

Spheria Emerging Companies Limited

ACN 621 402 588

Interim Financial Report

For the half-year ended 31 December 2023

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This Interim Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Company's annual report for the year ended 30 June 2023 and with any public announcements made by the entity during the interim reporting period.

Directors' report

The directors present their report together with the interim financial statements of Spheria Emerging Companies Limited (**Company**) for the half-year ended 31 December 2023.

The Company is a company limited by shares and is incorporated in Australia.

Directors

The following persons held office as directors during the half-year and up to the date of this report, unless otherwise stated:

Jonathan Trollip (Chairman)

Lorraine Berends AM

Matthew Booker

Chris Meyer (Alternate Director)

Principal activities

The principal activity of the Company is to provide shareholders the opportunity to invest in an actively managed equities portfolio that provides exposure to Australian Small Cap Securities. There have been no significant changes in the nature of these activities during the half-year.

Review of operations

The Company offers investors access to an actively managed portfolio, predominantly comprised of Australian Small Cap Securities, which aims to outperform its Benchmark S&P/ASX Small Ordinaries Accumulation Index over each full investment cycle (typically 3 to 5 years). The investment strategy aims to provide total returns in excess of the Benchmark, and capital growth.

Activities for the half-year ended 31 December 2023 resulted in an operating profit after tax of \$8,649,000, compared to a profit after tax of \$4,331,000 for the half-year ended 31 December 2022.

During the half-year, the Company paid a fully franked quarterly dividend of 2.8 cents per share for the June 2023 quarter on 7 August 2023, and 2.7 cents per share for the September 2023 quarter on 6 November 2023. This is consistent with the aim to pay dividends on a quarterly basis, at a level of 1.25% of post-tax NTA at the end of each calendar quarter, subject to available profits, cash flow and franking credits.

Since period end the Company has paid a fully franked quarterly dividend for the December 2023 quarter of 2.9 cents per share on 6 February 2024.

Performance

We consider that it is useful to report performance from three different perspectives:

- 1) Firstly, to show how the investment portfolio has performed after deducting management fees and performance fees (if applicable) compared to the Benchmark. We refer to this as the **Manager Performance**. The Benchmark is also used to calculate any Manager performance fees;
- 2) Secondly, to show how the Company has performed which, in addition to the management and performance fees mentioned above, also accounts for all other Company expenses paid excluding taxes. We refer to this as the **Company Performance**. Company performance is adjusted for dividends paid by the Company and does not include the value of franking credits held by the Company; and

- 3) Finally, to show the **Total Shareholder Return or TSR Performance**, which measures the change in the share price adjusted for any dividends paid during the period. The TSR Performance does not include the value of any franking credits when they are paid to shareholders. The TSR Performance can be an important measure as often the share market can trade at a premium or discount to the NTA.

The results of each of these measures for the half-year are outlined below:

Manager Performance	+ 9.4%
Portfolio Benchmark	+ 6.4%
Manager Out-Performance	+ 3.0%

Company Performance	+ 9.2%
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TSR Performance	+ 7.3%
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TSR Performance was lower than other performance measures during the half-year, reflecting the increase in discount between share price and NTA from 13.6% at 30 June 2023 to 15.4% at 31 December 2023.

While there has been an increase in the discount during the period, the Board remains committed on addressing the discount. On 16 January 2024 the Company announced a conditional proposal agreed with the manager of the Company's investment portfolio, Spheria Asset Management Pty Limited, to pursue an exchange of shares in the Company for units in Spheria Australian Smaller Companies Fund, should the average discount of the Company's share price to pre-tax NTA during the period 1 October 2024 to 31 December 2024 exceed 5%. The proposal provides a period of time for the market to determine if shareholders' investment in the Company remains in a listed investment company (LIC) or is converted to an interest in an active ETF or managed fund.

On-market share buy-back

The Company commenced an on-market share buy-back on 14 June 2023 with the ability to purchase up to 5,413,557 shares through to 13 June 2024.

During the half-year 161,786 shares were purchased for total consideration of \$298,000. Since period end no further shares have been purchased under the buy-back, leaving 5,059,426 shares able to be bought back under this limit.

