

Spheria Emerging Companies Limited

ACN 621 402 588

Interim Financial Report

For the half-year ended 31 December 2018

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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 2018 and with any public announcements made by the entity during the interim reporting period.

Directors' report

The directors present their report together with the financial statements of Spheria Emerging Companies Limited ("the Company") for the half-year ended 31 December 2018.

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

Adrian Whittingham

Alex Ihlenfeldt (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, which the Company's Investment Manager considers to typically be 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 2018 resulted in an operating loss before tax of \$14,783,000 and an operating loss after tax of \$9,224,000. This compares to an operating profit before tax of \$4,242,000 and an operating profit after tax of \$2,969,000 in the prior corresponding period, where inception of the Company's investment portfolio occurred on 30 November 2017. The result for the half-year can largely be attributed to unrealised revaluation losses on the Company's investments during the period. This reflects the weaker market during the half-year, which saw the S&P/ASX Small Ordinaries Accumulation index down by 12.7%.

The Company paid its maiden dividend of 4.0 cents per share fully franked during September 2018. This was in accordance with the Company's aim to pay dividends from the portfolio income at least annually, subject to available profits, cash flow and franking credits.

The Board has resolved to pay a fully franked interim dividend of 2.0 cents per share payable on 20 March 2019 with a record date of 6 March 2019.

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) paid to it compared to the relevant benchmark. We refer to this as the **Manager Performance**. The relevant Benchmark used is the S&P/ASX Small Ordinaries Accumulation Index which is also used to calculate any Manager performance fees;

Performance (continued)

- 2) Secondly, to show how the Company has performed which, in addition to portfolio performance after fees mentioned above, also accounts for all other expenses paid and tax on earnings (including on realised gains but excluding any provision for tax on unrealised gains, capitalised share issue cost related balances and income tax losses). We refer to this as the **Net Tangible Assets or NTA Performance**. NTA performance assumes the reinvestment of dividends but 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 and 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	- 10.5%
Portfolio Benchmark	- 12.7%
Manager Out-Performance	+ 2.2%

NTA Performance	- 10.7% (from \$2.102 per share at 30 June 2018 to \$1.841 per share at balance date, with dividends of \$0.04 paid during the period).
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TSR Performance	- 9.0% (the share price decreased from \$1.945 at 30 June 2018 to \$1.73 at balance date; with dividends of \$0.04 paid during the period).
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Options

The Company has not issued any options over ordinary shares.

Matters subsequent to the end of the financial period

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

Apart from the above, 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 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 and in the financial statements 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', written in a cursive style.

Jonathan Trollip

Chairman

Sydney

19 February 2019

**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 for the half-year ended 31 December 2018, 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 any applicable code of professional conduct in relation to the review.

This declaration is in respect of Spheria Emerging Companies Limited during the period.



SCOTT WHIDDETT
Partner

PITCHER PARTNERS
Sydney

19 February 2019

Financial statements

Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2018

	Notes	31 Dec 2018 \$'000	31 Dec 2017 * \$'000
Investment income			
Interest income received		76	68
Dividends received		4,300	-
(Losses) / gains on financial instruments held at fair value through profit and loss	3	(17,212)	4,676
Total investment (loss) / income		(12,836)	4,744
Expenses			
Management fees		(693)	(117)
Performance fees		(943)	(148)
Brokerage costs		(97)	(173)
ASX and share registry fees		(51)	(25)
Professional fees		(42)	(12)
Director fees		(35)	(16)
Other expenses		(86)	(11)
Total expenses		(1,947)	(502)
(Loss) / profit before income tax		(14,783)	4,242
Income tax benefit / (expense)		5,559	(1,273)
Net (loss) / profit after income tax for the period		(9,224)	2,969
Other comprehensive income net of tax		-	-
Total comprehensive (loss) / income for the period attributable to shareholders		(9,224)	2,969

* values for the prior corresponding period are for the period 30 August 2017 to 31 December 2017, with inception of the investment portfolio occurring on 30 November 2017, and listing of the Company's shares occurring 5 December 2017.

Earnings per share for (loss) / profit attributable to ordinary equity holders of the Company	Notes	Cents	Cents **
Basic and diluted earnings per share	6	(13.9)	21.2

** The basic and diluted earnings per share for the prior corresponding period would be 8.5 cents per share if calculated from the date of allotment of shares for the Company's listing on the ASX rather than its date of incorporation.

