

1. Company details

Name of entity:	Ovato Limited
ABN:	39 050 148 644
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

					\$'000
Sales revenue	down	(31.8%)	to		161,421
Total Revenue	down	(26.6%)	to		217,468
EBITDA (excluding significant items)	down	(74.1%)	to		5,781
EBITDA (including significant items)	up	211.1%	to		43,207
Net profit after income tax for the year	up	282.0%	to		17,623

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Brief explanation of financial results

For the half-year ended 31 December 2021, Ovato's sales at \$161.4m were down \$75.2m pcp [or 31.8%] with \$55.3m [or 23.4%] of the reduction due to the sale of its marketing services and magazine distribution businesses and the closure of its letterbox distribution business in Australia ("discontinued businesses").

When the impact on revenue of those discontinued businesses is excluded, sales were down \$19.9m pcp [or 11.6%] as the business continued to be adversely impacted by the COVID-19 pandemic, continuity of supply with retail customers adversely influencing future advertising decisions and some customer losses YOY

Other Revenue at \$56.0m down \$3.8m pcp [or 6.3%] mainly due to the \$47.2m profit on sale of the marketing services and magazine distribution businesses, \$4.8m recognition of sublease revenue, \$0.7m government subsidies NZ and \$1.1m other revenue. The prior year included \$37.7m scheme of arrangement and \$19.9m government subsidies.

Expenses at \$185.0m down \$115.4m pcp [or 38.4%], with \$51.5m due to discontinued businesses and a \$31.8m reduction in significant items (\$19.3m impairment of assets & inventory, \$8.6m professional and legal fees and \$3.9m restructuring costs).

When the impact of discontinued businesses and significant items is removed expenses are down \$32.1m pcp with \$25.0m due to lower volumes offset slightly by increased sell price, cost savings through restructuring activities and lower depreciation due to impairments and disposals.

EBITDA of \$43.2m including significant items up \$29.3m pcp includes variances due to discontinued businesses down \$6.4m pcp and significant items up \$45.9m pcp.

When the impact of discontinued businesses and significant items is removed, EBITDA is down \$10.2m pcp due to the discontinuance of government subsidies from the prior year offset by an improved operating result where the reduction in sales volume was more than offset by cost savings.

Finance Costs at \$5.7m down \$5.2m pcp [or 48.0%] due to \$2.0m costs for refinancing in prior year (bond break fee) and \$3.2m due to a reduction in lease and borrowing costs.

Ovato Limited
Appendix 4D
Half-year report

Tax expense at \$9.1m increased by \$14.3m pcp due to the impairment of the deferred tax asset and a lower book loss (before non taxable significant items in both years) increasing the base tax expense.

Statutory Profit was \$17.6m up \$27.3m versus the prior year.

Statutory cashflow from operations were negative \$23.2m, which is \$27.5m worse pcp mainly due to the discontinuance of government subsidies, payment of deferred payables, partially offset by trading results (mainly cost savings).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.21</u>	<u>0.01</u>

4. Loss of control over entities

On 30 July 2021 Ovato completed the sale of Ovato Creative Services Pty Ltd, Ovato Technology Pty Ltd, Ovato Communications Pty Ltd, Ovato Creative Services Clayton Pty Ltd and a related entity in India (together "Marketing Services (Australia)") and Ovato Retail Distribution Pty Ltd.

On 30 August 2021 Ovato completed the sale of Ovato Retail Distribution NZ Limited.

5. Signed

Signed  _____

Michael Hannan
Chair

Date: 22 February 2022



Ovato Limited

ABN 39 050 148 644

Interim Report - 31 December 2021

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Ovato Limited
Directors' report
31 December 2021

The Board of Directors of Ovato Limited ("Ovato") submit their report including the condensed consolidated statement of financial position of the economic entity ("Group") at 31 December 2021, and related statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the half-year ("the period") then ended and report as follows:

Directors

The following persons were Directors of Ovato during the half-year and up to the date of this report:

James Hannan
Michael Hannan
Dhun Karai
Andrew McMaster

Review of operations

(i) Corporate Restructuring

On 30 July 2021 Ovato completed the sale of its marketing services businesses to Ballygriffin Holdings Pty Limited for A\$9.0m. The businesses comprised of Ovato Creative Services Pty Ltd, Ovato Technology Pty Ltd, Ovato Communications Pty Ltd, Ovato Creative Services Clayton Pty Ltd and a related entity in India. The sale resulted in a net profit of \$6.7m.