Matters subsequent to the end of the financial period

Other than as disclosed in note 6 of the interim financial statements, no matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Significant changes in the state of affairs

There were no significant changes to the state of affairs of the Company during the half-year.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 6.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

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

A handwritten signature in dark ink, appearing to read 'Jonathan Trollip', is written in a cursive style.

Jonathan Trollip

Chairman

Sydney

22 February 2024

Pitcher Partners Sydney

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**Auditor's Independence Declaration
To the Directors of Spheria Emerging Companies Limited
ABN 84 621 402 588**

In relation to the independent auditor's review of Spheria Emerging Companies Limited for the half year ended 31 December 2023, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.



C I Chandran
Partner

Pitcher Partners
Sydney

22 February 2024

Interim financial statements

Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2023

	Notes	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Investment income			
Interest income received		38	18
Dividends received		2,419	3,322
Gains on financial instruments held at fair value through profit and loss		11,338	2,996
Net investment income		13,795	6,336
Expenses			
Management fees		(659)	(684)
Performance fees		(1,170)	-
Brokerage costs		(105)	(85)
ASX and share registry fees		(80)	(74)
Professional fees		(41)	(36)
Director fees		(40)	(40)
Other expenses		(93)	(92)
Total expenses		(2,188)	(1,011)
Profit before income tax		11,607	5,325
Income tax expense		(2,958)	(994)
Net profit after income tax for the period		8,649	4,331
Other comprehensive income net of tax		-	-
Total comprehensive income for the period attributable to shareholders		8,649	4,331

Earnings per share for profit attributable to ordinary equity holders of the Company	Notes	Cents	Cents
Basic and diluted earnings per share	5	14.4	7.2

The above statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the interim financial statements.

Statement of financial position

As at 31 December 2023

	Note	31 Dec 2023 \$'000	30 Jun 2023 \$'000
Assets			
Cash and cash equivalents		2,138	1,968
Trade and other receivables		126	428
Financial assets at fair value through profit or loss	2	138,437	130,587
Current tax assets		726	414
Deferred tax assets		663	1,652
Total assets		142,090	135,049
Liabilities			
Trade and other payables		1,535	1,595
Deferred tax liabilities		2,067	24
Total liabilities		3,602	1,619
Net assets		138,488	133,430
Shareholders' equity			
Issued capital	3	122,166	122,464
Profits reserve		62,090	56,734
Accumulated losses		(45,768)	(45,768)
Total equity		138,488	133,430

The above statement of financial position should be read in conjunction with the notes to the interim financial statements.

Statement of changes in equity

For the half-year ended 31 December 2023

	Note	Issued capital \$'000	Profits reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Half-year ended 31 December 2023					
Balance as at 1 July 2023		122,464	56,734	(45,768)	133,430
Total comprehensive income					
Profit for the period		-	-	8,649	8,649
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	8,649	8,649
Transfers between reserves					
Transfers to profit reserve		-	8,649	(8,649)	-
Total transfers between reserves		-	8,649	(8,649)	-
Transactions with owners in their capacity as owners					
Purchase of shares under on-market share buy-back	3(b)	(298)	-	-	(298)
Dividend paid to shareholders	4(a)	-	(3,293)	-	(3,293)
Total transactions with owners in their capacity as owners		(298)	(3,293)	-	(3,591)
Balance as at 31 December 2023		122,166	62,090	(45,768)	138,488
Half-year ended 31 December 2022					
Balance as at 1 July 2022		122,819	50,772	(44,211)	129,380
Total comprehensive income					
Profit for the period		-	-	4,331	4,331
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	4,331	4,331
Transfers between reserves					
Transfers to profit reserve		-	9,271	(9,271)	-
Total transfers between reserves		-	9,271	(9,271)	-
Transactions with owners in their capacity as owners					
Dividend paid to shareholders	4(a)	-	(2,587)	-	(2,587)
Total transactions with owners in their capacity as owners		-	(2,587)	-	(2,587)
Balance as at 31 December 2022		122,819	57,456	(49,151)	131,124

The above statement of changes in equity should be read in conjunction with the notes to the interim financial statements.