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

Statement of financial position

As at 31 December 2018

	Note	31 Dec 2018 \$'000	30 Jun 2018 \$'000
Assets			
Cash and cash equivalents		8,475	17,136
Trade and other receivables		2,880	3,793
Financial assets at fair value through profit or loss		113,735	122,409
Deferred tax assets		6,587	1,311
Total assets		131,677	144,649
Liabilities			
Trade and other payables		244	1,056
Current tax liabilities		2,698	2,698
Deferred tax liabilities		841	1,124
Total liabilities		3,783	4,878
Net assets		127,894	139,771
Shareholders' equity			
Issued capital	4	132,675	132,675
Profits reserve		7,260	7,096
Retained earnings		(12,041)	-
Total equity		127,894	139,771

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

Statement of changes in equity

For the half-year ended 31 December 2018

	Note	Issued capital \$'000	Profits reserve \$'000	Retained earnings \$'000	Total equity \$'000
Period ended 31 December 2017 *					
Balance as at 30 August 2017		-	-	-	-
Total comprehensive income					
Profit for the period		-	-	2,969	2,969
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	2,969	2,969
Transfer between reserves					
Transfer to profit reserve		-	2,969	(2,969)	-
Total transfer between reserves		-	2,969	(2,969)	-
Transactions with owners in their capacity as owners					
Shares issued under IPO	4	132,675	-	-	132,675
Total transactions with owners in their capacity as owners		132,675	-	-	132,675
Balance as at 31 December 2017		132,675	2,969	-	135,644
* values for the prior corresponding period are for the period 30 August 2017 to 31 December 2017, with inception of the investment portfolio occurring on 30 November 2017, and listing of the Company's shares occurring 5 December 2017.					
Period ended 31 December 2018					
Balance as at 30 June 2018		132,675	7,096	-	139,771
Total comprehensive (loss) / income					
(Loss) for the period		-	-	(9,224)	(9,224)
Other comprehensive income		-	-	-	-
Total comprehensive (loss) / income		-	-	(9,224)	(9,224)
Transfer between reserves					
Transfer to profit reserve		-	2,817	(2,817)	-
Total transfer between reserves		-	2,817	(2,817)	-
Transactions with owners in their capacity as owners					
Dividend paid to shareholders	5	-	(2,653)	-	(2,653)
Total transactions with owners in their capacity as owners		-	(2,653)	-	(2,653)
Balance as at 31 December 2018		132,675	7,260	(12,041)	127,894

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

Statement of cash flows

For the half-year ended 31 December 2018

	Note	31 Dec 2018 \$'000	31 Dec 2017 * \$'000
Cash flows from operating activities			
Proceeds from sale of investments		29,676	-
Payment for investments		(39,130)	(96,906)
Interest received		76	-
Dividends received		4,300	-
Payments to suppliers		(930)	(72)
Net cash provided by operating activities		(6,008)	(96,978)
Cash flows from financing activities			
Share issue transaction costs, gross of tax		-	(3,474)
Proceeds from shares issued on initial public offering	4 (c)	-	132,675
Dividends paid to shareholders	5 (a)	(2,653)	-
Net cash provided by financing activities		(2,653)	129,201
Net increase in cash and cash equivalents		(8,661)	32,223
Cash assets at beginning of the financial period		17,136	-
Cash assets at the end of the financial period		8,475	32,223

* values for the prior corresponding period are for the period 30 August 2017 to 31 December 2017, with inception of the investment portfolio occurring on 30 November 2017, and listing of the Company's shares occurring 5 December 2017.

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

Notes to the financial statements

For the half-year ended 31 December 2018.

Note 1 Summary of significant accounting policies

The financial statements were authorised for issue on 19 February 2019 by the Board.

Basis of preparation

These interim financial statements for the half-year ended 31 December 2018 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.

As these financial statements do not include all of the disclosures normally provided in a set of annual financial statements, it is recommended that this half-year financial report be read in conjunction with the Company's annual report for the year ended 30 June 2018 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 directors' report and in the financial report have been rounded to the nearest one thousand dollars, unless otherwise indicated.

New and revised accounting requirements applicable to the current half-year reporting period

In accordance with its application requirements, the Company adopted AASB 9 from 1 July 2018. All of the Company's investments in financial assets continued to be accounted for at fair value through profit or loss under AASB 9. Accordingly, first time application of AASB 9 had no impact on the Company's accounting for its investments in financial assets. On initial application of AASB 9, the Company also adopted the expected credit loss impairment model. The adoption had no material impact on the carrying amounts of the Company's receivables.

Significant accounting policies

Apart from the above, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, as disclosed in the 30 June 2018 annual report.

Note 2 Fair value measurements

The Company measures and recognises its financial assets at fair value through profit or loss (FVTPL) 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 2018				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	113,735	-	-	113,735
Total financial assets	113,735	-	-	113,735
30 June 2018				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	122,409	-	-	122,409
Total financial assets	122,409	-	-	122,409

There were no liabilities measured at fair value at 31 December 2018 or 30 June 2018.

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 year.

