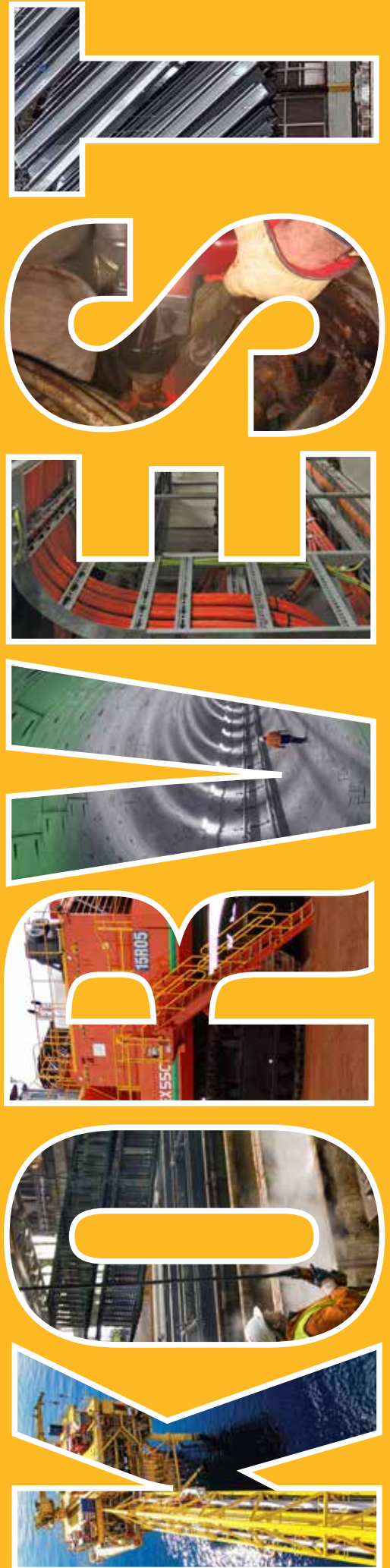




# 2019 ANNUAL REPORT

[www.korvest.com.au](http://www.korvest.com.au)



## A MARKET LEADING INFRASTRUCTURE PROVIDER

Since 1970, Korvest has built itself a strong reputation for being a capable supplier of cable and pipe supports, industrial access and safety systems, fastening solutions, and galvanising services. All Korvest's business units work together, and can develop an integrated, complete solution quickly and finished to recognised Australian and international standards.

EzyStrut produces a range of standard, customised and innovative products. Power Step and Titan Technologies design and assemble access systems for large mobile equipment as well as bolting solutions. Korvest Galvanisers operates a hot dip galvanising business in South Australia servicing a range of local and national customers.

Korvest's workforce of around 180 employees is multi-skilled, and lead by a central management team. Korvest has the capacity to scale up production should a project require more hands or hours to meet strict deadlines.

Nationally, Korvest has offices located in Adelaide, Melbourne, Sydney, Brisbane and Perth, with distributors in Townsville and Hobart. The EzyStrut manufacturing plant and national distribution centre are based in Adelaide.

## WE DELIVER ON OUR PROMISE

**EzyStrut** [www.ezystrut.com.au](http://www.ezystrut.com.au)



**Cable and Pipe Supports**

**TITAN TECHNOLOGIES** [www.titantools.com.au](http://www.titantools.com.au)



**Torque and Tension Solutions**

**Korvest Galvanisers** [www.korvestgalvanisers.com.au](http://www.korvestgalvanisers.com.au)



**Galvanising**

**POWER STEP** [www.powerstep.com.au](http://www.powerstep.com.au)



**Safety Access Systems**

# TABLE OF CONTENTS

**4 DIRECTORS' REPORT**

**8 REMUNERATION REPORT - AUDITED**

**18 5 YEAR SUMMARY**

**19 FINANCIAL STATEMENTS**

**56 ASX ADDITIONAL INFORMATION**

Korvest Ltd  
and controlled entities  
ABN: 20 007 698 106

Annual Report, 30 June 2019

# DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT TOGETHER WITH THE CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP COMPRISING OF KORVEST LTD ('THE COMPANY') AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 AND THE AUDITOR'S REPORT THEREON.

## DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Graeme Billings	Chris Hartwig	Gerard Hutchinson
<b>BCom FCA MAICD</b> <b>Chairman</b>  Appointed Chairman 18 September 2014  A Director since May 2013  Mr Billings retired from PricewaterhouseCoopers in 2011 after 34 years where he was a senior partner in the Assurance practice. Director G.U.D. Holdings Limited Director Clover Corporation Limited Chairman Azure Healthcare Ltd Director DomaCom Ltd  Age 63	<b>BA(Acc), MAICD</b> <b>Managing Director</b>  A Director since 28 February 2018  Mr Hartwig has held a number of senior roles in the steel and electrical manufacturing industries.  Age 48	<b>MBA, MBL, MSc(IS), BEc, MA</b> <b>(Research), FCA, FAICD, FAIM</b> <b>Independent Non-Executive Director</b>  A Director since November 2014 Chairman of Audit Committee  Mr Hutchinson has held roles at Chief Financial Officer and Managing Director level in a range of large businesses. He is currently Chief Financial Officer for AF Construction LLC, a member of the Al- Futtaim Group of Companies. Director Depa PLC  Age 51

Gary Francis	Andrew Stobart	Steven McGregor
<b>BSc. Hon. (Civil), MAICD</b> <b>Independent Non-Executive Director</b>  A Director since February 2014 Chairman of Remuneration Committee  Mr Francis has worked in the construction industry at Senior Manager or Director level in Australia and Asia.  Age 64	<b>B. Eng (Hons), Grad Dip Bus Admin,</b> <b>GAICD</b> <b>Independent Non-Executive Director</b>  A Director since August 2016  Chairman Nexans Olex Australia & New Zealand  Age 64	<b>BA(Acc), CA, AGIA, ACIS</b> <b>Finance Director</b>  Company Secretary since April 2008  Appointed as Finance Director 1 January 2009  Age 47

## COMPANY SECRETARY

Mr Steven J W McGregor CA, AGIA, ACIS, BA(Acc) was appointed to the position of company secretary in April 2008. Mr McGregor previously held the role of chief operating officer and company secretary with an unlisted public company for seven years.

## RETIREMENT AND RE-ELECTIONS

In accordance with the Constitution, Graeme Billings and Andrew Stobart retire from the Board at the forthcoming Annual General Meeting on 25 October 2019 and offer themselves for re-election.

## DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of committees of directors, and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Mr G Billings	12	12	4	4	2	2
Mr G Francis	12	12	4	4	2	2
Mr G Hutchinson	12	12	4	4	2	2
Mr A Stobart	11	12	3	4	2	2
Mr C Hartwig	12	12	-	-	-	-
Mr S McGregor	12	12	-	-	-	-

A Number of meetings attended

B Total number of meetings available for attendance

## FINANCIAL RESULTS

The revenue from trading activities for the year ended 30 June 2019 (FY19) was \$60.8m, up 6.8% on the previous year. The Group recorded a profit after tax of \$2.9m compared to \$1.4m in the previous year.

The improved FY19 result is attributable to growth in both volume and margin as a number of the markets in which Korvest operates have been buoyant throughout the year.

## DIVIDENDS

The directors announced a fully franked final dividend of 13.0 cents per share (2018: 7.0 cents per share) and 9.0 cents per share at the half year (2018: 5.0 cents per share). The Dividend Reinvestment Plan (DRP) will be suspended for the final dividend. The dividend will be paid on 6 September 2019 with a record date of 23 August 2019.

A summary of dividends paid or declared by the Company to members since the end of the previous financial year were:

### Declared and paid during the year 2019

	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of payment
Interim 2019 ordinary	9.0	1,006	Fully franked	8 March 2019
Final 2018 ordinary	7.0	781	Fully franked	7 September 2018
<b>Total amount</b>		<b>1,787</b>		

Franked dividends declared and paid during the year were franked at the rate of 30 per cent.

### Declared after end of year

After the reporting date the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences to the Company.

	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of payment
Final ordinary	13.0	1,456	Fully franked	6 September 2019
<b>Total amount</b>		<b>1,456</b>		



**DIRECTORS’ REPORT (Continued)**  
**FOR THE YEAR ENDED 30 JUNE 2019**

The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2019 and will be recognised in subsequent financial reports.

**Dividends have been dealt with in the financial report as:**

	Note	Total amount \$'000
Dividends	18	1,787
Dividends – subsequent to 30 June 2019	18	1,456

**PRINCIPAL ACTIVITIES, STRATEGY AND FUTURE PERFORMANCE**

The principal activities of the Group consist of hot dip galvanising, sheet metal fabrication, manufacture of cable and pipe support systems and fittings, design and assembly of access systems for large mobile equipment and sale, repair and rental of high torque tools.

The Group is comprised of the Industrial Products Group which includes the EzyStrut, Power Step and Titan Technologies businesses and the Production Group which includes the Korvest Galvanisers business.

Korvest’s businesses service a number of major markets including infrastructure, commercial, utilities, mining, food processing, oil & gas, power stations, health and industrial.

The improved results over the past two years have been driven by activity levels in the infrastructure sector. This sector remains strong, and the outlook positive, with a number of major road and rail projects being constructed over the next few years. Korvest is well positioned to capitalise on opportunities arising from this activity over the coming years as demonstrated by the company’s plan to significantly invest in manufacturing capability and capacity

Korvest has a long history of paying franked dividends. The target dividend payout ratio range is 65-90% of after tax profits.

**REVIEW OF OPERATIONS**  
**INDUSTRIAL PRODUCTS**

In the Industrial Products group, the EzyStrut cable and pipe support business supplies products for major infrastructure developments and also supplies products to electrical wholesalers and contractors for small industrial developments.

Activity levels were strong in the markets serviced by EzyStrut in FY19. Major project activity remained high and this was supported by increased work from the smaller projects and day-to-day markets. All states experienced growth compared to the prior year. NSW had the strongest growth due to the supply of a major infrastructure project as well as an active day-to-day market. The SA market also performed well as a number of mid-range projects were supplied throughout the year. The Victorian branch moved to a larger warehouse facility in February 2019 to enable it to more efficiently service the growing customer base.

In April 2019 a competitor exited the market. The competitor operated predominantly in NSW and Victoria and as a result it is anticipated that more opportunities will become available in those states.

Power Step designs and assembles access systems for large mobile equipment. Titan Technologies supplies specialised tools in the form of torque wrenches, hydraulic pumps and related accessories. These businesses experienced subdued trading conditions compared to the prior year. The results were also adversely impacted by stock losses following a detailed review of inventory on hand. The September 2018 retirement of the long-serving General Manager prompted a restructure resulting in a lower ongoing overhead cost.

