

Appendix 4D

Korvest Ltd
ABN 20 007 698 106

Half-Year Financial Report 31 December 2019

Results for announcement to the market:

\$A'000

Revenues	Up	23.8%	to	36,128
Net profit after tax for the period attributable to members	Up	87.2%	to	2,130
Dividends		Amount per security		Franked amount per security
Interim dividend (#)				
- current reporting period		15.0¢		15.0¢
- previous corresponding period		9.0¢		9.0¢
# Interim dividend proposed in respect of the current reporting period. The financial effect of this dividend will be recognised in the next reporting period.				
Record date for determining entitlements to the dividend	21 February 2020			
Brief explanation of any of the figures reported above and short details of any bonus or cash issue or other item(s) of importance not previously released to the market: Refer Directors' report on pages 2 to 4 of this financial report.				

This financial report is all the half-year information provided to the Australian Stock Exchange under listing rule 4.2A. The report also satisfies the half-year reporting requirements of the Corporations Act 2001.

This half-year financial report should be read in conjunction with the 2019 annual financial report.

Korvest Ltd Directors' Report

The Directors present their report together with the financial report of Korvest Ltd ("the Company") and its subsidiaries ("the Group") for the half-year ended 31 December 2019 and the auditor's review report thereon.

Directors

The Directors of the Company at any time during or since the end of the half-year are:

Graeme Billings BCom, FCA, MAICD
Chairman – appointed 18 September 2014
Independent Non-Executive Director
A Director since May 2013
Director G.U.D. Holdings Limited
Director Clover Corporation Limited
Chairman Azure Healthcare Ltd
Director Domacom Ltd

Chris Hartwig BA(Acc), MAICD
Managing Director
Appointed 28 February 2018

Gary Francis BSc. (Hons) (Civil), MAICD
Independent Non-Executive Director
Chairman of Remuneration Committee
A Director since February 2014

Gerard Hutchinson MBA, MBL, MSc(IS), BEc, MA (research), FCA, FAICD, FAIM
Independent Non-Executive Director – appointed 19 November 2014
Chairman of Audit Committee
Current Chief Financial Officer for AF Construction LLC, a member of the Al-Futtaim Group of Companies
Director Depa PLC

Andrew Stobart B. Eng (Hons), Grad Dip Bus Admin, GAICD
Independent Non-Executive Director – appointed 1 August 2016
Chairman Nexans Olex Australia & New Zealand

Steven McGregor BA (Acc), FCA, AGIA, ACIS
Finance Director
A Director since January 2009
Company Secretary since April 2008

Result

The profit for the half-year attributable to the members of the Company was:

	31 Dec 19	31 Dec 18
<i>In thousands of AUD</i>		
Profit after income tax expense	2,130	1,138
Net profit attributable to owners of the Company	2,130	1,138

Other Ratios

	31 Dec 19	31 Dec 18
Net tangible asset (NTA) backing		
Net tangible assets per ordinary share*	\$2.40	\$2.70
Profit before tax / revenue	8.5%	5.6%
Profit after tax / equity interests	6.7%	3.8%

* The application of AASB 16 Leases has affected the calculation of the NTA per ordinary share as the lease liability forms part of the calculation however the right-of-use asset does not. The 31 December 2019 amount would be \$2.82 if calculated on a similar basis to 2018.

Review of Operations

Revenue from trading operations for the half-year increased by 23.8% to \$36.1 million with Industrial Products project work and a stronger general market being the main contributing factors. Operating cash flows were particularly strong with \$7.98 million generated during the half.

Industrial Products

The EzyStrut business had improved revenue as a result of NSW infrastructure projects and stronger day-to-day markets in a number of states. Two major infrastructure projects were supplied during the first half with both projects largely completed by the end of the period. Unfortunately, in August one of the major project customers entered administration. Disappointingly, Korvest has now been advised that there will be no distribution to unsecured creditors and as a result the expected credit loss provision was increased by \$905,000. Aside from this, the EzyStrut result was pleasing with regular smaller project sales to contractors and improved support nationally from the wholesaler market.

The Power Step and Titan Technologies businesses had flat revenues compared to the prior comparative period (PCP). Profitability was significantly improved as a result of improved margins. This contributed to the significant improvement in profitability compared to the PCP particularly as the current period did not contain the stock write-offs and redundancy costs of the PCP.