On 30 July 2021 Ovato completed the sale of its Australian magazine distribution business Ovato Retail Distribution Pty Ltd to Are Media Limited for A\$10.0m cash with a \$3.9m working capital adjustment and a reduction in net liabilities of \$17.2m. The sale resulted in a net profit of \$31.1m.

On 30 July 2021 Ovato discontinued its Australian letterbox distribution business, Ovato Residential Distribution.

On 31 August 2021 Ovato completed the sale of its New Zealand magazine business, Ovato Retail Distribution NZ Limited to Are Media Limited for A\$5.0m cash with a working capital adjustment of \$0.6m and a reduction in net liabilities of \$3.8m. The sale resulted in a net profit of \$9.4m.

On 1 October 2021 Ovato closed its printing plant in Christchurch, transferring much of its business to Auckland incurring \$2.2m of redundancies costs.

On 8 December 2021 Ovato completed an unmarketable parcel share buy-back. 51,408,580 shares were acquired and cancelled at a cost of \$0.1m.

On 14 December 2021 Ovato undertook a 100 to 1 share consolidation, 12,161,403,672 shares were consolidated to 121,613,855 shares.

(ii) Financial overview

Ovato Group

For the half-year ended 31 December 2021, Ovato's sales (excluding significant items) at \$161.4m were down \$74.7m pcp [or 31.6%] with \$55.3m [or 24.3%] of the reduction due to the sale of its marketing services and magazine distribution businesses and the closure of its letterbox distribution business in Australia ("discontinued businesses").

When the impact on revenue of those discontinued businesses is excluded, sales were down \$19.4m pcp [or 11.3%] as the business continued to be adversely impacted by the COVID-19 pandemic, with continuity of supply challenges for retail customers adversely influencing future advertising decisions and some customer losses YOY.

Other Revenue (excluding significant items) at \$3.8m down \$18.3m pcp mainly due to prior year government subsidies being significantly reduced.

Expenses (excluding significant items) at \$170.2m down \$83.6m pcp [or 32.9%], \$51.5m of the variance was due to discontinued businesses, \$25.0m mainly due to volume reductions and cost savings and \$7.1m lower depreciation due to asset impairments and disposals.

Ovato Limited
Directors' report
31 December 2021

Significant items Revenue (pre tax) at \$52.2m up \$14.0m pcp due to \$47.2m gain on sale of businesses, \$4.8m recognition of sublease revenue and \$0.2m gain on sales of press whereas in the prior year there was a \$37.7m one off impact from the scheme of arrangement and \$0.5m reversal of rebate.

Significant items Expense (pre tax) at \$14.8m down \$31.8m pcp due to prior year expenses (\$18.2m impairment of assets & inventory (mainly Clayton closure), \$9.7m legal and professional fees for financial and operational restructuring, \$6.1m lower restructuring costs (mainly print operations) and \$2.9m net impairment of assets including ROU (New Zealand DCF deficit)) offset by \$2.2m closure of retail distribution, \$1.8m impairment ROU due to the closure of the Australian letter box distribution business and \$1.1m legal fees incurred for sale of business.

Finance Costs at \$5.7m down \$5.2m pcp [or 48.0%] due to \$2.0m costs for refinancing in prior year (bond break fee) and \$3.2m due to a reduction in leasing as result exiting leases and the negotiation of more favourable rental arrangements and lower borrowing costs.

Tax expense at \$9.1m increased by \$14.3m pcp due to the \$8.2m impairment of the deferred tax asset and a lower book loss (before non taxable significant items in both years) increasing the base tax expense.

Statutory Profit was \$17.6m up \$27.3m pcp versus the prior year.

Statutory cashflow from operations were negative \$23.2m, which is \$27.5 worse than pcp mainly due to the prior year receipt of government subsidies, payment of deferred payables and lower volumes offset slightly by savings post restructure.

Ovato Australia

Sales (excluding significant items) at \$127.5m were down \$63.7m pcp [or 33.4%] with \$51.8m or 27.1% of the variance due to the discontinued businesses. When the impact on revenue of those discontinued businesses is excluded, sales was down \$11.9m pcp [or 9.1%] due weaker customer demand as catalogue volumes continued to be impacted by COVID-19, continuity of supply issues with retail customers adversely influencing future advertising decisions and some customer losses YOY.

Other Revenue (excluding significant items) at \$2.4m down \$17.9m pcp mainly due to discontinued government subsidies.