Statement of cash flows

For the half-year ended 31 December 2023

	Note	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Cash flows from operating activities			
Proceeds from sale of investments		31,442	24,946
Payments for investments		(28,143)	(22,757)
Interest received		37	13
Dividends received		2,495	3,526
Payments to suppliers		(1,833)	(2,671)
Income taxes paid		(237)	(1,676)
Net cash provided by operating activities		3,761	1,381
Cash flows from financing activities			
Purchase of shares under on-market share buy-back	3(b)	(298)	-
Dividends paid to shareholders	4(a)	(3,293)	(2,587)
Net cash used in financing activities		(3,591)	(2,587)
Net increase / (decrease) in cash and cash equivalents		170	(1,206)
Cash assets at beginning of the financial period		1,968	3,374
Cash assets at the end of the financial period		2,138	2,168

The above statement of cash flows should be read in conjunction with the notes to the interim financial statements.

Notes to the interim financial statements

For the half-year ended 31 December 2023

Note 1 Summary of material accounting policies

The interim financial statements were authorised for issue on 22 February 2024 by the Board.

Basis of preparation

These interim financial statements for the half-year ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The interim financial statements have been prepared on an accrual basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

These interim financial statements do not include all of the disclosures normally included in annual financial statements. It is recommended that this interim financial report be read in conjunction with the Company's annual report for the year ended 30 June 2023 and with any public announcements made by the entity during the interim reporting period.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the interim financial report have been rounded to the nearest one thousand dollars, unless otherwise indicated.

Material accounting policies

The accounting policies adopted in these interim financial statements are consistent with those of the previous financial year, as disclosed in the 30 June 2023 annual report.

New accounting standards and interpretations

There are no new accounting standards, amendments and interpretations that are expected to have a material impact on the interim financial statements.

Note 2 Fair value measurements

The Company measures and recognises its financial assets at fair value through profit or loss on a recurring basis.

Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

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

Note 2 Fair value measurements (continued)

Recognised fair value measurements

The following table presents the Company's assets measured and recognised at fair value:

	Level 1	Level 2	Level 3	Total
Financial Assets	\$'000	\$'000	\$'000	\$'000
31 December 2023				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	138,437	-	-	138,437
Total financial assets	138,437	-	-	138,437
30 June 2023				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	130,587	-	-	130,587
Total financial assets	130,587	-	-	130,587

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets has been based on the closing quoted last prices at the end of the reporting year, excluding transaction costs.

There were no transfers between levels for recurring fair value measurements during the period.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The carrying amounts of all financial instruments other than those measured at fair value on a recurring basis are considered to represent a reasonable approximation of their fair values.

Note 3 Issued capital

(a) Share capital

	31 Dec 2023 Number	31 Dec 2023 \$'000	30 Jun 2023 Number	30 Jun 2023 \$'000
Fully paid ordinary shares	59,796,502	122,166	59,958,288	122,464
Total share capital	59,796,502	122,166	59,958,288	122,464

Note 3 Issued capital (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Total \$'000
Half-year ended 31 December 2023			
1 July 2023	Balance	59,958,288	122,464
July 2023 – Dec 2023	Purchase of ordinary shares under on-market share buy-back (refer (d) below)	(161,786)	(298)
31 December 2023	Balance	59,796,502	122,166
Half-year ended 31 December 2022			
1 July 2022	Balance	60,150,633	122,819
	No changes	-	-
31 December 2022	Balance	60,150,633	122,819

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) On-market share buy-back

The Company commenced an on-market share buy-back on 14 June 2023 with the ability to purchase up to 5,413,557 shares through to 13 June 2024.

During the half-year 161,786 shares were purchased for total consideration of \$298,000. Since period end no further shares have been purchased under the buy-back, leaving 5,059,426 shares able to be bought back under this limit.