Production

The Galvanising business had its best total plant volume since the second half of FY14. Compared to the PCP, volumes were up 15.4% of which the majority came from external customers. Internal work was greater than the PCP as a significant portion of the project work undertaken by EzyStrut was galvanised. Energy costs remain a significant factor for the business. Gas costs increased compared to the PCP, partly as a result of the increased plant volumes but also due to gas pricing increasing. On a positive note the increase in gas costs was more than offset by reduced electricity costs due to a lower contracted price and less consumption following the installation of solar panels and LED lighting during FY19.

Dividends

On 24th January 2020 the Directors announced a fully franked interim dividend of 15.0 cents per share.

The Dividend Reinvestment Plan (DRP) will not operate for the interim dividend. The dividend will be paid on 6 March 2020 and the record date is 21 February 2020.

Events Subsequent to Reporting Date

No matter or circumstance has occurred subsequent to 31 December 2019 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 subsequent years.

Korvest Ltd
Directors' Report

2020 Outlook

The small project and day-to-day markets are expected to continue at similar levels of activity during the second half. Tendering and design activity is expected to be particularly active in the large project market during the second half however the supply phase of these projects is likely to largely fall into FY21 and beyond. It is expected that the full FY20 year profit will meet or exceed the FY19 profit notwithstanding that the absence of a current major project being supplied means that the second half profit will most likely be lower than the result achieved in the first half.

The infrastructure pipeline for FY21 and beyond remains strong and significant investment is being made in the Kilburn factory to ensure that Korvest is well positioned to take advantage of that activity.

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

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the half-year ended 31 December 2019.

Rounding Off

The Company 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 financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Dated at Kilburn this 24th day of January 2020.

Signed in accordance with a resolution of the Directors:



GA Billings
Chairman



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

To the Directors of Korvest Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of Korvest Ltd for the half-year ended 31 December 2019 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

Paul Cenko

Partner

Adelaide

24 January 2020

Korvest Ltd**Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2019**

<i>In thousands of AUD</i>	Note	31 Dec 19	31 Dec 18
Revenue	6(a)	36,128	29,190
Other income	6(a)	-	8
Expenses excluding net financing costs	6(b)	(33,049)	(27,601)
Results from operating activities excluding net financing income		3,079	1,597
Finance income		41	34
Finance costs – lease liability interest		(57)	-
Net finance income / (expense)		(16)	34
Profit before income tax		3,063	1,631
Income tax expense		(933)	(493)
Net profit for the period		2,130	1,138
Total comprehensive income for the period			
Attributable to:			
Owners of the Company		2,130	1,138
Earnings per share			
Basic earnings per share		19.0¢	10.2¢
Diluted earnings per share		19.0¢	10.2¢

The Condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes set out on pages 10 to 17.

Korvest Ltd
Condensed consolidated statement of changes in equity for the half-year ended 31 December 2019

<i>In thousands of AUD</i>	Share capital	Equity compens- ation reserve	Asset revaluation reserve	Profits reserve	Retained earnings / (loss)	Total
Balance at 1 July 2019	14,142	304	3,735	12,743	-	30,924
Total comprehensive income for the period						
Profit for the period	-	-	-	-	2,130	2,130
Total comprehensive income for the period	-	-	-	-	2,130	2,130
Transactions with owners of the Company recognised directly in equity						
Shares issues under share plans	29	64	-	-	-	93
Dividends paid	-	-	-	(1,461)	-	(1,461)
Total transactions with owners of the Company	29	64	-	(1,461)	-	(1,368)
Transfer to the profits reserve	-	-	-	2,130	(2,130)	-
Balance at 31 December 2019	14,171	368	3,735	13,412	-	31,686
Balance at 1 July 2018	14,084	248	3,735	11,854	(209)	29,712
Total comprehensive income for the period						
Profit for the period	-	-	-	-	1,138	1,138
Total comprehensive income for the period	-	-	-	-	1,138	1,138
Transactions with owners of the Company recognised directly in equity						
Shares issued under share plans	30	27	-	-	-	57
Dividends paid	-	-	-	(781)	-	(781)
Total transactions with owners of the Company	30	27	-	(781)	-	(724)
Balance at 31 December 2018	14,114	275	3,735	11,073	929	30,126

The Condensed consolidated statement of changes in equity is to be read in conjunction with the notes set out on pages 10 to 17.