Expenses (excluding significant items) at \$133.8m down \$74.3m pcp [or 35.7%], \$49.5m of the variance was due to discontinued businesses and \$24.8m savings in expenses, made up of \$10.4m employee costs, \$12.0m due to volume reductions and cost savings and \$2.4m depreciation due to disposals and impairments.

EBITDA (excluding significant items) at \$6.2m down \$13.8m pcp due to \$4.9m discontinued businesses, \$18.3m from the discontinuance of prior year government subsidies offset by \$9.5m a more favourable trading result with lower volumes more than offset by post restructuring cost savings.

Ovato New Zealand

Sales (excluding significant items) at \$33.9m were down \$11.0m pcp [or 24.4%], with \$3.5m or 10.2% of the variance due to the sale of its magazine distribution business. When the impact on revenue of the sale of the magazine distribution business is excluded, sales were down \$7.5m pcp [or 18.9%] due to weaker customer demand as catalogues volumes continue to be impacted by COVID-19.

Other Revenue (excluding significant items) at \$1.4m down \$0.4m pcp [or 24.0%], mainly due to higher government subsidies in the prior year.

Expenses (excluding significant items) at \$36.4m down \$9.2m pcp [or 20.2%], \$2.0m of the variance was due to the discontinued business and \$5.0m savings in expenses mainly due to volume reductions and cost and \$2.2m due to depreciation due to impairments.

EBITDA (excluding significant items) at negative \$0.4m down \$2.8m pcp due to \$1.5m discontinued business, \$0.8m due to the reduction of prior year government subsidies and \$0.5m due to lower volumes.

**Ovato Limited
Directors' report
31 December 2021**

Matters subsequent to the end of the financial half-year

The Directors are not aware of any matter or circumstance post balance date not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

Dividends

No dividends were declared or paid during the half-year ended 31 December 2021 (2020: Nil).

Auditor's independence declaration

In accordance with the Audit Independence requirements of the Corporations Act 2001, the Directors have received and are satisfied with the "Auditor's Independence Declaration" provided by the Ovato Group external auditors RSM Australia Partners. The Auditor's Independence Declaration is set out immediately after this Directors' report.

Rounding of amounts

Pursuant to instrument 2016/191 made by the Australian Securities and Investments Commission, the Company has rounded amounts in this report and the accompanying financial statements to the nearest thousand dollars unless specifically stated to be otherwise.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Michael Hannan
Chair

22 February 2022



James Hannan
Managing Director and Chief Executive Officer



RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

T +61 (0) 2 8226 4500
F +61 (0) 2 8226 4501

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Ovato Limited for the half year ended 31 December 2021, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM AUSTRALIA PARTNERS

Anthony Travers
Partner

Sydney, NSW
Dated: 22 February 2022

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RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036



Ovato Limited
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Ovato Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$'000	\$'000
Revenue	4	161,421	236,652
Other income	5	56,047	59,817
Expenses			
Raw materials and consumables used		(78,798)	(92,415)
Cost of finished goods sold		(190)	(7,675)
Employee benefits expense		(60,328)	(98,322)
Outside production services		(3,917)	(6,313)
Freight		(11,964)	(25,102)
Repairs and maintenance		(4,776)	(5,333)
Occupancy costs		(3,337)	(11,122)
Impairment of plant and equipment		(6,400)	(21,288)
Other expenses		(4,551)	(15,009)
Depreciation and amortisation	6	(10,827)	(17,895)
Finance costs	6	(5,651)	(10,860)
Profit/(loss) before income tax (expense)/benefit		26,729	(14,865)
Income tax (expense)/benefit	8	(9,106)	5,184
Profit/(loss) after income tax (expense)/benefit for the half-year attributable to the owners of Ovato Limited		17,623	(9,681)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Defined benefit plan actuarial losses		348	122
Income tax relating to items that will not be reclassified subsequently		(104)	(37)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(31)	7
Loss on cash flow hedges taken to equity		-	28
Income tax relating to items that may be reclassified subsequently		-	(8)
Other comprehensive income for the half-year, net of tax		213	112
Total comprehensive income for the half-year attributable to the owners of Ovato Limited		17,836	(9,569)
		Cents	Cents
Basic earnings per share	15	14.4	(0.9)
Diluted earnings per share	15	14.4	(0.9)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Ovato Limited
Consolidated statement of financial position
As at 31 December 2021