**PRODUCTION**

In the Production group, the Galvanising business volumes were static although the mix of internal and external work changed with an increase in internal work. Galvanising revenue from external customers reduced by 2.5% with price increases mitigating the impact of a 6% volume drop. The cost of zinc and energy remain challenging for the business. The weighted average cost of zinc consumed in FY19 was 7% higher than FY18. There was some small relief with energy costs as a new, lower electricity price was effective for the second half with further price improvement contracted from January 2020 onwards. In addition the business has invested in energy efficient LED lighting and 173Kw of solar panels during the year. However, offsetting this, gas pricing increased by 16% in the second half and gas pricing remains the more significant concern in terms of energy costs going forward.

Labour efficiency improved during the year and this, along with a lower depreciation charge contributed to the improved Production result.

**RISK**

The Board and Management periodically review and update an Enterprise Risk Register that identifies and assesses the risks faced by the business and the controls that are in place to mitigate those risks. General Managers report to the board monthly on any changes to the risk profile of their business unit.

Operational risks relate principally to continuity of supply and continuity of production. To ensure continuity of supply Korvest monitors the performance of key suppliers and establishes more than one supply source for key products. For many bought in finished goods the ability for the product to also be manufactured in-house mitigates the risk.

Korvest’s in-house engineering and maintenance department is responsible for preventative maintenance programmes to ensure a high level of plant reliability and low down time.

Financial risks faced by the business are typical of those faced by most businesses and centre around management of working capital. In particular, trade receivables and inventory levels are constantly reviewed and performance is monitored with key performance indicators on an ongoing basis.

**SIGNIFICANT CHANGES**

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

**EVENTS SUBSEQUENT TO REPORTING DATE**

At the date of this report there is no matter or circumstance that has arisen since 30 June 2019, that has significantly affected, or may significantly affect:

- (i) the operations of the Group;
- (ii) the results of those operations; or
- (iii) the state of affairs of the Group;

in the financial years subsequent to 30 June 2019.

**LIKELY DEVELOPMENTS**

The Group will continue to focus on the significant infrastructure pipeline in the domestic market and servicing the day-to-day market. This will include investment in product development and manufacturing capacity to ensure that the Group is well placed to secure and deliver major projects.

Working capital management will continue to play a key role with an emphasis on non-project inventory reduction.

As outlined in the notes to the financial statements, the Group will adopt AASB 16 Leases on 1 July 2019. It is estimated that for the year ended 30 June 2020 the adoption of this standard will result in approximately \$90,000-100,000 additional lease related expenses compared to the current method of expensing lease rentals as they are paid.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

**DIRECTORS AND OFFICERS INSURANCE**

Since the end of the previous financial year the Company has paid insurance premiums in respect of directors’ and officers’ liability and legal expenses insurance contracts, for current and former directors and officers of the Company and related entities. The insurance premiums relate to:

- a) costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- b) other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The premiums were paid in respect of all of the directors and officers of the Company. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors’ and officers’ liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

# REMUNERATION REPORT

AUDITED

For the year ended 30 June 2019

## PRINCIPLES OF COMPENSATION

Remuneration is referred to as compensation throughout this report.

Key Management Personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Company and other executives. KMP comprise the directors and senior executives of the Group.

Compensation levels for KMP are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- (a) the capability and experience of the KMP;
- (b) the KMP's ability to control performance; and
- (c) the Group's performance including the Group's earnings.

## FIXED COMPENSATION

Fixed compensation consists of base compensation (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the remuneration committee.

## PERFORMANCE LINKED COMPENSATION

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward KMP for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' cash bonus, while the long-term incentive (LTI) is provided as performance rights under the rules of the Korvest Performance Rights Plan.

## CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to the indices set out in the 5 Year Summary on page 18.

## SHORT-TERM INCENTIVE BONUS

The key performance indicators (KPIs) for the KMP are set annually. The KPIs include measures relating to financial and operating performance, strategy and risk measures.

The KPIs are chosen to directly align the individual's reward to the KPIs of the Group and to its strategy and performance. The non-financial objectives vary with position and responsibility and include measures aimed at achieving strategic outcomes. The financial objectives relate to earnings before interest and tax (EBIT) for various parts of the business depending on the KMP.

The table below summarises the nature and weighting of the KPIs included in the STIs.

Managing Director	Other KMP *
Financial performance (55%)	Financial performance
Cost reduction (25%)	Operational performance
New markets (10%)	Working capital
Safety (10%)	Cost reductions
	Safety
	Product diversification

\* Each KMP have different KPIs and weightings. Some individual's STI structures do not include all KPI categories listed.

## LONG-TERM INCENTIVE BONUS

Performance rights are issued under the Korvest Performance Rights Plan to employees (including KMP) as determined by the remuneration committee. Performance rights become vested performance rights if the Group achieves its performance hurdles. If rights become vested performance rights and do not lapse, the holder is able to acquire ordinary shares in the Company for no cash payment.

For performance rights issued during the year two performance hurdles were applied. Half of the rights issued will be tested against each of the two performance hurdles. The first performance hurdle relates to growth in basic earnings per share (EPS). EPS performance is measured in total over a three year period. The performance hurdle is tested once at the completion of the three year performance period. The % growth is based on a base EPS which was calculated as the average of the statutory EPS for the FY14, FY15 and FY16 years as the Board considers that this represents an appropriate EPS hurdle. For the most recent issue of Performance Rights the table below sets out the % of rights that vest depending on the level of EPS growth achieved.

Compound annual EPS growth over 3 yr vesting period	% of rights that vest
Less than 5%	Nil
5%	25%
Between 5% - 15%	Pro rata between 25% – 100%
15% or greater	100%

The EPS objective was chosen because it is a good indicator of the Group's earnings growth and is aligned to shareholder wealth objectives.

The second performance hurdle relates to Relative Total Shareholder Return (RTSR). The RTSR is a ranking of Korvest's total shareholder return compared to a comparative group of 20 companies over the three year performance period. Total shareholder return is calculated as the growth in share price plus dividends and any capital returns to shareholders to produce the total return to each shareholder expressed as a percentage. The comparator group of companies was selected by the Board as a group that has a spread and size of operations similar to Korvest and also are impacted by economic and cyclical factors in a manner similar to Korvest.

At the end of the three year performance period, Korvest's performance will be assessed against the comparator group and the % of rights that will vest will be determined in accordance with the following table.

Korvest's TSR against TSR of the Comparator Group	% of rights that vest
Below the 51st percentile	Nil
At the 51st percentile	50%
Above the 51st percentile but below the 75th percentile	Between 50% and 100% using a straight line analysis
At or above the 75th percentile	100%

Notwithstanding Korvest's performance relative to the comparator group, no performance rights will vest if Korvest's TSR over the performance period is less than zero.

In addition to the performance measures, there is also a service condition whereby unvested performance rights will lapse if the holder ceases employment with the Group apart from in some specific circumstances such as death or permanent disability.

The Company's securities trading policy prohibits those that are granted share-based payments as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases. Entering into such arrangements has been prohibited by law since 1 July 2011.

## SERVICE CONTRACTS

It is the Group's policy that service contracts for all KMP are unlimited in term but capable of termination by providing 1 to 6 months' notice depending on the KMP, and that the Group retains the right to terminate the contract immediately by making payment in lieu of notice. The Group has entered into a service contract with each executive KMP.

On termination of employment the KMP are also entitled to receive their statutory entitlements and accrued annual leave and long service leave, as well as any entitlement to incentive payments and superannuation benefits.

## REMUNERATION REPORT - AUDITED (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2019

### SERVICES FROM REMUNERATION CONSULTANTS

During the year Guerdon Associates were engaged to provide advice in relation to possible amendments to the Korvest Performance Rights Plan for future years. Guerdon Associates provided the Company with a range of alternative performance measures for the Remuneration Committee to consider adopting for future issues under the Korvest Performance Rights Plan. Guerdon Associates did not make any recommendations as to which measures should be adopted. The Remuneration Committee has adopted one of the alternatives included in the Consultant's report.

Guerdon Associates received a fee of \$16,532 for the work.

Guerdon Associates surveyed Management to understand Management's view of the current Plan. This was the only interaction between Management and Guerdon Associates.

The Guerdon Associates report was supplied and presented directly to the Remuneration Committee. The Board confirms that given the limited interaction between the consultants and Management, the Board is confident that the report was not unduly influenced by Management.

### NON-EXECUTIVE DIRECTORS

Non-executive directors receive a fixed fee. The total remuneration for all non-executive directors was last voted upon by shareholders at the AGM held on 25 October 2013 and is not to exceed \$450,000.

The following base fees became effective on 1 July 2018 and were applied for the entirety of the financial year ended 30 June 2019:

Chairman	\$130,650
Director	\$65,331

The Chairman of a Board Committee receives a further \$10,887 p.a.

Superannuation is added to these fees where appropriate.

Non-executive directors do not receive performance-related compensation.

### DIRECTORS AND EXECUTIVE REMUNERATION

Details of the nature and amount of each major element of remuneration of each director of the Company, and other KMP of the Group are:

	Year	Short Term Salary & Fees \$	Bonus \$	Post employment Superannuation benefits \$	Other long term – Long Service leave \$*	Termination Payment	Share based payments Shares \$	Options & Rights \$	Total \$	Proportion of remuneration performance related %
<b>Directors</b>										
<b>G Billings</b> Non-executive (Chairman)	2019	130,650	-	12,412	-	-	-	-	143,062	-
	2018	128,088	-	12,168	-	-	-	-	140,256	-
<b>G Francis</b> Non-executive (Director)	2019	83,448	-	-	-	-	-	-	83,448	-
	2018	81,816	-	-	-	-	-	-	81,816	-
<b>G Hutchinson</b> Non-executive (Director)	2019	76,218	-	7,241	-	-	-	-	83,459	-
	2018	74,724	-	7,099	-	-	-	-	81,823	-
<b>A Stobart</b> Non-executive (Director)	2019	65,331	-	6,206	-	-	-	-	71,537	-
	2018	64,050	-	6,085	-	-	-	-	70,135	-
<b>C Hartwig</b> <sup>1,2</sup> Executive (Managing Director)	2019	325,558	94,710	25,006	9,650	-	-	18,883	473,807	24.0
	2018	293,150	48,404	25,199	9,539	-	499	9,143	385,934	14.9
<b>S McGregor</b> <sup>2</sup> Executive (Finance Director)	2019	295,328	29,430	24,026	15,198	-	-	19,566	383,548	12.8
	2018	285,533	10,636	25,046	10,193	-	-	10,233	341,641	6.1
<b>Executives / other KMP</b>										
<b>S Taubitz</b> (became KMP 1 March 2018) <sup>3</sup> General Manager Sales	2019	190,000	29,925	20,175	1,061	-	-	6,100	247,261	14.6
	2018	61,833	19,633	5,874	250	-	-	-	87,590	8.8
<b>G Christie</b> General Manager Operations	2019	188,500	17,520	18,130	11,551	-	998	11,638	248,337	11.7
	2018	183,780	2,343	17,459	6,468	-	998	5,738	216,786	3.7
<b>P Assaf</b> (Retired 28 Sep 2018) <sup>4</sup> General Manager Power Step & Titan Technologies	2019	66,252	-	6,294	(52,100)	148,498	499	-	169,443	-
	2018	220,842	11,042	20,980	5,229	-	998	-	259,091	4.3

\* This represents the accounting expense relating to the change in the provision for long service leave. It does not represent cash payments or statutory obligations.