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

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 (Losses) / gains on financial instruments held at fair value through profit and loss

	31 Dec 2018	31 Dec 2017 *
	\$'000	\$'000
(Losses) / gains on financial instruments held at fair value through profit and loss comprise:		
Realised gains on financial instruments	318	-
Unrealised (losses) / gains on financial instruments	(17,530)	4,676
(Losses) / gains on financial instruments held at fair value through profit and loss	(17,212)	4,676

* values for the prior corresponding period are for the period 30 August 2017 to 31 December 2017, with inception of the investment portfolio occurring on 30 November 2017, and listing of the Company's shares occurring 5 December 2017.

Note 4 Issued capital

(a) Share capital

	31 Dec 2018 Number	31 Dec 2018 \$'000	30 Jun 2018 Number	30 Jun 2018 \$'000
Fully paid ordinary shares	66,337,546	132,675	66,337,546	132,675
Total share capital	66,337,546	132,675	66,337,546	132,675

The Company does not have an authorised capital value or par value in respect of its issued shares.

(b) Movements in ordinary share capital

There was no movement in ordinary share capital during the period.

(c) Ordinary shares

In the prior corresponding period, on 5 December 2017 the Company raised capital of \$132,675,090 under its initial public offering on the ASX by issuing 66,337,545 ordinary shares at a price of \$2.00 per share.

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.

On a show of hands 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.

Note 5 Dividends

(a) Dividend paid

During the half-year on 21 September 2018 the Company paid a fully franked final dividend for the financial year ended 30 June 2018 of 4.0 cents per share. The aggregate amount of the dividend paid was \$2,653,000. No dividend was paid during the prior corresponding period.

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

The Board has resolved to pay a fully franked interim dividend of 2.0 cents per share payable on 20 March 2019, with a record date of 6 March 2019. Based on the number of issued shares at 31 December 2018, the aggregate amount of dividend payable but not recognised as a liability at period end, is \$1,327,000.

(c) Dividend franking account

The balance of the Company's dividend franking account at 31 December 2018 was \$1,021,000. The balance of the franking account available for dividends paid in subsequent financial years, when adjusted for franking credits that will arise upon payment of the amount of provision for income tax, is \$3,719,000.

The franking debit that will arise from the payment of the dividend not recognised at the end of the reporting period, based on the number of issued shares at 31 December 2018, is \$569,000.

Note 6 Earnings per share

(a)	Earnings used in the calculation of basic and diluted earnings per share	31 Dec 2018 \$'000	31 Dec 2017 \$'000
	(Loss) / profit from continuing operations attributable to the owners of the Company	(9,224)	2,969
(b)	Basic and diluted earnings per share	Cents	Cents
	(Loss) / profit from continuing operations attributable to the owners of the Company	(13.9)	21.2
(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	66,337,546	14,022,571
	Adjustments for calculation of diluted earnings per share	-	-
	Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	66,337,546	14,022,571

* the weighted average number of shares for the prior corresponding period is calculated from 30 August 2017 (the date of the Company's incorporation) to 30 June 2018. The Company was incorporated with 1 issued share and was listed on the ASX on 5 December 2017, issuing 66,337,545 shares. The weighted average number of shares is therefore lower than the number of shares issued in the initial public offering.

The basic and diluted earnings per share for the prior corresponding period would be 8.5 cents per share if calculated from the date of allotment of shares for the Company's listing on the ASX instead of the Company's date of incorporation.

Note 7 Subsequent events

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.

Note 8 Segment Information

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

Note 9 Contingencies and commitments

The Company has no known contingent assets or liabilities.

Directors' declaration

The directors declare that the 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 2018 and of its performance for the period 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 black ink, reading "Jonathan Trollip". The signature is written in a cursive, flowing style.

Jonathan Trollip

Chairman

Sydney

19 February 2019

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF SPHERIA EMERGING COMPANIES LIMITED
ABN 84 621 402 588**

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Spheria Emerging Companies Limited ("the company") which comprises the statement of financial position as at 31 December 2018, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes and the directors' declaration of the company.

Directors' Responsibility for the Interim Financial Report

The directors of the company are responsible for the preparation of the interim 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 interim financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *"Review of a Financial Report Performed by the Independent Auditor of the Entity"*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2018 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*. As the auditor of Spheria Emerging Companies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the interim financial report consists of making enquiries, primarily of persons responsible for the 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.

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF SPHERIA EMERGING COMPANIES LIMITED
ABN 84 621 402 588**

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Spheria Emerging Companies Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



SCOTT WHIDDETT
Partner



PITCHER PARTNERS
Sydney

19 February 2019

Corporate directory

Board of Directors

Jonathan Trollip (Chairman)
Lorraine Berends
Adrian Whittingham
Alex Ihlenfeldt (Alternate Director)

Secretary

Calvin Kwok

Manager

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Share Register

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