		Consolidated	
	Note	31 December 2021 \$'000	30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		9,264	16,652
Trade and other receivables		45,988	46,936
Inventories		23,766	20,169
Other	9	23,797	22,944
		<u>102,815</u>	<u>106,701</u>
Assets classified as held for sale		-	14,988
Total current assets		<u>102,815</u>	<u>121,689</u>
Non-current assets			
Property, plant and equipment		62,417	67,104
Right-of-use assets		27,640	41,957
Deferred tax		-	9,094
Other	9	8,205	5,930
Total non-current assets		<u>98,262</u>	<u>124,085</u>
Total assets		<u>201,077</u>	<u>245,774</u>
Liabilities			
Current liabilities			
Trade and other payables		28,004	31,452
Interest bearing liabilities	10	5,039	7,597
Lease liabilities		18,358	18,687
Current tax liabilities		8	7
Provisions		27,082	29,349
		<u>78,491</u>	<u>87,092</u>
Liabilities directly associated with assets classified as held for sale		-	39,241
Total current liabilities		<u>78,491</u>	<u>126,333</u>
Non-current liabilities			
Interest bearing liabilities	10	44,379	46,866
Lease liabilities		46,894	57,998
Provisions		6,134	7,106
Total non-current liabilities		<u>97,407</u>	<u>111,970</u>
Total liabilities		<u>175,898</u>	<u>238,303</u>
Net assets		<u>25,179</u>	<u>7,471</u>
Equity			
Issued capital	11	553,809	553,937
Reserves		10,983	11,014
Accumulated losses		(539,613)	(557,480)
Total equity		<u>25,179</u>	<u>7,471</u>

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

Ovato Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2021

Consolidated	Issued capital \$'000	Foreign currency reserve \$'000	Cashflow hedge reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020	497,523	11,096	(20)	(490,841)	17,758
Loss after income tax benefit for the half-year	-	-	-	(9,681)	(9,681)
Other comprehensive income for the half-year, net of tax	-	7	20	85	112
Total comprehensive income for the half-year	-	7	20	(9,596)	(9,569)
Shares Issue ¹	38,992	-	-	-	38,992
Balance at 31 December 2020	<u>536,515</u>	<u>11,103</u>	<u>-</u>	<u>(500,437)</u>	<u>47,181</u>

¹ On 1 December 2020, Ovato Ltd announced a conditional and partially underwritten pro-rata entitlement offer to existing shareholders. The offer consisted of 10.93 new fully paid ordinary shares in Ovato for every 1 share held at the record date at \$0.005 cents per new share. Gross proceeds of \$40 million was raised. 8,000,807,935 shares were issued on 24 December 2020 and trading commenced on 29 December 2020. Transaction costs arising from the rights issue of \$1.0 million were accounted for as a deduction from equity during the financial period.

Consolidated	Issued capital \$'000	Foreign currency reserve \$'000	Cashflow hedge reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021	553,937	11,014	-	(557,480)	7,471
Profit after income tax expense for the half-year	-	-	-	17,623	17,623
Other comprehensive income for the half-year, net of tax	-	(31)	-	244	213
Total comprehensive income for the half-year	-	(31)	-	17,867	17,836
Share Buy back ¹	(128)	-	-	-	(128)
Balance at 31 December 2021	<u>553,809</u>	<u>10,983</u>	<u>-</u>	<u>(539,613)</u>	<u>25,179</u>

¹ On 8 December 2021 Ovato announced the completion of unmarketable parcel of shares buy-back. 51,408,580 shares were acquired at \$0.0025 per share for a total of \$128,523.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Ovato Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2021

	Consolidated	31 December	31 December
Note	2021	2020	2020
	\$'000	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers	215,931	428,203	
Payments to suppliers and employees	(234,223)	(434,384)	
Government grants received	-	20,367	
Fee for bond holder consent to forgive corporate bond debt	-	(173)	
Interest received	323	499	
Interest and other finance costs paid	(2,047)	(5,578)	
Interest expense of lease liabilities	(3,154)	(4,592)	
Income taxes paid	(39)	(4)	
	<u>(23,209)</u>	<u>4,338</u>	
Cash flows from investing activities			
Payments for property, plant and equipment	(557)	(152)	
Proceeds from sale of business	27,515	-	
Proceeds from sale of property, plant and equipment	218	70	
Payments for development and licence costs	(16)	(48)	
Cash funds given up to liquidator under the scheme of arrangement	-	(2,030)	
Receipts from subleases, excluding the financing component	1,507	845	
	<u>28,667</u>	<u>(1,315)</u>	
Cash flows from financing activities			
Repayment of lease liabilities	(9,236)	(11,799)	
Cash backing ANZ guarantees & other facilities	1,676	(17,128)	
Payment for share buy back	11 (129)	-	
Repayment of borrowings	(9,847)	(10,931)	
Proceeds from borrowings	4,435	20,672	
Proceeds from share issue net of transactions costs	11 -	38,992	
	<u>(13,101)</u>	<u>19,806</u>	
Net (decrease)/increase in cash and cash equivalents	(7,643)	22,829	
Cash and cash equivalents at the beginning of the financial half-year	16,852	16,200	
Effects of exchange rate changes on cash and cash equivalents	55	(7)	
	<u>9,264</u>	<u>39,022</u>	