<sup>1</sup> From 1 July 2017 to 28 February 2018 C Hartwig was Executive General Manager EzyStrut. From 4 September 2017 to 28 February 2018 he was also acting CEO. From 1 March 2018 he was Managing Director. In July 2018 a payment of \$12,550 was paid to C Hartwig as back-pay for the period he was acting CEO. This payment is included in the 2019 Salary & Fees amount.

<sup>2</sup> Executives have elected to have their superannuation contributions capped at \$25,000 and instead have the balance above \$25,000 paid as salary rather than superannuation.

<sup>3</sup> S Taubitz was appointed as General Manager Sales EzyStrut on 1 March 2018. For the comparative year salary and superannuation benefits disclosed relate only to the period that he was part of KMP. The bonus and long service leave values for the comparative year are full year values and therefore also include the period when he was in his prior role as State Manager – Victoria and not KMP. As the 2018 bonus payment relates to a full year the proportion of performance related remuneration has been calculated by annualising the salary and superannuation components.

<sup>4</sup> The termination payment for Paul Assaf represents the payment of accrued annual and long service leave.

The proportion of performance related remuneration is bonuses and share based payments divided by total remuneration.

REMUNERATION REPORT - AUDITED (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION DURING THE REPORTING PERIOD

Details on performance rights that were granted as compensation to each KMP during the reporting period are as follows:

	Number of performance rights granted during the year	Grant date	Fair value per right at grant date (\$)	Expiry date
Directors				
C Hartwig	32,006	29 Oct 2018	\$2.03/\$1.83	30 June 2021
S McGregor	30,669	29 Oct 2018	\$2.03/\$1.83	30 June 2021
Executives				
S Taubitz	20,043	29 Oct 2018	\$2.03/\$1.83	30 June 2021
G Christie	19,387	29 Oct 2018	\$2.03/\$1.83	30 June 2021

Half of the performance rights issued to each KMP will be tested against an EPS hurdle with the other half being tested against a Relative Total Shareholder Return (RTSR) hurdle. The fair value of the EPS hurdle rights is \$2.03. The fair value of the RTSR hurdle rights is \$1.83.

All performance rights have a nil exercise price.

All performance rights expire on the earlier of their expiry date or termination of the individual's employment. The performance rights are exercisable for one year after the conclusion of the vesting period. In addition to the continuing employment service condition, the ability to exercise performance rights is conditional on the Group achieving performance hurdles. Details of the performance criteria are included in the long-term incentives discussion on page 9.

No equity-settled share-based payment transaction terms (including performance rights granted as compensation to KMP) have been altered or modified by the Group during the reporting period or the prior period.

EXERCISE OF OPTIONS GRANTED AS COMPENSATION

No shares were issued on the exercise of performance rights previously granted as compensation during the reporting period.

ANALYSIS OF OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED AS COMPENSATION

Details of vesting profiles of the options granted as remuneration to each director and key executive of the Company are detailed below:

	Options / Rights Granted		% vested in current year	% forfeited or lapsed in current year	Year in which grant vests
	Number	Date			
Directors					
C Hartwig	10,000*	Mar 09	-	-	30 Jun 11
	23,000	Nov 16	44.8%**	55.2%	30 Jun 19
	28,000	Nov 17	-	-	30 Jun 20
	32,006	Oct 18	-	-	30 Jun 21
S McGregor	28,500	Nov 16	44.8%**	55.2%	30 Jun 19
	29,300	Nov 17	-	-	30 Jun 20
	30,669	Oct 18	-	-	30 Jun 21
Executives					
S Taubitz	20,043	Oct 18	-	-	30 Jun 21
G Christie	12,500	Nov 16	44.8%**	55.2%	30 Jun 19
	19,000	Nov 17	-	-	30 Jun 20
	19,387	Oct 18	-	-	30 Jun 21

\* These options were issued under the previous Korvest Ltd Executive Share Plan. They vested during the year ended 30 June 2011 and were exercised in January 2011. Restricted ordinary shares were issued at an exercise price of \$3.79 per share. Under the terms of the previous Korvest Ltd Executive Share Plan upon exercise of the options the individual must pay the exercise price over a maximum term of 20 years. Dividends, after deduction of an amount intended for the participant's tax, are applied in payment of the exercise price. The arrangement to pay the exercise price over 20 years is interest free and without personal recourse to the participants (recourse is limited to the shares themselves). As a result of these arrangements, under Australian Accounting standards, the instruments are treated as options until such time as the associated non-recourse loan is fully repaid. The shares remain restricted until such time as the loan is fully paid.

\*\* The three year performance period for performance rights issued in November 2016 ended on 30 June 2019. These rights were tested against two performance hurdles, EPS and RTSR. The EPS hurdle was not met. Korvest's total shareholder return over the performance period was 43.38% which was at the 70th percentile of the comparator group. As a result 89.6% of the RTSR performance rights will vest. The vested rights are able to be exercised up until 30 June 2020.

ANALYSIS OF MOVEMENTS IN OPTIONS AND RIGHTS GRANTED AS COMPENSATION

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each company director and KMP are detailed below.

	Value of Rights / Options	
	Granted in year \$ (A)	Exercised in year \$ (B)
Directors		
C Hartwig	61,740	-
S McGregor	59,161	-
Executives		
S Taubitz	37,398	-
G Christie	38,663	-

- (A) The value of performance rights granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model for the EPS hurdle performance rights and a Monte Carlo simulation for the RTSR hurdle performance rights. The total value of the options granted is included in the table above. This amount will be allocated to remuneration over the vesting period (i.e. in years 1 July 2017 to 30 June 2020) subject to meeting the associated performance conditions.
- (B) The value of the options exercised during the year is calculated as the market price of shares as at the close of trading on the date the options were exercised after deducting the price to exercise the option.

Further details regarding options granted to executives under the Executive Share Plan are in Note 10 to the financial statements.

## REMUNERATION REPORT - AUDITED (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

### OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS

The movement during the reporting period in the number of options over ordinary shares in Korvest Ltd held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 1 July 2018 AASB	Granted as compensation	Exercised	Lapsed	Held at 30 June 2019 AASB	Held at 30 June 2019 ASX	Vested during the year
<b>Directors</b>							
C Hartwig	61,000	32,006	-	(12,696)	80,310	70,310	10,304
S McGregor	57,800	30,669	-	(15,732)	72,737	72,737	12,768
<b>Executives</b>							
S Taubitz	-	20,043	-	-	20,043	20,043	-
G Christie	31,500	19,387	-	(6,900)	43,987	-	5,600

No options held by KMP are vested but not exercisable.

	Held at 1 July 2017 AASB	Granted as compensation	Exercised	Lapsed	Held at 30 June 2018 AASB	Held at 30 June 2018 ASX	Vested during the year
<b>Directors</b>							
A Kachellek	66,900	-	-	(66,900)	-	-	-
C Hartwig	54,200	28,000	-	(21,200)	61,000	51,000	-
S McGregor	57,300	29,300	-	(28,800)	57,800	57,800	-
<b>Executives</b>							
S Taubitz*	N/A	-	-	-	-	-	-
G Christie	17,500	19,000	-	(5,000)	31,500	31,500	-

No options held by KMP are vested but not exercisable.

\* Holding has been noted as N/A where the person was not a member of KMP at that date. Transactions have only been recorded where they occurred whilst the person was a member of KMP.

### MOVEMENTS IN SHARES

The movement during the reporting period in the number of ordinary shares in Korvest Ltd held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 1 July 2018	Purchases	Allocated under Employee/ Exec share plan	Held at 30 June 2019	Shares held subject to non-recourse loans
<b>Directors</b>					
G Billings	667	8,000	-	8,667	-
C Hartwig	13,993	6,100	-	20,093	10,000
S McGregor	32,004	-	-	32,004	-
G Francis	6,271	-	-	6,271	-
G Hutchinson	500	-	-	500	-
A Stobart	500	5,000	-	5,500	-
<b>Executives</b>					
S Taubitz	2,128	-	394	2,522	-
G Christie	-	-	-	-	-

No shares were granted to KMP during the reporting period as compensation other than those provided under the employee share plan on the same terms and conditions as for all employees.

	Held at 1 July 2017	Purchases	Allocated under Employee/ Exec share plan	Held at 30 June 2018	Shares held subject to non-recourse loans
<b>Directors</b>					
G Billings	667	-	-	667	-
C Hartwig	13,760	-	233	13,993	10,000
S McGregor	32,004	-	-	32,004	-
A Kachellek *	57,110	-	-	N/A	-
G Francis	6,271	-	-	6,271	-
G Hutchinson	500	-	-	500	-
A Stobart	500	-	-	500	-
<b>Executives</b>					
G Christie	1,664	-	464	2,128	-
P Assaf	1,152	-	464	1,616	-
S Taubitz *	N/A	-	-	-	-

No shares were granted to KMP during the reporting period as compensation other than those provided under the employee share plan on the same terms and conditions as for all employees.

\* Shareholding has been noted as N/A where the person was not a member of KMP at that date. Purchase and sale transactions have only been recorded where they occurred whilst the person was a member of KMP.



REMUNERATION REPORT - AUDITED (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2019

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

Executive bonuses are paid on the achievement of specified performance targets. Those targets vary for each executive and are aligned to each executive's role and responsibilities. The targets relate to financial, operational, strategic and safety measures.

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the Company, and to other key management personnel are detailed below.

KMP	Short-term incentive bonus			
	Maximum possible STI	Included in remuneration \$ (A)	% vested in year	% forfeited in year (B)
C Hartwig	172,000	94,710	55.0	45.0
S McGregor	43,600	29,430	67.5	32.5
S Taubitz	57,000	29,925	52.5	47.5
G Christie	48,000	17,520	36.5	63.5

- (A) Amounts included in remuneration for the financial year represent the amount related to the financial year based on the achievement of specified performance criteria.
- (B) The amounts forfeited are due to the performance criteria not being met in relation to the current financial year.

DIRECTORS' INTERESTS

The relevant interest of each director over the shares and rights over such instruments issued by the Company and other related bodies corporate as notified by the directors to the Australian Securities Exchange in accordance with S250G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Korvest Ltd Ordinary Shares	Korvest Ltd Performance Rights	
		Unvested	Vested
C Hartwig	30,093	60,006	10,304
G Billings	8,667	-	-
S McGregor	32,004	59,969	12,768
G Francis	6,271	-	-
G Hutchinson	500	-	-
A Stobart	5,500	-	-

NON-AUDIT SERVICES

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties. The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of these services did not compromise the auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risk and rewards.