Korvest Ltd**Condensed consolidated statement of financial position as at 31 December 2019**

<i>In thousands of AUD</i>	Note	31 Dec 19	30 Jun 19
Current Assets			
Cash and cash equivalents		8,323	3,126
Investments		275	275
Trade and other receivables	10	10,042	14,080
Prepayments		375	272
Inventories		8,681	10,504
Total current assets		<u>27,696</u>	<u>28,257</u>
Non-Current Assets			
Property, plant and equipment		13,302	13,033
Right-of-use asset		4,718	-
Total non-current assets		<u>18,020</u>	<u>13,033</u>
Total assets		<u>45,716</u>	<u>41,290</u>
Current Liabilities			
Trade and other payables		4,310	5,974
Employee benefits		2,425	2,472
Tax payable		1,847	864
Lease liabilities		803	-
Provisions		29	32
Total current liabilities		<u>9,414</u>	<u>9,342</u>
Non-Current Liabilities			
Deferred tax liabilities		34	431
Employee benefits		169	140
Lease liabilities		3,960	-
Provisions		453	453
Total non-current liabilities		<u>4,616</u>	<u>1,024</u>
Total liabilities		<u>14,030</u>	<u>10,366</u>
Net assets		<u>31,686</u>	<u>30,924</u>
Equity			
Issued capital	11	14,171	14,142
Retained earnings		-	-
Reserves		17,515	16,782
Total equity attributable to owners of the Company		<u>31,686</u>	<u>30,924</u>
Total equity		<u>31,686</u>	<u>30,924</u>

The Condensed consolidated statement of financial position is to be read in conjunction with the notes set out on pages 10 to 17.

Korvest Ltd**Condensed consolidated statement of cash flows for the half-year ended 31 December 2019**

<i>In thousands of AUD</i>	Note	31 Dec 19	31 Dec 18
Cash flows from operating activities			
Cash receipts from customers		45,075	32,897
Cash payments paid to suppliers and employees		(36,738)	(33,935)
Interest received		41	34
Interest paid lease liabilities		(57)	-
Income taxes received / (paid)		(346)	(137)
Net cash provided by / (used in) operating activities		7,975	(1,141)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		23	23
Acquisition of property, plant and equipment		(940)	(610)
Net cash used in investing activities		(917)	(587)
Cash flows from financing activities			
Transaction costs related to the issue of share capital		(1)	(2)
Payment of lease liabilities		(399)	-
Dividends paid		(1,461)	(781)
Net cash used in financing activities		(1,861)	(783)
Net increase / (decrease) in cash and cash equivalents		5,197	(2,511)
Cash and cash equivalents at the beginning of the period		3,126	5,119
Cash and cash equivalents at 31 December		8,323	2,608

The condensed consolidated statement of cash flows is to be read in conjunction with the notes set out on pages 10 to 17.

Korvest Ltd – 31 December 2019 Interim Consolidated Financial Report

Notes to the Condensed Interim Consolidated Financial Report

1. Reporting entity

Korvest Ltd (the Company) is a company domiciled in Australia. The condensed consolidated financial statements as at and for the half year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities').

The annual financial report of the Group as at and for the year ended 30 June 2019 is available upon request from the Company's registered office at 580 Prospect Road Kilburn SA 5084 or at www.korvest.com.au.

2. Statement of compliance

The interim condensed consolidated financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim consolidated financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2019.

This interim financial report was approved by the Board of Directors on 24 January 2020.

The Company 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 Financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Company in this interim financial report are the same as those applied by the Group in its financial report as at and for the year ended 30 June 2019.

The Group has adopted AASB 16 *Leases* effective from 1 July 2019. The group applied AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly the comparative information presented is not restated. In the comparative period the only lease arrangements that the Group had were considered to be operating leases and therefore the lease payments were recognised in profit or loss on a straight line basis over the term of the lease. This now changes under AASB 16 and the details of the changes in accounting policies are disclosed below.

AASB 16 Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease which will be the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement or modification of a contract that contains a lease the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Korvest Ltd– 31 December 2019 Interim Consolidated Financial Report
Notes to the Condensed Interim Consolidated Financial Report

3. Significant accounting policies (cont)

AASB 16 Leases (cont)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The Group determined its incremental borrowing rate by obtaining indicative interest rates from its bankers.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in index or rate or if the Group changes its assessment of whether it will exercise an extension option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group's leases consist of property leases for warehouse and factory facilities as well as leases for forklifts.