The above Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business, albeit there remains uncertainty around the ongoing effects of the latest wave of COVID-19 pandemic on the operations of the consolidated entity, particularly in relation to paper pricing, supply chain issues and workforce availability. The Directors believe this is appropriate based on the ongoing support of the company's shareholders, financiers and major customers, and on cashflow forecasts prepared by management. These cashflow forecasts reflect the successful completion of the sale of surplus presses and additional financier support. The company also continues to explore all other initiatives and restructuring opportunities.

Note 2. Critical accounting judgements, estimates and assumptions

(i) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based on the likely timing and level of future taxable profits.

The deferred tax asset of \$6.8 million pertaining to the current half-year's Australian and New Zealand tax losses was not recognised in the financial statements as at 31 December 2021.

Following on from the decision at June 2021 to fully impair the deferred tax asset in respect of recoverable tax losses and partly impair the deferred tax asset referable to temporary differences, the Directors have now decided to fully impair the remaining deferred tax asset at December 2021 (net impairment of \$8.2m after prior and current year movements impacted the June 21 balance of \$9.1m) due to forecast recoverability over the next 6 years no longer being assessed as probable in these uncertain times.

In total Ovato has around \$498 million of gross tax losses which haven't been recognised on the balance sheet. This comprises \$474.9 million of Australian tax losses and \$23.1 million of New Zealand tax losses. Despite the non-recognition of these losses on the balance sheet, the losses will be available indefinitely for offset against future taxable profits, subject to continuing to meet the statutory tax tests of continuity of ownership or failing that, with respect to the Australian tax losses, the same business test.

(ii) Goodwill, intangible assets, property, plant and equipment

The Group assesses whether goodwill is impaired on a bi-annual basis and assesses impairment of all other assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. The recoverable amounts of cash generating units have been determined based on value in use model. These calculations require the use of a number of assumptions and assesses the impact of possible changes in these assumptions.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Based on testing carried out at 31 December 2021, the Ovato Australia cash generating unit impairment analysis showed a surplus.

The Ovato New Zealand cash generating unit remains in deficit and all associated assets have been fully impaired.

(iii) Leases

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

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Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 3. Operating segments

Description of segments

The operating segments are based on the geographical nature of their locations.

Transactions between segments are carried out at arm's length and are eliminated on consolidation.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment for the periods presented:

Geographical Segments

	Ovato Australia Group 2021 \$'000	Ovato Australia Group 2020 \$'000	Ovato New Zealand Group 2021 \$'000	Ovato New Zealand Group 2020 \$'000	Consolidated 2021 \$'000	Consolidated 2020 \$'000
Revenue						
External sales	122,665	185,336	31,269	41,530	153,934	226,866
External sales significant items	-	500	-	-	-	500
Freight	4,812	5,891	2,675	3,395	7,487	9,286
Other revenue	2,357	20,250	1,440	1,893	3,797	22,143
Other revenue significant items	42,772	37,674	9,478	-	52,250	37,674
Total revenue	172,606	249,651	44,862	46,818	217,468	296,469
EBITDA ~ before significant items	6,169	19,911	(388)	2,434	5,781	22,345
Depreciation and amortisation	(10,128)	(14,950)	(699)	(2,945)	(10,827)	(17,895)
EBIT^ before significant items	(3,959)	4,961	(1,087)	(511)	(5,046)	4,450
Significant items before income tax	34,648	(8,579)	2,778	124	37,426	(8,455)
Segment EBIT after significant items	30,689	(3,618)	1,691	(387)	32,380	(4,005)
Significant items - Finance costs					-	(2,022)
Finance costs					(5,651)	(8,838)
Profit/(loss) before income tax					26,729	(14,865)
Income tax expense					(9,106)	5,184
Net profit/(loss) after income tax					17,623	(9,681)

~ EBITDA - Profit/(loss) before depreciation, amortisation, finance costs and income tax