For details of non-audit services fees charged refer to Note 5 to the financial statements.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 55 and forms part of the Directors' report for the financial year ended 30 June 2019.

ROUNDING OFF

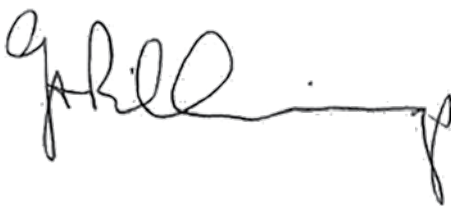
The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the Financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement can be found on the Korvest website at <http://www.korvest.com.au/assets/downloads/Korvest-Corporate-Governance-2019.pdf>

Signed at Adelaide this Friday 26th of July 2019 in accordance with a resolution of the directors.

G A BILLINGS, Director



C A HARTWIG, Director



5 YEAR SUMMARY

		2019	2018	2017	2016	2015
Sales revenue	(\$'000)	60,843	56,962	44,731	54,981	63,025
Profit / (Loss) after tax	(\$'000)	2,885	1,369	(1,578)	950	1,455
Depreciation/Amortisation	(\$'000)	1,469	1,625	1,710	1,716	1,642
Cash flow from operations	(\$'000)	1,413	5,110	(384)	7,432	5,115
Profit / (Loss) from ordinary activities						
- As % of Shareholders' Equity		9.3%	4.6%	(5.4%)	2.9%	4.4%
- As % of Sales Revenue		4.7%	2.4%	(3.5%)	1.7%	2.3%
Dividend						
- Total amount paid	(\$'000)	1,787	889	2,192	2,328	5,032
- Per issued share		16.0c	8.0c	20.0c	22.0c	48.0c
- Times covered by profit from ordinary activities		1.6	1.5	-	0.4	0.3
Earnings per share		25.9	12.3	(14.4c)	8.9c	13.9c
Number of employees		178	180	171	193	225
Shareholders						
- Number at year end		1,652	1,694	1,813	1,882	2,029
Net assets per issued ordinary share		\$2.76	\$2.66	\$2.63	\$2.97	\$3.13
Net tangible assets per issued ordinary share		\$2.76	\$2.66	\$2.63	\$2.97	\$3.13
Share price as at 30 June		\$2.70	\$2.07	\$2.36	\$2.19	\$3.55

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	20	CAPITAL STRUCTURE	39
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	21	15. CASH AND CASH EQUIVALENTS	39
CONSOLIDATED STATEMENT OF CASH FLOWS	22	16. FINANCIAL INSTRUMENTS	40
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	23	17. CAPITAL AND RESERVES	43
NOTES TO THE FINANCIAL STATEMENTS	24	18. DIVIDENDS	44
BASIS OF PREPARATION	24	TAXATION	45
RESULTS FOR THE YEAR	26	19. CURRENT AND DEFERRED TAXES	45
1. REVENUE AND OTHER INCOME	26	BUSINESS COMBINATIONS	47
2. EXPENSES	26	20. INVESTMENT IN SUBSIDIARIES	47
3. FINANCE INCOME	27	OTHER NOTES	48
4. EARNINGS PER SHARE	27	21. KEY MANAGEMENT PERSONNEL	48
5. AUDITOR'S REMUNERATION	28	22. PARENT ENTITY DISCLOSURES	49
6. SEGMENT REPORTING	28	23. SUBSEQUENT EVENTS	49
WORKING CAPITAL	30	DIRECTORS' DECLARATION	51
7. TRADE AND OTHER RECEIVABLES	30	INDEPENDENT AUDITOR'S REPORT	52
8. INVENTORIES	31	LEAD AUDITOR'S INDEPENDENCE DECLARATION	55
9. TRADE AND OTHER PAYABLES	31	ASX ADDITIONAL INFORMATION	56
10. EMPLOYEE BENEFITS	31	SHAREHOLDINGS (AS AT 24 JULY 2019)	56
11. PROVISIONS	34	VOTING RIGHTS	56
TANGIBLE ASSETS	35	TWENTY LARGEST SHAREHOLDERS	57
12. PROPERTY, PLANT AND EQUIPMENT	35	OFFICES AND OFFICERS	57
13. IMPAIRMENT TESTING	38		
14. COMMITMENTS FOR EXPENDITURE	38		

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Continuing operations</b>			
Sales revenue	1	60,843	56,962
Other income		4	-
Expenses, excluding net finance costs	2	(56,775)	(55,100)
<b>Profit before financing costs</b>		<b>4,072</b>	<b>1,862</b>
Finance income	3	62	40
<b>Net finance income</b>		<b>62</b>	<b>40</b>
<b>Profit before income tax</b>		<b>4,134</b>	<b>1,902</b>
Income tax expense	19	(1,249)	(533)
<b>Profit from continuing operations</b>		<b>2,885</b>	<b>1,369</b>
<b>Profit for the year</b>		<b>2,885</b>	<b>1,369</b>
<b>Total comprehensive income for the period</b>		<b>2,885</b>	<b>1,369</b>
<b>Attributable to:</b>			
Equity holders of the Company		2,885	1,369
<b>Total comprehensive income for the period</b>		<b>2,885</b>	<b>1,369</b>
<b>Earnings per share attributable to the ordinary equity holders of the Company:</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share from continuing operations	4	25.9	12.3
Diluted earnings per share from continuing operations	4	25.8	12.3

The notes on pages 24 to 49 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Assets</b>			
Cash and cash equivalents	15	3,126	5,119
Investment	15	275	275
Trade and other receivables	7	14,080	9,950
Prepayments		272	243
Inventories	8	10,504	9,395
<b>Total current assets</b>		<b>28,257</b>	<b>24,982</b>
Property, plant and equipment	12	13,033	12,882
<b>Total non-current assets</b>		<b>13,033</b>	<b>12,882</b>
<b>Total assets</b>		<b>41,290</b>	<b>37,864</b>
<b>Liabilities</b>			
Trade and other payables	9	5,974	4,666
Employee benefits	10	2,472	2,325
Tax payable		864	-
Provisions	11	32	37
<b>Total current liabilities</b>		<b>9,342</b>	<b>7,028</b>
Employee benefits	10	140	240
Deferred tax liability	19	431	451
Provisions	11	453	433
<b>Total non-current liabilities</b>		<b>1,024</b>	<b>1,124</b>
<b>Total liabilities</b>		<b>10,366</b>	<b>8,152</b>
<b>Net assets</b>		<b>30,924</b>	<b>29,712</b>
<b>Equity</b>			
Share capital	17	14,142	14,084
Reserves	17	16,782	15,837
Retained profit / (losses)		-	(209)
<b>Total equity attributable to equity holders of the Company</b>		<b>30,924</b>	<b>29,712</b>
<b>Total equity</b>		<b>30,924</b>	<b>29,712</b>

The notes on pages 24 to 49 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		66,461	64,563
Cash paid to suppliers and employees		(64,704)	(59,600)
Cash generated from / (used by) operations		1,757	4,963
Interest received		62	40
Income tax (payments) / refunds		(406)	107
<b>Net cash from operating activities</b>	15	1,413	5,110
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		24	10
Acquisition of property, plant and equipment	12	(1,640)	(804)
<b>Net cash from investing activities</b>		(1,616)	(794)
<b>Cash flows from financing activities</b>			
Transaction costs related to issue of share capital		(3)	(2)
Dividends paid		(1,787)	(889)
<b>Net cash from financing activities</b>		(1,790)	(891)
Net increase / (decrease) in cash and cash equivalents		(1,993)	3,425
Cash and cash equivalents at 1 July		5,119	1,694
<b>Cash and cash equivalents at 30 June</b>	15	3,126	5,119

The notes on pages 24 to 49 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	Share capital \$'000	Equity compensation reserve \$'000	Asset revaluation reserve \$'000	Profits reserve \$'000	Retained profits / (losses) \$'000	Total \$'000
Balance at 1 July 2018	14,084	248	3,735	11,854	(209)	29,712
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	2,885	2,885
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	2,885	2,885
<b>Transactions with owners of the Company recognised directly in equity</b>						
<b>Contributions by and distributions to owners of the Company</b>						
Shares issued under the Share Plans	58	56	-	-	-	114
Issue of ordinary shares	-	-	-	-	-	-
Dividends to shareholders	-	-	-	(1,787)	-	(1,787)
Total contributions by and distributions to owners of the Company	58	56	-	(1,787)	-	(1,673)
Transfer to profits reserve	-	-	-	2,676	(2,676)	-
<b>Balance at 30 June 2019</b>	14,142	304	3,735	12,743	-	30,924
Balance at 1 July 2017	14,039	227	3,735	12,743	(1,578)	29,166
<b>Total comprehensive income for the year</b>						
Profit for the year	-	-	-	-	1,369	1,369
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	1,369	1,369
<b>Transactions with owners of the Company recognised directly in equity</b>						
<b>Contributions by and distributions to owners of the Company</b>						
Shares issued under the Share Plans	45	21	-	-	-	66
Issue of ordinary shares	-	-	-	-	-	-
Dividends to shareholders	-	-	-	(889)	-	(889)
Total contributions by and distributions to owners of the Company	45	21	-	(889)	-	(889)
<b>Balance at 30 June 2018</b>	14,084	248	3,735	11,854	(209)	29,712

The notes on pages 24 to 49 are an integral part of these consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019

BASIS OF PREPARATION  
CORPORATE INFORMATION

Korvest Ltd (the ‘Company’) is a company domiciled in Australia. The address of the Company’s registered office is 580 Prospect Road, Kilburn SA 5084. The consolidated financial statements of the Company as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the ‘Group’ and individually as ‘Group entities’). The Group is a for-profit entity and is primarily involved in manufacturing businesses as detailed in the Segment Reporting (Note 6).

BASIS OF ACCOUNTING  
Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 26 July 2019.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for land and buildings, which are measured at fair value.

Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with AASBs and IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 7 – Trade and other receivables
- Note 8 – Inventories
- Note 11 – Provisions
- Note 12 – Tangible assets

FOREIGN CURRENCY  
Foreign currency transactions

Transactions in foreign currencies are translated to the functional currencies of the Group at exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences are generally recognised in profit or loss.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group adopted AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments on 1 July 2018.

AASB 15 Revenue from Contracts with Customers

AASB 15 introduces a 5–step process for revenue recognition from contracts with customers. The standard requires that revenue be recognised when the performance obligation is met, namely when the promised good or service is transferred to the customer. AASB 15 replaces all previous revenue related accounting standards. AASB 15 was applied by the group from 1 July 2018. The Group adopted the full retrospective transitional provisions in assessing the impact of AASB 15.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues from sales of goods are recognised by the Group when the goods are transferred to the customer, namely from the time the customer gains control of the goods. Revenue from services is recognised at the point the services are provided. Revenues are accounted for net of discounts, rebates and returns.