Note 4 Dividends

(a) Dividend paid

During the half-year, the following dividends were paid by the Company:

	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Quarterly dividend for period ended 30 June 2023 of \$0.028 per fully paid ordinary share paid on 7 August 2023 - fully franked at 30% (31 Dec 2022: 2.2 cents paid on 29 July 2022 – fully franked at 30%)	1,677	1,324
Quarterly dividend for period ended 30 September 2023 of \$0.027 per fully paid ordinary share paid on 6 November 2023 - fully franked at 30% (31 Dec 2022: 2.1 cents paid on 3 November 2022 – fully franked at 30%)	1,616	1,263
Total dividends paid	3,293	2,587

(b) Dividends not recognised at the end of the period

Since period end the Board resolved to pay a fully franked quarterly dividend of 2.9 cents per share for the period ended 31 December 2023, which was paid on 6 February 2024 (31 Dec 2022: fully franked quarterly dividend of 2.2 cents per share paid on 6 February 2023).

The aggregate amount of dividend paid but not recognised as a liability at period end was \$1,734,000 (31 Dec 2022: \$1,324,000).

Note 4 Dividends (continued)

(c) Dividend franking account

The balance of the Company's dividend franking account at 31 December 2023 was \$6,383,000 (31 Dec 2022: \$6,672,000). The balance of the franking account available for dividends paid in subsequent financial periods, when adjusted for franking credits that may arise from the value of current tax receivables, is \$5,657,000 (31 Dec 2022: \$6,672,000).

The franking debit that arose from the payment of the dividend not recognised at the end of the reporting period was \$743,000 (31 Dec 2022: \$567,000).

Note 5 Earnings per share

(a) Earnings used in the calculation of basic and diluted earnings per share	31 Dec 2023 \$'000	31 Dec 2022 \$'000
Profit from continuing operations attributable to the owners of the Company	8,649	4,331
(b) Basic and diluted earnings per share	Cents	Cents
Profit from continuing operations attributable to the owners of the Company	14.4	7.2
(c) Weighted average number of ordinary shares used in the calculation of earnings per share	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	59,870,994	60,150,633
Adjustments for calculation of diluted earnings per share	-	-
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	59,870,994	60,150,633

Note 6 Subsequent events

On 16 January 2024 the Company announced a conditional proposal agreed with the manager of the Company's investment portfolio, Spheria Asset Management Pty Limited, to pursue an exchange of shares in the Company for units in Spheria Australian Smaller Companies Fund, should the average discount of the Company's share price to pre-tax NTA during the period 1 October 2024 to 31 December 2024 exceed 5%. The proposal provides a period of time for the market to determine if shareholders' investment in the Company remains in a listed investment company (LIC) or is converted to an interest in an active ETF or managed fund.

Except as referred to above and in note 4(b), no other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Note 7 Segment Information

The Company has only one reportable segment. The Company is engaged solely in investment activities in Australia.

Note 8 Contingencies and commitments

The Company has no commitments at period end and no known contingent assets or liabilities.

Directors' declaration

The directors declare that the interim financial statements and notes as set out on pages 7 to 14 are in accordance with the Corporations Act 2001, including:

- (a) complying with Accounting Standard AASB134 Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) giving a true and fair view of the Company's financial position as at 31 December 2023 and of its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Spheria Emerging Companies Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in dark ink, appearing to read 'Jonathan Trollip', is positioned above the printed name.

Jonathan Trollip

Chairman

Sydney

22 February 2024

Pitcher Partners Sydney

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**Independent Auditor's Review Report
To the Members of Spheria Emerging Companies Limited
ABN 84 621 402 588**

Report on the Half-Year Financial Report**Conclusion**

We have reviewed the half-year financial report of Spheria Emerging Companies Limited ("the Company") which comprises the statement of financial position as at 31 December 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a summary of material accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Spheria Emerging Companies Limited does not comply with the *Corporations Act 2001* including:

- a) giving a true and fair view of the Company's financial position as at 31 December 2023 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of 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 (including Independence Standards)* ("the Code") that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



C I Chandran
Partner



Pitcher Partners
Sydney

22 February 2024

Corporate directory

Board of Directors

Jonathan Trollip (Chairman)
Lorraine Berends AM
Matthew Booker
Chris Meyer (Alternate Director)

Secretary

Calvin Kwok

Manager

Spheria Asset Management Pty Limited
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Level 25, 264 George Street
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Toll Free: 1300 010 311

ASX Code

SEC Ordinary Shares

Auditors

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Principal Place of Business

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<https://spheria.com.au/funds/spheria-emerging-companies-limited-asx-sec>