^EBIT - Profit/(loss) before finance costs and income tax

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 4. Revenue

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000
External sales	161,421	236,652
	<u>161,421</u>	<u>236,652</u>

Note 5. Other income

Included in the profit/(loss) before income tax are the following items of other revenue:

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Net gain on disposal of business	47,187	-
Government grants	730	19,871
Scheme of arrangement	-	37,674
Interest income	2	1
Gain on sublease rental agreements	4,847	-
Other income - external	2,542	1,723
Net gain on disposal of plant and equipment	218	-
Rental income	199	50
Unwind of discount on finance lease receivables	322	498
Other income	<u>56,047</u>	<u>59,817</u>

Note 6. Expenses

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000

Profit/(loss) before income tax includes the following specific expenses:

Depreciation		
Plant and equipment	5,286	9,659
Right-of-use assets	5,493	7,845
Total depreciation	<u>10,779</u>	<u>17,504</u>
Amortisation		
Development and licence costs	48	391
Total depreciation and amortisation	<u>10,827</u>	<u>17,895</u>

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 6. Expenses (continued)

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Finance costs		
Bank loans and overdraft	(2,552)	(4,158)
Unwind of discount on long term onerous lease and make good provisions	(44)	(88)
Interest on lease liabilities	(3,055)	(4,592)
Total interest expense	<u>(5,651)</u>	<u>(8,838)</u>
Fee for corporate bond covenant waivers	-	(173)
Write off of prepaid finance costs	-	(1,849)
Total finance costs	<u>(5,651)</u>	<u>(10,860)</u>
Total finance costs	(5,651)	(10,860)
Interest income	2	1
Unwind of discount on finance lease receivables	<u>322</u>	<u>498</u>
Net finance costs	<u>(5,327)</u>	<u>(10,361)</u>

Finance costs are recognised in the Consolidated statement of profit or loss and other comprehensive income in the period in which they are incurred.

Note 7. Significant items

Consolidated
31 December 2021 31 December 2020
'\$'000 '\$'000

Included in net profit/(loss) after income tax are the following significant items of income and expense:

Sale of businesses	47,187	-
Sale rebate	-	500
Gain on approval from bond holders to forgive corporate bond debt	-	25,000
Gain from creditor debt forgiveness	-	10,875
Gain from write back of employee entitlement provisions	-	4,483
Loss on cash funds given up	-	(2,030)
Loss on redundant plant and equipment	-	(654)
Gain/(loss) on sale of assets	216	(511)
Gain on recognition of rental sub-leases	4,847	-
Restructure initiatives and other one off costs including Residential Distribution closure CY and PY closure of Clayton and finalisation of Moorebank	(6,861)	(12,921)
Onerous leases and make good provisions	163	(7,644)
Relocation of presses	-	(15)
Impairment of property, plant and equipment	-	(18,702)
Impairment of ROU assets	(6,400)	(2,586)
Surrender fee to exit lease	(1,726)	-
Impairment of inventory	-	(4,250)
Fee for consent to forgive corporate bond debt	-	(173)
Write off of prepaid financing costs	-	(1,849)
Total significant items (included in profit/(loss) before interest and tax)	37,426	(10,477)
Tax benefit associated with significant items	588	13,902
Tax losses not brought to account	(6,845)	(9,832)
Tax loss adjustment prior year	360	-
Impairment of deferred tax asset	(8,239)	-
Significant Tax expense included in net profit/(loss) after tax	(14,136)	4,070

Significant items have been included in the Consolidated statement of profit or loss and other comprehensive income within the following categories:

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 7. Significant items (continued)

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000
External sales	-	500
Other revenue	52,250	37,674
Raw materials and consumables used	(22)	30
Other manufacturing	19	-
Cost of finished goods sold	180	(4,250)
Employee expenses	(5,680)	(2,991)
Freight	(68)	(738)
Repairs and maintenance	(37)	(84)
Occupancy costs	(1,563)	(7,644)
Other expenses impairment	(6,400)	(21,288)
Other expenses legal and professional fees	(1,256)	(9,138)
Other expenses net loss on disposal of plant and equipment	-	(511)
Other expenses press relocation	-	(15)
Other expenses	3	-
Finance costs	-	(2,022)
	<u>37,426</u>	<u>(10,477)</u>
Total significant items (included in profit/(loss) before interest and tax)	37,426	(10,477)

Note 8. Income tax expense/(benefit)