The application of AASB 15 is not materially different from the previous standard in terms of recognition of revenue. Application of AASB 15 did not impact the way in which the Group accounts for revenues.

AASB 9 Financial Instruments

The adoption of AASB 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities. Trade receivables is the only financial asset that has been impacted by the adoption of the standard, specifically the measurement basis for the impairment of trade receivables.

As at 1 July, the Group reassessed the classification and measurement of financial assets and liabilities based on the business model by which they are managed and their cash flow characteristics. Financial assets previously classified as loans and receivables of \$15,344,000 were recategorised as amortised costs.

AASB 9 replaces the ‘incurred loss’ model in AASB 139 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost and in Korvest’s case this includes trade receivables and cash and cash equivalents.

Under AASB 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for trade receivables based on lifetime ECLs.

When determining the credit risk for trade receivables the Group uses quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information. Given the prudent approach to estimating losses on receivables in accordance with the previous standard, the Group did not need to adjust the estimated recoverability of trade receivables and other financial assets on transition to AASB 9.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginnings after 1 July 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, AASB 16 Leases is expected to have a material impact on the Group’s financial statements.

AASB 16 Leases

The Group is required to adopt AASB 16 Leases from 1 July 2019. The Group has assessed the estimated impact that initial application of AASB 16 will have on its consolidated financial statements. The actual impacts of adopting the standard on 1 July 2019 may change as the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

AASB 16 introduces a single, on–balance sheet accounting model for lessees. A Lessee recognises a right-of-use asset representing its right to use the underlying asset and a liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group will recognise new assets and liabilities for its operating leases of warehouses and a small number of forklifts. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease.

Based on the information currently available, the Group estimates that on 1 July 2019 it will recognise lease liabilities and an offsetting right of use asset of \$5,162,000.

The Group plans to apply AASB 16 initially on 1 July 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening retained earnings as at 1 July 2019, with no restatement of comparative information.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

RESULTS FOR THE YEAR

This section focuses on the Group’s performance. Disclosures in this section include analysis of the Group’s profit before tax by reference to the activities performed by the Group and analysis of key revenues and operating costs, segmental information, net finance costs and earnings per share.

Underlying earnings before interest and tax (“EBIT”) and before exceptional items remain the Group’s key profit indicator. This reflects how the business is managed and how the Directors assess the performance of the Group.

1. REVENUE AND OTHER INCOME

ACCOUNTING POLICIES

Sale of goods

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the customer gains control of the goods. Revenue from services is recognised at the point the services are provided.

Good and services tax

	2019 \$'000	2018 \$'000
Sales revenue		
Sales of goods	60,843	56,962

Revenue is recognised net of goods and services tax (GST).

Disaggregation of revenue is presented in Note 6 Segment Reporting.

2. EXPENSES

ACCOUNTING POLICIES

Good and services tax

Expenses are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the expense.

EXPENSES BY NATURE

	2019 \$'000	2018 \$'000
Cost of goods sold	37,529	36,088
Sales, marketing and warehousing expenses	11,856	12,320
Administration expenses	2,678	2,403
Distribution expenses	4,712	4,279
Other expenses	-	10
	56,775	55,100
Profit before income tax has been arrived at after charging the following expenses:		
Employee benefits:		
Wages and salaries	15,462	15,317
Other associated personnel expenses	1,842	1,708
Contributions to defined contribution superannuation funds	1,217	1,180
Expense relating to annual and long service leave	1,304	1,129
Termination benefits	101	200
Employee share bonus plan expense	62	48
Other:		
Loss on disposal of property, plant and equipment	-	10
Research and development expense	79	-

3. FINANCE INCOME

ACCOUNTING POLICIES

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest rate method.

4. EARNINGS PER SHARE

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 30 June 2019 was based on the net profit attributable to ordinary shareholders of \$2,885,349 (2018: \$1,368,595) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2019 of 11,157,875 (2018: 11,104,989).

The calculation of diluted earnings per share at 30 June 2019 was based on the net profit attributable to ordinary shareholders of \$2,885,349 (2018: \$1,368,595) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2019 of 11,191,027 (2018: 11,104,989).

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (BASIC)

	2019 Shares '000	2018 Shares '000
Issued ordinary shares at 1 July	11,132	11,073
Effect of shares issued during year	26	32
Weighted average number of ordinary shares at 30 June	11,158	11,105

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES (DILUTED)

Weighted average number of ordinary shares (basic)	11,158	11,105
Effect of Executive Share Plan	33	-
Weighted average number of ordinary shares at 30 June	11,191	11,105

BASIC AND DILUTED EARNINGS PER SHARE

	2019 Cents per Share	2018 Cents per Share
Basic earnings per share from continuing operations	25.9	12.3
Diluted earnings per share from continuing operations	25.8	12.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

5. AUDITOR’S REMUNERATION

	2019 \$	2018 \$
<b>Audit services:</b>		
Auditors of the Group (KPMG Australia)		
– audit and review of financial statements	100,654	97,300
	100,654	97,300
<b>Other services:</b>		
Auditors of the Group (KPMG Australia)		
– other taxation consulting	7,175	7,175
	7,175	7,175

6. SEGMENT REPORTING

Segment results that are reported to the Group’s Managing Director (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

BUSINESS SEGMENTS

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 Company’s reportable segments.

Industrial Products

Industrial Products segment includes the manufacture of electrical and cable support systems, steel fabrication and access systems. It also includes the sale, hire and repair of high torque tools. It includes the businesses trading under the EzyStrut, Power Step and Titan Technologies names.

Production

Production segment 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.

GEOGRAPHICAL SEGMENTS

The Group predominantly operates in Australia.

CUSTOMERS

There was no individually significant customer that would represent more than 10% of total revenues in the current financial year.

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 profit before tax (PBT). Inter-segment transactions are not recorded as revenue. Instead a cost allocation relating to the transactions is made based on negotiated rates.

	Industrial Products		Production		Total	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Sales revenue	55,697	51,682	5,146	5,280	60,843	56,962
Depreciation and amortisation	(875)	(942)	(209)	(291)	(1,084)	(1,233)
Reportable segment profit before tax	4,286	2,126	519	227	4,805	2,353
Reportable segment assets	25,178	19,531	4,159	4,214	29,336	23,745
Capital expenditure	1,136	421	448	379	1,584	800

6. SEGMENT REPORTING (CONTINUED)

RECONCILIATION OF REPORTABLE SEGMENT PROFIT, ASSETS AND OTHER MATERIAL ITEMS

	2019 \$'000	2018 \$'000
<b>Profit</b>		
Total profit for reportable segments	4,805	2,353
Unallocated amounts – other corporate expenses (net of corporate income)	(671)	(451)
Profit before income tax	4,134	1,902
<b>Assets</b>		
Total assets for reportable segments	29,336	23,745
Land and buildings	7,333	7,340
Cash, cash equivalents and investments	3,401	5,394
Other unallocated amounts	1,220	1,385
Total assets	41,290	37,864
<b>Capital expenditure</b>		
Capital expenditure for reportable segments	1,584	800
Other corporate capital expenditure	56	4
Total capital expenditure	1,640	804
<b>Other material items</b>		
Depreciation and amortisation for reportable segments	1,084	1,233
Unallocated amounts – corporate depreciation	385	392
Total depreciation and amortisation	1,469	1,625

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

WORKING CAPITAL

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as inventory, trade and other receivables, trade and other payables and provisions.

Careful management of working capital ensures that the Group can meet its trading and financing obligations within its ordinary operating cycle.

This section provides further information regarding working capital management and analysis of the elements of working capital.

7. TRADE AND OTHER RECEIVABLES

ACCOUNTING POLICIES

Trade receivables

Trade receivables are non-derivative financial instruments that are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any identified impairment losses.

The fair values of trade and other receivables are estimated as the present value of future cash flows, discounted at the market rate of interest at the measurement date. Short-term receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

Goods and services tax

Trade receivables are recognised inclusive of the amount of goods and services tax (GST) which is payable to taxation authorities. The net amount of GST payable to the taxation authority is included as part of receivables or payables.

	2019 \$'000	2018 \$'000
<b>Current</b>		
Trade receivables	14,688	10,589
Less: Allowance for impairment	(608)	(639)
Net trade receivables	14,080	9,950

Impairment

AASB 9 Financial Instruments was adopted on 1 July 2018. AASB 9 replaced the “incurred loss” model in AASB 139 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost and this includes trade receivables.

Under AASB 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group has elected to measure loss allowances for trade receivables based on lifetime ECLs.

When determining the credit risk for trade receivables the Group uses quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information. The Group did not need to adjust the estimated recoverability of trade receivables and other financial assets on transition to AASB 9.

The Group sells to a variety of customers including wholesalers and end users and does not have a concentration of credit risk in any one sector.

	2019 \$'000	2018 \$'000
<b>Movement in allowance for impairment</b>		
Balance at 1 July	(639)	(582)
Amounts written off against allowance	31	78
Impairment loss recognised	-	(135)
Balance at 30 June	(608)	(639)

8. INVENTORIES

ACCOUNTING POLICIES

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on average cost and includes expenditure incurred in acquiring the inventories, production and conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Non-financial assets such as inventories are recognised net of amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from taxation authority, it is recognised as part of the cost of acquisition of the asset.

	2019 \$'000	2018 \$'000
<b>Current</b>		
Raw materials and consumables	2,339	2,303
Work in progress	351	245
Finished goods	7,814	6,847
	10,504	9,395

Finished goods are shown net of an impairment provision amounting to \$1,454,000 (2018: \$1,464,000) arising from the likely inability to sell a product range at or equal to the cost of inventory.

9. TRADE AND OTHER PAYABLES

ACCOUNTING POLICIES

Payables

Trade and other accounts payable are non-derivative financial instruments measured at cost.

Trade payables are recognised inclusive of the amount of goods and services tax (GST) which is recoverable from taxation authorities. The net amount of GST recoverable from the taxation authority is included as part of receivables or payables.

	2019 \$'000	2018 \$'000
<b>Current</b>		
Trade payables and accrued expenses	3,279	2,146
Non-trade payables and accrued expenses	2,695	2,520
	5,974	4,666

10. EMPLOYEE BENEFITS

ACCOUNTING POLICIES

Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

10. EMPLOYEE BENEFITS (CONTINUED)

Long-term benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates, and is discounted using the rates attached to high quality corporate bonds at the reporting date which have maturity dates approximating to the terms of the Company's obligations.

	2019 \$'000	2018 \$'000
<b>Current</b>		
Liability for annual leave	925	950
Liability for long service leave	1,547	1,375
	2,472	2,325
<b>Non-current</b>		
Liability for long service leave	140	240
Total employee benefits	2,612	2,565

Accrued wages and salaries are included in accrued expenses in note 9.

Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Share based payments

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the performance rights with only non-market performance conditions is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility of the Company's share prices, adjusted for changes expected due to publicly available information), weighted average expected life of the instruments, expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of performance rights with market related performance conditions is measured using a Monte Carlo simulation.