Short term leases

The Group has elected to not recognise a right-of-use asset and lease liability for short term leases. For these leases the Group recognises the lease payments as an expense on a straight line basis over the lease term. The Group only has one such short term lease which relates to a property where the Group has a month-to-month tenancy.

Impact on transition

On transition to AASB 16, the Group recognised right-of-use assets and lease liabilities. As these two amounts were the same there was no impact on retained earnings. The impact on transition is summarised below.

<i>In thousands of AUD</i>	1 Jul 2019
Right-of-use asset – Land and buildings	5,013
Right-of-use asset – Property, plant and equipment	149
Lease liabilities	(5,162)

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using a borrowing rate of 2.75%.

<i>In thousands of AUD</i>	1 Jul 2019
Operating lease commitments at 30 June 2019 as disclosed in the Group's consolidated financial statements	2,225
Discounted using the incremental borrowing rate at 1 July 2019	5,162

The difference between the above two numbers is due to the inclusion of extension options reasonably certain to be exercised which is a requirement of AASB 16 but were not disclosed as lease commitments previously.

To assist with the understanding of the impact of the application of AASB 16 in this initial period refer to the following summary.

Right-of-use assets

In thousands of AUD

	Warehouses	Forklifts	Total
Balance at 1 July 2019	5,013	149	5,162
Depreciation of right-of-use asset	(421)	(23)	(444)
Balance at 31 December 2019	4,592	126	4,718

Korvest Ltd– 31 December 2019 Interim Consolidated Financial Report
Notes to the Condensed Interim Consolidated Financial Report

Lease liabilities

In thousands of AUD

Balance at 1 July 2019	5,162
Reduction in liability	(399)
Balance at 31 December 2019	4,763

Comparison of previous AASB 117 accounting treatment and new AASB 16 treatment

The following table has been included to compare the new accounting treatment under AASB 16 with how the same transactions would have been shown under the previous AASB 117 for the period from 1 July 2019 to 31 December 2019.

In thousands of AUD

	Statement of profit or loss	Statement of cash flows
Previous AASB 117 accounting treatment		
Expenses (lease payments)	(456)	
Expenses (lease payments short term leases)	(48)	
Cash flows from operating activities		(504)
Total	(504)	(504)
New AASB 16 treatment		
Expenses (lease payments short term leases)	(48)	
Interest expense	(57)	
Lease liability		
Depreciation right-of-use asset	(444)	
Cash flows from operating activities		(105)
Cash flows from financing activities		(399)
Total	(549)	(504)

4. Judgements and Estimates

The preparation of the interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2019, except for the new significant judgements related to lessee accounting under AASB 16, which are described in note 3 and inventory provisioning described in note 8.

5. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial report as at and for the year ended 30 June 2019.

6. Revenues and Expenses

In thousands of AUD

(a) Revenue

	31 Dec 19	31 Dec 18
<i>Sales revenue</i>		
Sale of goods	36,128	29,190
Other income		
Profit on sale of fixed assets	-	8

Korvest Ltd – 31 December 2019 Interim Consolidated Financial Report
Notes to the Condensed Interim Consolidated Financial Report

6. Revenues and Expenses (cont)	31 Dec 19	31 Dec 18
(b) Expenses		
Costs of goods and services sold	21,992	17,627
Sales, marketing and warehousing expenses	6,282	6,331
Distribution expenses	2,406	2,298
Administration expenses	1,460	1,341
Bad and doubtful debts expense	905	4
Loss on sale of fixed assets	4	-
	33,049	27,601
(c) Depreciation		
Buildings	21	21
Plant and equipment	623	731
Total depreciation of property, plant and equipment	644	752
Right-of-use assets	444	-

7. Segment disclosures

The Group has two reportable segments. The business is organised based on products and services. The following summary describes the operations in each of the Group's reportable segments.

- Industrial Products - includes the manufacture of electrical and cable support systems and steel fabrication. It includes the businesses trading under the EzyStrut, Power Step and Titan Technologies names.
- Production – represents the Korvest Galvanising business, which provides hot dip galvanising services.

Both reportable segments consist of the aggregation of a number of operating segments in accordance with AASB 8 *Operating Segments*.