(a) Reconciliation of income tax expense

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Profit/(loss) before income tax expense/(benefit)	26,729	(14,865)
Tax at the statutory tax rate of 30%	8,019	(4,459)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Effect of differences in overseas tax rate	165	24
Income tax under/(over) provided in previous year	(2,262)	-
Net non assessable items for tax purposes	(11,950)	(10,763)
Non deductible items for tax purposes	50	182
Benefit of tax losses not brought to account	6,845	9,832
Impairment of deferred tax asset	8,239	-
	<u>9,106</u>	<u>(5,184)</u>
Income tax expense/(benefit)	9,106	(5,184)

(b) Major component of income tax expense/(benefit):

Current tax benefit	(6,444)	(9,832)
Deferred tax expense	15,550	4,648
	<u>9,106</u>	<u>(5,184)</u>
Income tax expense/(benefit) attributable to profit/(loss)	9,106	(5,184)

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 8. Income tax expense/(benefit) (continued)

(c) Tax losses not brought to account

	\$'000	\$'000
	Gross	Tax effected
	Current Year	Tax effected
Revenue losses	497,967	448,395
Capital losses	282,267	287,956

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to note 2 for further details.

In addition, capital losses are only able to be used against capital gains and so are not recognised until used in any tax year.

(d) Franking Credits

	Consolidated	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Franking Account Credits at the end of the Period	62,559	62,559

(e) Significant accounting policies

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the notional income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Note 9. Other Assets

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
<i>Current other assets</i>		
Bank guarantee deposits	15,573	17,128
Prepayments	3,799	3,825
Finance lease receivable	4,425	1,991
Total current other assets	23,797	22,944
<i>Non-current other assets</i>		
Defined benefit assets	1,868	1,518
Finance lease receivables	6,197	4,297
Other non-current assets	140	115
Total non-current other assets	8,205	5,930
Total current and non-current other assets	32,002	28,874

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 10. Interest bearing liabilities

	Consolidated	
	31 December	30 June
	2021	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Export Financing - EUR*	3,107	3,148
Chattel Mortgage	2,918	3,157
Secured Loan	-	2,300
Prepaid Finance costs	(986)	(1,008)
	<u>5,039</u>	<u>7,597</u>
Total current interest bearing liabilities		
<i>Non-current liabilities</i>		
Export Financing - EUR*	3,107	3,148
Export Financing - AUD	16,917	16,917
Receivables Financing	22,389	22,906
Chattel Mortgage	2,610	4,966
Prepaid Finance cost	(644)	(1,071)
	<u>44,379</u>	<u>46,866</u>
Total non-current interest bearing liabilities		
	<u>49,418</u>	<u>54,463</u>
Total interest bearing liabilities		

* Represents Euro denominated equipment financing facility of \$4.0m (2020: \$4.0m) measured at the exchange rate prevailing at balance date.

(a) Terms and conditions

Commerzbank AG (Commerzbank)

Australian dollar floating interest rate export financing facility secured against a press. Loan drawn to \$16.9m. Matures June 2027.

Euro denominated floating interest rate export financing facility secured against a press. Loan drawn to Euro 4.0m (A\$6.2m). Matures June 2023.

Scottish Pacific Business Finance Pty Ltd (ScotPac)

\$50m receivables financing facility. Floating interest rate. Loan drawn to \$17.9m. The drawn amount on the receivable financing facility represents the amount lent against the eligible receivables. Matures August 2023.

\$10m receivables financing facility. Floating interest rate. Loan drawn to \$4.5m. The drawn amount on the receivable financing facility represents the amount lent against the eligible receivables. Matures February 2024.

\$17m Chattel Mortgage Facility. Loan drawn to \$5.5m secured by a charge over the assets of the Group. Matures December 2023.

Note 10. Interest bearing liabilities (continued)

(b) Net debt

	Consolidated	
	31 December 2021 \$'000	30 June 2021 \$'000
Cash	(9,264)	(16,652)
Asset Held for Resale	-	200
Export Financing - EUR	6,214	6,296
Chattel Mortgage	5,528	8,123
Secured Loan	-	2,300
Export Financing - AUD	16,917	16,917
Receivables Financing	22,389	22,906
Net debt	41,784	40,090
Lease Liabilities	65,252	76,685
Net lease adjusted debt	107,036	116,775