Employee Share Bonus Plan

The Employee Share Bonus Plan allows Group employees to receive shares of the Company. Shares are allotted to employees who have served a qualifying period. Up to \$1,000 per year in shares is allotted to each qualifying employee. The fair value of shares issued is recognised as an employee expense with a corresponding increase in equity. The fair value of the shares granted is measured using a present value method.

Executive Share Plan

The Executive Share Plan and the Performance Rights Plan allow Group employees to receive shares of the Company. The fair value of options or rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options/right.

Executive Share Plan (ESP) – discontinued

In March 2005, the Group established a share option plan that entitled selected senior executives to acquire shares in the entity subject to the successful achievement of performance targets related to improvements in total shareholder returns over a two-year option period. The plan was discontinued in 2010 with no new issues made under the plan since that time. The plan remains in operation for those employees granted options under that plan prior to 2010.

10. EMPLOYEE BENEFITS (CONTINUED)

The options were exercisable if the total shareholder return (measured as share price growth plus dividends paid) over a two-year period from the grant date exceeded ten per cent plus CPI per annum. 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.

The options were offered only to selected senior executives.

Korvest Performance Rights Plan (KPRP)

In August 2011 the Company established a performance rights plan to replace the ESP. In November 2011 the first performance rights were granted under the plan and further issues have been granted annually since. The plan is designed to provide long term incentives to eligible senior employees of the Group and entitles them to acquire shares in the Company, subject to the successful achievement of performance hurdles. For issues made between November 2011 and November 2015 only one performance hurdle related to earnings per share (EPS) was used. From the November 2016 issue onwards a second hurdle related to Relative Total Shareholder Return (RTSR) was introduced.

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.

	Plan	Number of options / rights initially granted	Number outstanding at balance date AASBs	Number outstanding at balance date ASX
<b>Grant date</b>				
March 2005	ESP	60,000	15,000	-
March 2009	ESP	85,000	10,000	-
November 2016	KPRP	117,000	33,152	33,152
November 2017	KPRP	76,300	76,300	76,300
November 2018	KPRP	102,105	102,105	102,105
<b>Total share options / performance rights</b>		440,405	236,557	211,557

Options subject to a non-recourse loan for the purchase of shares are not recognised as exercised by International Financial Reporting Standards, until the loan is extinguished at which point the shares are recognised.

Measurement of fair values

The fair value of the rights granted through the KPRP with an EPS hurdle was measured based on the Black-Scholes formula. The fair value of the rights granted through the KPRP with an RTSR hurdle is measured using a Monte Carlo simulation. Expected volatility is estimated by considering historic share price volatility over the twelve months prior to grant date.

The inputs used in the measurement of the fair value at grant date of the KPRP were as follows:

	2019		2018	
	RTSR hurdle	EPS Hurdle	RTSR hurdle	EPS Hurdle
Fair value at grant date	\$1.83	\$2.03	\$1.22	\$1.84
Share price at grant date	\$2.60	\$2.60	\$2.35	\$2.35
Exercise price	-	-	-	-
Share price volatility	40.0%	40.0%	32.0%	32.0%
Dividend yield	4.6%	4.6%	5.4%	5.4%
Risk free interest rate	2.09%	2.09%	2.0%	2.0%
Life of options	3 yrs	3 yrs	3 yrs	3 yrs
Advised restriction period (after vesting)	2 yrs	2 yrs	2 yrs	2 yrs

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

10. EMPLOYEE BENEFITS (CONTINUED)

Reconciliation of outstanding share options/rights

GRANT DATE	EXERCISE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER OF OPTIONS/RIGHTS AT BEGINNING OF YEAR	RIGHTS GRANTED	LAPSED	FORFEITED	EXERCISED	NUMBER OF OPTIONS AT END OF YEAR ON ISSUE	EXERCISABLE AT 30 JUNE	
2019											
PREVIOUS PLAN											
Mar 05	Jan 07	Jan 27	\$4.36	15,000	-	-	-	-	15,000	-	
Mar 09	Jan 11	Jan 31	\$3.79	10,000	-	-	-	-	10,000	-	
				25,000	-	-	-	-	25,000	-	
Weighted average exercise price				\$4.13	\$4.13						
CURRENT PLAN											
Nov 16	Jul 19	Jun 19	-	74,000	-	(40,848)	-	-	-	33,152	
Nov 17	Jul 20	Jun 20	-	76,300	-	-	-	-	76,300	-	
Nov 18	Jul 21	Jun 21	-	-	102,105	-	-	-	102,105	-	
				150,300	102,105	(40,848)	-	-	178,405	33,152	
Weighted average exercise price				\$Nil	\$Nil	\$Nil	\$Nil	\$Nil			\$Nil
2018											
PREVIOUS PLAN											
Mar 05	Jan 07	Jan 27	\$4.36	15,000	-	-	-	-	15,000	-	
Mar 09	Jan 11	Jan 31	\$3.79	10,000	-	-	-	-	10,000	-	
				25,000	-	-	-	-	25,000	-	
Weighted average exercise price				\$4.13	\$4.13						
CURRENT PLAN											
Nov 15	Jul 18	Jun 18	-	104,000	-	(67,600)	(36,400)	-	-	-	
Nov 16	Jul 19	Jun 19	-	104,500	-	-	(30,500)	-	74,000	-	
Nov 17	Jul 20	Jun 20	-	-	76,300	-	-	-	76,300	-	
				208,500	76,300	(67,600)	(66,900)	-	150,300	-	
Weighted average exercise price				\$Nil	\$Nil	\$Nil	\$Nil	\$Nil			

11. PROVISIONS

ACCOUNTING POLICIES

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting risk adjusted future expected cash flows at a pre-tax discount rate that reflects the time value of money. The unwinding of the discount is recognised as a finance cost.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. Power Step assemblies are sold with a warranty period of 12 months from installation date or 18 months from invoice date, whichever occurs first. The provision is based on estimates made from historical warranty data associated with similar products. The entire warranty provision has been treated as current.

Site restoration and safety

A provision of \$453,000 (2018: \$433,000) is held in respect of the Company's obligation to rectify potential environmental damage at the main site premises in Kilburn. The provision is reassessed annually and is based on an estimate of the cost to rectify the site. It has been assumed that the rectification would occur in 15 years (2018: 15 years). Provisions are determined by discounting risk adjusted future expected cash flows at a pre-tax discount rate that reflects the time value of money. A discount rate of 3.17% (2018: 3.0%) and an inflation rate of 2.0% (2018: 2.0%) have been used for the calculation at 30 June 2019.

	2019 \$'000	2018 \$'000
Current		
Warranties	32	37
Non-current		
Site restoration	453	433
	485	470

TANGIBLE ASSETS

The following section shows the physical tangible and non-physical intangible assets used by the Group to operate the business, generating revenues and profits.

This section explains the accounting policies applied and specific judgments and estimates made by the Directors in arriving at the net book value of these assets.

Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Depreciation is calculated to write off the carrying value of property, plant and equipment less the estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- Buildings40 years
- Plant and equipment3-12 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

12. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are measured at fair value.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any costs directly attributable to bringing the assets to a working condition for their intended use;
- When the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Fair value measurement

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which a property could be exchanged on the date of acquisition between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. Land and buildings are valued by an independent valuer every three years. In the intervening years between independent valuations the directors make an assessment of the value of the land and buildings having regard for the most recent independent valuation.

Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repairs and maintenance are expensed as incurred.

	Land & Buildings (fair value) \$'000	Plant & Equipment (cost) \$'000	Total \$'000
<b>Cost</b>			
Balance at 1 July 2017	7,382	20,532	27,914
Acquisitions	-	804	804
Disposals and write-offs	-	(340)	(340)
Transfer of equipment to inventory	-	(16)	(16)
Balance at 30 June 2018	7,382	20,980	28,362
Balance at 1 July 2018	7,382	20,980	28,362
Acquisitions	35	1,605	1,640
Disposals and write-offs	-	(244)	(244)
Balance at 30 June 2019	7,417	22,341	29,758
<b>Accumulated depreciation and impairment losses</b>			
Balance at 1 July 2017	-	14,189	14,189
Depreciation charge for the year	42	1,575	1,617
Disposals	-	(320)	(320)
Transfer of equipment to inventory	-	(6)	(6)
Balance at 30 June 2018	42	15,438	15,480
Balance at 1 July 2018	42	15,438	15,480
Depreciation charge for the year	42	1,427	1,469
Disposals	-	(224)	(224)
Balance at 30 June 2019	84	16,641	16,725
<b>Carrying amounts</b>			
At 30 June 2017	7,382	6,343	13,725
At 30 June 2018	7,340	5,542	12,882
At 30 June 2019	7,333	5,700	13,033

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE HIERARCHY OF LAND AND BUILDINGS

At least every three years the directors obtain an independent valuation to support the fair value of Land and Buildings. This valuation is used by the directors as a guide in determining the directors' valuation for the Land and Buildings. An independent valuation of Land and Buildings was carried out in March 2017 by Mr Mark Klenke, AAPI MRICS FFIN of AON Valuation Services on the basis of the open market value of the properties concerned in their highest and best use and was used as a reference for director's valuation as at 30 June 2019.

The carrying amount of the Land and Buildings at cost at 30 June 2019 if not revalued would be \$1,037,700 (2018:\$1,056,410).

The following table shows a reconciliation from the opening balances to the closing balances for Land and Buildings being based on Level 3 fair values:

	\$'000
Balance at 1 July 2017	7,382
Depreciation charge for the year	(42)
Balance at 30 June 2018	7,340
Balance at 1 July 2018	7,340
Additions	35
Depreciation charge for the year	(42)
Balance at 30 June 2019	7,333

VALUATION TECHNIQUE AND SIGNIFICANT UNOBSERVABLE INPUTS

The following table shows the valuation technique used in measuring the fair value of Land and Buildings, as well as the significant unobservable inputs used.

VALUATION TECHNIQUE	SIGNIFICANT UNOBSERVABLE INPUTS	INTER-RELATIONSHIP BETWEEN KEY UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT
Capitalised income approach: the valuation model applies a yield to the property's value to assess its value less any required capital expenditure. The yield applied to the potential rental return from the property is based on recent sales and has been calculated by dividing the estimated rental return from comparable sales to derive a fair market sales price. Capitalised value has been increased by the value of vacant land as the property has below average site coverage indicating further capacity for development.	Market yield - 9.25% Potential rental rate - \$53/m² Land value for vacant land - \$150/m²	The estimated market value would increase if: <ul style="list-style-type: none"> <li>Potential rental rate was higher</li> <li>Land value was higher</li> </ul>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

13. IMPAIRMENT TESTING

ACCOUNTING POLICIES

The carrying amounts of the Group’s tangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis.

Any impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset’s carrying amounts does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

RESULTS

The Group has determined that calculation of the recoverable amount of assets or CGUs is not required as at 30 June 2019.