Information regarding the operations of each reportable segment is included below in the manner reported to the chief operating decision maker as defined in AASB 8. Performance is measured based on segment earnings before interest and tax (EBIT). Inter-segment transactions are not recorded as revenue. Instead a cost allocation relating to the transactions is made based on negotiated rates.

Information about reportable segments

	Industrial Products		Production		Total	
	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18	31 Dec 19	31 Dec 18
<i>In thousands of AUD</i>						
External Revenues	32,895	26,406	3,233	2,784	36,128	29,190
Reportable segment profit before tax	2,974	1,735	389	231	3,363	1,966
Reportable segment assets	18,949	22,692	4,936	3,969	23,885	26,661

Korvest Ltd – 31 December 2019 Interim Consolidated Financial Report
Notes to the Condensed Interim Consolidated Financial Report

7. Segment Disclosures (cont)

Reconciliation of reportable segment profit and assets

In thousands of AUD

	31 Dec 19	31 Dec 18
Profit		
Total profit or (loss) for reportable segments	3,363	1,966
Unallocated amounts – other corporate expenses	(300)	(335)
Profit / (loss) before income tax	<u>3,063</u>	<u>1,631</u>
Assets		
Total assets for reportable segments	23,885	26,661
Land and buildings	7,313	7,320
Right-of-use assets	4,718	-
Cash and investments	8,598	3,401
Unallocated amounts – other assets	1,202	1,041
Total assets	<u>45,716</u>	<u>38,423</u>

Geographical segments

The Group operates predominantly in Australia.

Customers

Revenues from one customer in the Industrial Products segment represents approximately \$4,585,000 (2018: \$3,969,000) of the Group's total revenues.

8. Write-down of obsolete inventory

During the six months ended 31 December 2019 the Group increased its obsolescence provision against inventory by \$207,000 (31 December 2018: no change) as a result of a change in accounting estimates.

9. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2019, the Company acquired assets with a cost of \$940,000 (six months ended 31 December 2018: \$610,000). No assets were acquired through business combinations. Assets with a net book value of \$27,000 were disposed of during the six months ended 31 December 2019 (six months ended 31 December 2018: \$15,000), resulting in a \$4,000 loss on disposal (six months ended 31 December 2018: \$8,000 profit).

Capital commitments

The Group has capital commitments of \$1,016,000 at 31 December 2019 (31 December 2018: \$330,000).

10. Trade receivables

	31 Dec 19	30 June 19
Trade receivables	11,555	14,688
Less: Allowance for impairment	(1,513)	(608)
Net trade receivables	<u>10,042</u>	<u>14,080</u>
Movement in allowance for impairment		
Balance at 1 July 2019	(608)	
Impairment loss recognised	(905)	
Balance at 31 December 2019	<u>(1,513)</u>	

Korvest Ltd – 31 December 2019 Interim Consolidated Financial Report
Notes to the Condensed Interim Consolidated Financial Report

11. Share Capital

	31 Dec 19	30 June 19
<i>In thousands of AUD</i>		
Issued and paid-up capital		
11,240,467 ordinary shares fully paid (30 June 2019: 11,178,235)	14,171	14,142

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of the winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

Employee Share Bonus Plan

The Company issued ordinary shares under the Employee Share Bonus Plan during the period. All employees meeting the service criteria were eligible to participate in the issue. The shares are issued at market value for no consideration. Details of the issue are as follows:

Date of issue	Total number of shares issued	Market value of shares issued \$	Shares issued per participating employee	Number of participating executive directors
31 December 2019				
4 October 2019	19,080	59,911	159	-
31 December 2018				
14 September 2018	25,168	60,403	208	-

Shares issued to employees under the Employee Share Bonus Plan are recognised in equity at the fair value of the shares issued. For the issue made during the period this was \$30,000 (2018: \$30,000). The fair value has been measured consistently with the previous annual report and takes into account that the shares issued are unable to be sold by employees for a period of 7 years after issue.

Share-based payment – Executive Share Plan

In August 2011 the Company established the Korvest Performance Rights Plan. The Plan is designed to provide long term incentives to eligible senior employees in the Company and entitles them to acquire shares in the Company, subject to the successful achievement of specified performance hurdles.