(c) Reconciliation of liabilities arising from financing activities

	30 June 2021 \$'000	Cash flows \$'000	Non-cash changes Other \$'000	Non-cash changes Foreign exchange movement \$'000	Non-cash changes Fair value changes \$'000	31 December 2021 \$'000
Secured Loan	2,300	(2,300)	-	-	-	-
Chattel Mortgage	8,123	(2,595)	-	-	-	5,528
Export Financing - EUR	6,296	-	-	(82)	-	6,214
Export Financing - AUD	16,917	-	-	-	-	16,917
Receivables Financing ¹	22,906	(518)	-	-	-	22,388
Total current & non-current interest bearing liabilities #	56,542	(5,413)	-	(82)	-	51,047
Lease liabilities	76,685	(9,138)	(1,183)	191	(1,304)	65,251
Total liabilities from financing activities	133,227	(14,551)	(1,183)	109	(1,304)	116,298

A reconciliation between the opening and closing balances arising from financing activities. This includes changes from cash flows (refer to Consolidated statement of cash flows) and non-cash changes.

¹ Cash flows are net of repayments made and proceeds received in quarter 1 and quarter 2 of the half-year reporting period.

Excludes prepaid financing costs as does not form part of cash flow from financing activities reconciliation.

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 11. Issued capital

	Consolidated			
	31 December 2021 Shares '000	30 June 2021 Shares '000	31 December 2021 \$'000	30 June 2021 \$'000
Ordinary shares - fully paid	121,613	12,212,812	553,809	553,937

Movements in ordinary share capital

Details	Date	Shares '000	Issue price	\$'000
Balance	1 July 2021	12,212,812		553,937
Share Buy back ¹	8 December 2021	(51,409)	\$0.025	(128)
Share consolidation ²	14 December 2021	<u>(12,039,790)</u>	\$0.000	<u>-</u>
Balance	31 December 2021	<u>121,613</u>		<u>553,809</u>

Ordinary shares

Ordinary shares have no par value. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

¹ On 8 December 2021 Ovato announced the completion of unmarketable parcel of shares buy-back. The offer was to buy-back all of the shares held by shareholders who held less than a marketable parcel of shares in the Company. 51,408,508 at \$0.0025 were acquired for a total of \$128,523.

² On 14 December 2021 Ovato completed its share consolidation based on one hundred shares being converted to one, pre consolidation shares of 12,161,403,672 was converted to 121,613,855.

Note 12. Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Accounting policy for dividends

Provision is made for the amount of any dividend declared, being properly authorised and no longer at the discretion of the entity, on or prior to the financial year end but not distributed at balance date.

Ovato has not declared a dividend for the 2021 year (nor paid any interim dividends).

Note 13. Contingent liabilities

Contingent liabilities classified in accordance with the party for whom the liability could arise are:

Related bodies corporate:

- Ovato Limited has guaranteed the borrowings of Ovato Finance Pty Ltd and Ovato NZ Limited to facilitate group banking arrangements.
- Wholly owned entities in the Ovato Group have provided guarantees to banks, in respect of debt and foreign currency management.
- Entities in the Ovato Group contribute to a number of defined benefit superannuation funds and have undertaken to contribute annually such amounts as the actuaries consider necessary to secure the rights of members.

Note 14. Events after the reporting period

The Directors are not aware of any matter or circumstance post balance date not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent years.

Ovato Limited
Notes to the consolidated financial statements
31 December 2021

Note 15. Earnings per share

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Ovato Limited	<u>17,623</u>	<u>(9,681)</u>
	Number '000	Number '000
Weighted average number of ordinary shares used in calculating basic earnings per share	122,060	1,079,866
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>122,060</u>	<u>1,079,866</u>
	Cents	Cents
Basic earnings per share	14.4	(0.9)
Diluted earnings per share	14.4	(0.9)

Ovato Limited
Directors' declaration
31 December 2021

In the Directors' opinion:


- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable subject to ongoing support from its financiers and with the completion of further restructuring initiatives.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Michael Hannan
Chair



James Hannan
Managing Director and Chief Executive Officer

22 February 2022



RSM Australia Partners

Level 13, 60 Castlereagh Street Sydney NSW 2000
GPO Box 5138 Sydney NSW 2001

T +61(0) 2 8226 4500
F +61(0) 2 8226 4501

www.rsm.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Ovato Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Ovato Limited which comprises the statement of financial position as at 31 December 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *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 Ovato Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Responsibility of the Directors' for the Financial Report

The directors of the Ovato Limited 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 is free from material misstatement, whether due to fraud or error.

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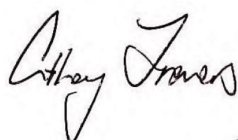
Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 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.



RSM Australia Partners



Anthony Travers
Partner

Sydney, NSW

Dated: 22 February 2022