14. COMMITMENTS FOR EXPENDITURE

OPERATING LEASES

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Leases as lessee

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 \$'000	2018 \$'000
Less than one year	835	759
Between one and five years	1,390	1,372
More than five years	-	-
	2,225	2,131

The Group leases a number of warehouse and factory facilities under operating leases. The leases typically run for a period of up to five years, with an option to renew the lease after that date. Lease payments are increased periodically to reflect market rentals. None of the leases includes contingent rentals. Rentals are increased by CPI or similar each year.

During the financial year \$993,710 was recognised as an expense in the Statement of profit or loss and comprehensive income in respect of operating leases (2018: \$883,769).

CAPITAL STRUCTURE

This section outlines how the Group manages its capital structure, including its balance sheet liquidity and access to capital markets.

The directors determine the appropriate capital structure of the Group, specifically how much is realised from shareholders and how much is borrowed from the financial institutions to finance the Group’s activities now and in the future.

15. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICIES

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments.

Investments and term deposits comprise deposits with maturities greater than three months at acquisition date.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

	2019 \$'000	2018 \$'000
Bank balances	1,884	1,468
Call deposits	1,242	3,651
Cash and cash equivalents in the statement of cash flows	3,126	5,119
Investments and term deposits	275	275

RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>		
Profit for the year	2,885	1,369
Adjustment for:		
Depreciation and amortisation	1,469	1,625
Impairment of trade receivables	(4)	144
Impairment of inventories	(10)	55
Increase in provision for site rectification	20	-
Other	(2)	10
Equity-settled share-based payment expense	114	69
	4,472	3,272
Changes in:		
Trade and other receivables	(4,126)	(817)
Prepayments	(29)	(23)
Inventories	(1,098)	1,293
Trade and other payables	1,308	716
Deferred tax	(20)	533
Income taxes payable	864	107
Provisions and employee benefits	42	29
<b>Net cash from operating activities</b>	<b>1,413</b>	<b>5,110</b>



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2019

16. FINANCIAL INSTRUMENTS  
ACCOUNTING POLICIES

A number of the Group’s accounting policies and disclosures require measurement of fair values, for both financial and non-financial assets and liabilities.

The Group applies AASB 13 Fair Value Measurement, which establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other Accounting Standards. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other Accounting Standards. As a result, the Group has applied additional disclosures in this regard within Notes 7 and 17.

The Group has an established control framework with respect to the measurement of fair values. The Finance Director has overall responsibility for all significant fair value measurements, including Level 3 fair values.

The Finance Director regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, the Finance Director assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of AASB 13, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are required to be reported to the Audit Committee.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for asset or liability that are not based on observable market data (unobservable inputs).

If inputs used to measure fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Financial assets and liabilities

All financial assets and liabilities are initially recognised at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortised cost, as indicated in the table below.

FINANCIAL ASSETS AND LIABILITIES	CLASSIFICATION UNDER AASB 9
Cash, cash equivalents and Investments	Amortised cost
Trade and other receivables	Amortised cost
Trade and other payables	Amortised cost

FINANCIAL RISK MANAGEMENT  
Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Audit Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

16. FINANCIAL INSTRUMENTS (CONTINUED)  
Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is summarised below:

	2019 \$’000	2018 \$’000
Cash, cash equivalents and Investments	3,401	5,394
Trade and other receivables	14,080	9,950

Cash and cash equivalents

The cash, cash equivalents and investments are held with major Australian banks.

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group’s customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

There is an established credit policy under which each new customer is analysed individually for creditworthiness before the Group’s standard payment and delivery terms and conditions are offered. The Group’s review includes external ratings and trade references when applicable and available. Purchase limits are established for each customer, which represent the maximum open amount without requiring further approval. These limits are subject to on-going review. Customers that fail to meet the Group’s benchmark creditworthiness may transact with the Group only on a prepayment basis.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group otherwise does not require collateral in respect of trade and other receivables.

The Group uses an expected credit loss (ECL) model to measure the allowance for losses. The Group uses quantitative and qualitative information based on the Group’s historical experience, informed credit assessment and including forward-looking information.

The maximum exposure to credit risk for trade and other receivables at the end of the reporting period by geographic region was as follows:

	2019 \$’000	2018 \$’000
Carrying values		
Australia	14,013	9,948
New Zealand	24	-
South America	39	-
Other	4	2
	14,080	9,950

At 30 June 2019, the Group’s most significant customer, located in Australia, accounted for \$2,472,702 of the trade and other receivables carrying amount (2018: \$2,015,121).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2019

16. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment losses

The ageing of the trade and other receivables at the reporting date that were not impaired is set out below.

	2019 \$'000	2018 \$'000
<b>Gross</b>		
Not past due nor impaired	10,431	7,050
Past due 0-30 days	3,642	2,900
Past due 31-90 days	7	-
More than 91 days	-	-
	14,080	9,950

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments. The amounts disclosed are the contractual undiscounted cash flows (inflows shown as positive, outflows as negative).

	2019				2018			
	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivative financial liabilities</b>								
Trade and other payables	5,974	(5,974)	(5,974)	-	4,666	(4,666)	(4,666)	-
	5,974	(5,974)	(5,974)	-	4,666	(4,666)	(4,666)	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the Australian dollar (AUD). The currencies in which these transactions primarily are denominated are US dollars (USD) and Thai Baht (THB).

Exposure to currency risk

The Group did not have any material exposure to foreign currency risk and as a result movements in the Australian dollar against other currencies will not have a material impact on the Group's profit or equity.

Interest rate risk

The Group is not currently exposed in any material way to interest rate risk. The risk is limited to the re-pricing of short term deposits utilised for surplus funds. Such deposits generally re-price approximately every 30 days.

Exposure to interest rate risk

Movements in interest rates will not have a material impact on the Group's profit or equity.

16. FINANCIAL INSTRUMENTS (CONTINUED)

Other market price risk

The Group has no material financial instrument exposure to other market price risk as it is not exposed to either commodity price risk or equity securities price risk. The Group does not enter into commodity contracts other than to meet the Group's expected usage requirements.

CAPITAL MANAGEMENT

The Group's objectives when managing capital (net debt and equity) are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

During the year the Group was not subject to externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year.

ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The carrying amounts of the Group's financial assets and liabilities are considered to be a reasonable approximation of their fair values.

17. CAPITAL AND RESERVES

ACCOUNTING POLICIES

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Asset revaluation reserve

The revaluation reserve relates to land and buildings measured at fair value in accordance with Australian Accounting Standards.

Profits reserve

The profits reserve represents current year and accumulated profits transferred to a reserve to preserve the characteristic as a profit and not appropriate against prior year accumulated losses. Such profits are available to enable payment of franked dividends in the future.

Equity compensation reserve

The Equity compensation reserve represents the accumulated expense recognised for share-based payments granted by the Company to date. This reserve will be reversed against share capital or retained earnings when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

SHARE CAPITAL

	2019 Shares '000	2018 Shares '000
<b>Ordinary shares</b>		
On issue at 1 July	11,132	11,073
Issued under the Employee Share Bonus Plan	46	59
On issue at 30 June – fully paid	11,178	11,132

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2019

18. DIVIDENDS  
ACCOUNTING POLICIES

Dividends paid are classified as distribution of profit consistent with the balance sheet classification of the related debt or equity instrument.

RECOGNISED AMOUNTS

	Cents per share	Total amount \$'000	Percentage franked	Tax rate	Date of payment
<b>2019</b>					
Interim 2019 ordinary	9.0	1,006	100%	30%	8 March 2019
Final 2018 ordinary	7.0	781	100%	30%	7 September 2018
Total amount		1,787			
<b>2018</b>					
Interim 2018 ordinary	5.0	556	100%	30%	9 March 2018
Final 2017 ordinary	3.0	333	100%	30%	8 September 2017
Total amount		889			

UNRECOGNISED AMOUNTS

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided.

	Cents per share	Total amount \$'000	Percentage franked	Tax rate	Date of payment
<b>2019</b>					
Final 2019 ordinary	13.0	1,456	100%	30%	6 September 2019

The financial effect of these dividends have not been brought to account in the financial statements for the financial year ended 30 June 2019 and will be recognised in subsequent financial reports.

DIVIDEND FRANKING ACCOUNT

	2019 \$'000	2018 \$'000
30% franking credits available to shareholders of Korvest Ltd for subsequent financial years	7,127	7,273

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liabilities;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- (d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon being able to declare dividends. The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by \$624,000 (2018: reduce by \$334,700).

TAXATION

This section outlines the tax accounting policies, current and deferred tax impacts, a reconciliation of profit before tax to the tax charge and the movement in deferred tax assets and liabilities.

19. CURRENT AND DEFERRED TAXES  
ACCOUNTING POLICIES

Tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation

The Company and the wholly owned Australian subsidiaries set out in Note 20 are part of a tax-consolidated group with Korvest Ltd as the head entity. The implementation date of the tax consolidation system for the tax-consolidated group was 1 March 2013.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are allocated to the Company and recognised using a ‘group allocation’ approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company’s balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of a member of the tax consolidated group are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (receivable) to other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the member of the tax consolidated group as an equity contribution from or distribution to the head entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2019

## 19. CURRENT AND DEFERRED TAXES (CONTINUED)

### INCOME TAX RECOGNISED IN THE INCOME STATEMENT

	2019 \$'000	2018 \$'000
<b>Current tax expense</b>		
Current year	1,270	67
	1,270	67
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences		
- relating to current year	(21)	466
	(21)	466
<b>Total income tax expense in Statement of profit or loss and comprehensive income</b>	<b>1,249</b>	<b>533</b>

### NUMERICAL RECONCILIATION BETWEEN TAX EXPENSE AND PRE-TAX NET PROFIT

	2019 \$'000	2018 \$'000
Profit before tax	4,135	1,902
Income tax using the domestic corporation tax rate of 30% (2018:30%)	1,240	570
Non-deductible expenses	9	(1)
Recognition of previously unrecognised tax losses	-	(36)
Income tax expense on pre-tax net profit	1,249	533

### RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Property, plant and equipment	-	-	1,780	1,862	1,780	1,862
Inventories	(436)	(439)	530	568	94	129
Provisions / accruals	(975)	(970)	-	-	(975)	(970)
Provision for doubtful debts	(181)	(190)	-	-	(181)	(190)
Tax loss carried forward	(287)	(380)	-	-	(287)	(380)
Tax (assets) / liabilities	(1,879)	(1,979)	2,310	2,430	431	451
Set off of tax	1,879	1,979	(1,879)	(1,979)	-	-
<b>Net tax (assets) / liabilities</b>	<b>-</b>	<b>-</b>	<b>431</b>	<b>451</b>	<b>431</b>	<b>451</b>

## 19. CURRENT AND DEFERRED TAXES (CONTINUED)

### MOVEMENT IN DEFERRED TAX BALANCES DURING THE YEAR

	Balance 30 June 18 \$'000	Recognised in profit \$'000	Balance 30 June 19 \$'000
Property, plant and equipment	(1,862)	82	(1,780)
Inventories	(129)	35	(94)
Provisions / accruals	970	5	975
Provision for doubtful debts	190	(9)	181
Tax loss carried forward	380	(93)	287
	(451)	20	(431)

	Balance 30 June 17 \$'000	Recognised in profit \$'000	Balance 30 June 18 \$'000
Property, plant and equipment	(1,960)	98	(1,862)
Inventories	(47)	(82)	(129)
Provisions / accruals	945	25	970
Provision for doubtful debts	192	(2)	190
Tax loss carried forward	952	(572)	380
	82	(533)	(451)

### BUSINESS COMBINATIONS

This section outlines the Group's structure and changes thereto.