Under the plan, eligible employees are offered Performance Rights which enables the employee to acquire one fully paid ordinary share in the Company for no monetary consideration once the Performance Rights vest. The conditions attached to the Performance Rights are measured over the three year period commencing at the beginning of the financial year in which the Performance Rights are granted. If the performance conditions at the end of the three year period are met, in whole or in part, all or the relevant percentage of the Performance Rights will vest.

A total of 91,796 Performance Rights were issued in November 2019 (2018: 102,105).

The previous share plan, the Korvest Ltd Executive Share Plan is still operational for employees granted options under that plan. The share option plan entitled selected senior managers to acquire shares in the Company subject to successful achievement of performance targets related to improvements in total shareholder returns.

The shares issued pursuant to these options are financed by an interest free loan from the Company repayable within twenty years from the proceeds of dividends declared by the Company. These loans are of a non-recourse nature. For accounting purposes these 20 year loans are treated as part of the options to purchase shares until the loan is extinguished at which point the shares are recognised.

11. Share Capital (cont)

Fair value of Performance Rights granted

For the Performance Rights issued during the period, half will be tested against an Earning Per Share (EPS) measure whilst the other half will be tested against a Return on Invested Capital (ROIC) measure.

The fair value at grant date was assessed in accordance with AASB 2 *Share Based Payments*. A Black Scholes valuation methodology was used to value both the EPS and ROIC performance rights and the value was \$2.63 per Performance Right. The inputs to the calculations have been set out below.

- a) Exercise price: \$0.00
- b) Vesting period: 3 years
- c) Grant date (for Accounting Standards): 25 October 2019
- d) Expiry date: 30 June 2022
- e) Share price at grant date: \$3.24
- f) Expected price volatility of the Company's shares: 35%
- g) Expected dividend yield: 6.8%
- h) Risk-free interest rate: 1.06%
- i) Cost of borrowing: 6.99%
- j) Restricted period: 2 years (post vesting)

Total expenses arising from share-based transactions recognised during the period as part of employee benefit expense were as follows:

In thousands of AUD

	31 Dec 19	31 Dec 18
Performance rights issued under Korvest Performance Rights Plan	64	27
Shares issued under Employee Share Bonus Plan	29	30
	93	57

12. Dividends

Dividends paid or provided for by the Company in the current period and the previous corresponding period are:

	Cents per share	Total amount \$'000	Franked / unfranked	Date of payment
31 December 2019				
Final – ordinary	13.0	1,461	Franked	6 September 2019
31 December 2018				
Final – ordinary	7.0	781	Franked	7 September 2018
Subsequent events				
Since the end of the half-year, the Directors declared the following dividends:				
Interim – ordinary	15.0	1,688	Franked	6 March 2020

The financial effect of these dividends has not been brought to account in this financial report. It will be recognised in the next reporting period.

All dividends paid or declared are fully franked at the tax rate of 30%. The Directors expect that dividends will be fully franked for the foreseeable future.

Korvest Ltd – 31 December 2019 Interim Consolidated Financial Report
Notes to the Condensed Interim Consolidated Financial Report

13. Financial Instruments

Carrying amounts versus fair values

The fair values of all financial assets and liabilities approximate their carrying amounts.

14. Contingent Liabilities and Contingent Assets

There have been no material changes in contingent liabilities or contingent assets since 30 June 2019.

15. Events Subsequent to Reporting Date

No matter or circumstance has occurred subsequent to 31 December 2019 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 subsequent years.

16. Related Parties

There have been no material changes to arrangements with related parties since 30 June 2019.

17. Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been applied in preparing these consolidated financial statements. None of these standards are expected to have any material impact on Korvest.

Korvest Ltd
Directors' Declaration

In the opinion of the Directors of Korvest Ltd ("the Company"):

- 1 the condensed consolidated financial statements and notes set out on pages 6 to 17, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2019 and of its performance, for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 "*Interim Financial Reporting*" and the Corporations Regulations 2001; and
- 2 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Kilburn this 24th day of January 2020.

Signed in accordance with a resolution of the Directors:

A handwritten signature in black ink, appearing to read 'GA Billings', written over a horizontal line.

GA Billings
Chairman



Independent Auditor's Review Report

To the shareholders of Korvest Ltd

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Korvest 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 Korvest 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 2019 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 2019
- Condensed consolidated statement of profit or loss and other 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 17 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Korvest 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 2019 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 Korvest 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

Paul Cenko

Partner

Adelaide

24 January 2020