contracts that remain in force at 1 July 2018. Accordingly, the information presented for comparative periods has not been restated.

On transition to AASB 15, there was no impact on retained earnings at 1 July 2018. That is, because there were no contracts that remain in force at 30 June 2018 for the fluids business. As such, there was no impact on basic or diluted earnings per share.

(iii) Impact on the interim financial statements for half year ended 31 December 2018

There was no impact for the half year ended 31 December 2018.

The Group has disaggregated revenue from contracts with customers using existing segments and the timing of the transfer of goods and services (at a point in time vs over time) in accordance with AASB 15. Refer to note 2.

Coventry Group Ltd and its controlled entities
Directors' Declaration

In the opinion of the directors of Coventry Group Ltd ("the Group"):

1. the condensed consolidated interim financial statements and notes, set out on pages 7 to 19, are in accordance with the Corporations Act 2001, including:
    a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of their performance, for the half year ended on that date; and
    b) complying with Australian Accounting Standards AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Group 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 directors.

N.G. CATHIE
Chairman
Melbourne
22 February 2019

R.J. BULLUSS
Chief Executive Officer and Managing Director
Melbourne
22 February 2019

Independent Auditor's Review Report

To the shareholders of Coventry Group Ltd

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Coventry Group Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Coventry Group Ltd 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 ***Half-year Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2018;
- Condensed consolidated statement of profit or loss, Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises Coventry Group Ltd (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

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

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year 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 Half-year 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 Coventry Group Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year 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

J.Carey.

J Carey
Partner
Melbourne
22 February 2019