## 20. INVESTMENT IN SUBSIDIARIES

### ACCOUNTING POLICIES

#### Basis of consolidation

These financial statements are the financial statements for all the entities that comprise the Group, being the Company and its subsidiaries as defined in Accounting Standard AASB 10 Consolidated Financial Statements.

#### Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### GROUP ENTITIES

	Country of Incorporation	Ownership interest	
		2019 %	2018 %
<b>PARENT ENTITY</b>			
Korvest Ltd	Australia		
<b>SUBSIDIARIES</b>			
Power Step (Australia) Pty Ltd	Australia	100	100
Power Step (Chile) SpA	Chile	100	100
Titan Technologies (SE Asia) Pty Ltd	Australia	100	100



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

OTHER NOTES

21. KEY MANGEMENT PERSONNEL

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

NON-EXECUTIVE DIRECTORS	EXECUTIVE DIRECTORS	EXECUTIVES
<ul style="list-style-type: none"> <li>Graeme Billings (Chairman)</li> <li>Gary Francis</li> <li>Gerard Hutchinson</li> <li>Andrew Stobart</li> </ul>	<ul style="list-style-type: none"> <li>Chris Hartwig (Managing Director from 28 February 2018, prior to that was Executive General Manager, Sales &amp; Marketing)</li> <li>Steven McGregor (Finance Director and Company Secretary)</li> </ul>	<ul style="list-style-type: none"> <li>Gavin Christie (General Manager, Operations)</li> <li>Stephen Taubitz (General Manager Sales - EzyStrut) – became a member of KMP on 1 March 2018</li> <li>Paul Assaf (General Manager, Power Step &amp; Titan Technologies) - Retired 28 September 2018</li> </ul>

KEY MANAGEMENT PERSONNEL COMPENSATION POLICY

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors’ interests existing at year-end.

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation comprised:

	2019 \$	2018 \$
Short-term employee benefits	1,592,870	1,565,929
Post-employment benefits	119,489	145,261
Termination payments	149,498	247,680
Long term benefits	(14,640)	(61,655)
Share based payments	57,684	23,034
	1,903,901	1,920,249

INDIVIDUAL DIRECTORS AND EXECUTIVES COMPENSATION DISCLOSURES

Information regarding individual directors’ and executives’ compensation and some equity instrument disclosure as permitted by Corporations Regulations 2M.3 is provided in the remuneration report section of the Directors’ report.

OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH THE GROUP

From time to time, key management personnel of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers and are trivial or domestic in nature.

22. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ending 30 June 2019 the parent entity of the Group was Korvest Ltd.

	2019 \$'000	2018 \$'000
<b>Result of parent entity</b>		
Profit for the period	4,275	1,262
<b>Total comprehensive income for the period</b>	4,275	1,262
<b>Financial position of parent entity at year end</b>		
Current Assets	27,769	24,074
Total Assets	41,313	37,510
Current Liabilities	9,035	6,385
Total Liabilities	10,280	7,787
Share capital	14,143	14,084
Reserves	16,890	15,793
Retained earnings	-	(154)
<b>Total Equity</b>	31,033	29,723

GUARANTEES ENTERED INTO BY THE COMPANY

Bank guarantees given by the Company in favour of customers amounted to \$57,483 (2018: \$68,498).

CONTINGENT LIABILITIES OF THE COMPANY

The Company does not have any contingent liabilities other than the guarantees disclosed above.

PARENT ENTITY CAPITAL COMMITMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At 30 June 2019, the Company had contractual commitments for the acquisition of property, plant and equipment of \$187,000 (2018: \$144,000).

23. SUBSEQUENT EVENTS

There has not arisen between the end of the year and the date of this report any item, transaction or event of a material nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group in subsequent financial periods.

DIRECTORS' DECLARATION

For the year ended 30 June 2019

- 1. In the opinion of the Directors of Korvest Ltd (the Company):
  - (a) the consolidated financial statements and notes that are set out on pages 20 to 49 and the Remuneration report in the Directors' report, set out on pages 8 to 16, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2019.
- 3. The Directors draw attention to the Basis of preparation note on page 24, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Adelaide this 26th July 2019  
Signed in accordance with resolution of directors:

*Graeme Billings*

GRAEME BILLINGS  
DIRECTOR

DIRECTORS' DECLARATION





# Independent Auditor's Report

To the shareholders of Korvest Ltd

## Report on the audit of the Financial Report

### Opinion

We have audited the Financial Report of Korvest Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated statement of financial position as at 30 June 2019;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



Valuation of inventories (\$10.5m)	
Refer to Note 8 Inventories to the Financial report	
The key audit matter	How the matter was addressed in our audit
<p>The valuation of inventories is a key audit matter because of its highly specialised nature which results in the Group holding various inventory types unique to the equipment they are manufactured for. This adds complexity to our evaluation of the Group's assessment of obsolescence and net realisable value (NRV) of inventories.</p> <p>We particularly focused on the estimates listed below which significantly impact the valuation:</p> <ol style="list-style-type: none"><li>Expected selling price of inventory.</li><li>Ageing of inventory.</li><li>Future inventory usage.</li></ol> <p>In assessing this key audit matter, we used senior team members who understand the Group's business, industry and the relevant economic environment.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"><li>Attending year-end stocktakes in significant locations which included observing the Group's process of identifying slow moving and potentially obsolete inventory.</li><li>Using the current year selling price and resulting gross margin for each product to identify evidence of negative gross margin products. We compared these negative gross margin products to the inventory obsolescence provision.</li><li>Obtaining the calculation of the inventory obsolescence provision and comparing it to the Group's accounting policies, the Group's analysis of slow moving inventory and current year actual sales and usage.</li></ul>

### Other Information

Other Information is financial and non-financial information in Korvest Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other information we obtained prior to the date of this Auditor's report was the Directors' report, 5 Year Summary and ASX Additional information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.



#### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

#### Report on the Remuneration Report

##### Opinion

In our opinion, the Remuneration Report of Korvest Ltd for the year ended 30 June 2019, complies with *Section 300A of the Corporations Act 2001*.

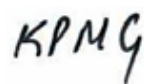
##### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

##### Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Paul Cenko

Partner

Adelaide

26 July 2019



## 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 audit of Korvest Ltd for the financial year ended 30 June 2019 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



KPMG



Paul Cenko

Partner

Adelaide

26 July 2019



ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

SHAREHOLDINGS (AS AT 24 JULY 2019)  
SUBSTANTIAL SHAREHOLDERS

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Percentage	Number
Perpetual Limited	10.72%	1,198,653
Colonial First State Asset Management (Australia) Limited	10.31%	1,150,462
Phoenix Portfolios Pty Ltd	6.14%	684,607
Donald Cant Pty Ltd	5.48%	611,759

VOTING RIGHTS  
ORDINARY SHARES

Refer to note 18 in the financial statements.

OPTIONS

Refer to note 10 in the financial statements.

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Category	NUMBER OF EQUITY SECURITY HOLDERS		
	Total Holders	Units	% Issued Capital
1 - 1,000	726	262,509	2.34
1,001 - 5,000	615	1,572,677	14.04
5,001 - 10,000	147	1,111,767	9.92
10,001 - 100,000	140	2,908,960	25.97
100,001 and over	14	5,347,322	47.73
	1,642	11,203,235	100

The number of shareholders holding less than a marketable parcel of ordinary shares is 286.

SECURITIES EXCHANGE

The Company is listed on the Australian Securities Exchange. The Home exchange is Sydney.

OTHER INFORMATION

Korvest Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

ON MARKET BUY BACK

There is no current on-market buy back.

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary Shares held	Percentage of capital held
HSBC Custody Nominees (Australia) Limited	1,194,928	10.67
Citicorp Nominees Pty Limited	1,183,089	10.56
Donald Cant Pty Ltd	611,759	5.46
J P Morgan Nominees Australia Pty Limited	609,768	5.44
National Nominees Limited	482,172	4.30
Ace Property Holdings Pty Ltd	200,000	1.79
Brazil Farming Pty Ltd	181,163	1.62
Angueline Capital Pty Limited	153,196	1.37
Allegro Two Super Fund Pty Ltd <Allegro Super Fund No 2 A/C>	129,803	1.16
Rathvale Pty Limited	128,858	1.15
Brazil Farming Pty Ltd	124,554	1.11
Creative Living (Qld) Pty Ltd	120,000	1.07
Robert Nairn Pty Ltd	118,032	1.05
18&1 Capital Pty Limited	110,000	0.98
Gotterdamung Pty Limited <Gotterdamung S/F A/C>	84,327	0.75
Mrs Helen Elizabeth Rollinson	66,633	0.59
Mr Sean David Cunningham <S & N Cunningham Super A/C>	65,263	0.58
Ms Nina Tschernykow	60,720	0.54
A & R Truda Pty Ltd <A&R Truda Super A/C>	60,683	0.54
Mr Geoffrey Neil Huddleston + Mrs Raelene Jane Huddleston	54,644	0.49
	5,739,592	51.22

OFFICES AND OFFICERS  
COMPANY SECRETARY

Steven John William McGregor BA(Acc), CA, AGIA, ACIS

PRINCIPAL REGISTERED OFFICE

Korvest Ltd  
580 Prospect Road  
Kilburn, South Australia, 5084  
Ph: (08) 8360 4500  
Fax: (08) 8360 4599

LOCATIONS OF SHARE REGISTRY

Adelaide  
  
Computershare Investor Services Pty Ltd  
Level 5  
115 Grenfell Street  
Adelaide, South Australia, 5000  
Ph: 1300 556 161 (within Australia) or +61 3 9415 4000 (outside Australia)









Korvest Ltd, 580 Prospect Road, Kilburn, SA 5084  
T: 61 8 8360 4500 | F: 61 8 8360 4599 | E: korvest@korvest.com.au  
[www.korvest.com.au](http://www.korvest.com.au)



[www.ezystrut.com.au](http://www.ezystrut.com.au)



[www.powerstep.com.au](http://www.powerstep.com.au)



[www.titantools.com.au](http://www.titantools.com.au)



[www.korvestgalvanisers.com.au](http://www.korvestgalvanisers.com.au)