

Spheria Emerging Companies Limited

ACN 621 402 588

Interim Financial Report

For the half-year ended 31 December 2021

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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 2021 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 ("the Company") for the half-year ended 31 December 2021.

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

Matthew Booker - appointed 21 October 2021

Adrian Whittingham - resigned 30 November 2021

Alex Ihlenfeldt (Alternate Director) - resigned 30 November 2021

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 2021 resulted in an operating profit after tax of \$9,567,000, compared to a profit of \$25,572,000 for the half-year ended 31 December 2020.

During the half-year, the Company paid its 2021 final dividend of 5.0 cents per share fully franked on 22 September 2021. The Company also paid its initial quarterly dividend for the September 2021 quarter of 2.5 cents per share on 31 October 2021, consistent with the aim to now pay dividends on a quarterly basis, at a level of 1% of post-tax NTA at the end of each calendar quarter, subject to available profits, cash flow and franking credits.

Since period end the Board declared a second fully franked quarterly dividend for the December quarter of 2.6 cents per share, which was paid on 31 January 2022, with a record date of 20 January 2022.

Please note that for dividends paid during the year ended 30 June 2022, a corporate tax rate for imputation purposes of 30% applies to the Company for franking of dividends, rather than the 26% corporate tax rate that applied to dividends paid in the previous financial year.

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 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 portfolio performance after 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 the impact of any shares acquired under the share buy-back, 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	8.2%
Portfolio Benchmark	5.5%
Manager Out-Performance	+ 2.7%

Company Performance	8.1%
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TSR Performance	7.3%
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On-market share buy-back

On 1 July 2019 the Company commenced an on-market share buy-back as a pro-active measure to assist with addressing the Company's shares trading at a discount to NTA. The buy-back was most recently extended by the Company on 25 February 2021 so that a maximum of 1,500,000 shares were able to be bought back through to 31 December 2021.

During the half-year ended 31 December 2021, no shares were purchased under the buy-back. The buy-back has now ceased.

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

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 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.



Jonathan Trollip

Chairman

Sydney

25 February 2022

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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 2021, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor's independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



S M Whiddett
Partner

Pitcher Partners
Sydney

25 February 2022

Interim financial statements

Statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2021

	Notes	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Investment income			
Interest income received		-	1
Dividends received		3,146	954
Gains on financial instruments held at fair value through profit and loss		11,754	37,687
Net investment income		14,900	38,642
Expenses			
Management fees		(835)	(613)
Performance fees		(1,268)	(1,484)
Brokerage costs		(112)	(125)
ASX and share registry fees		(64)	(44)
Professional fees		(34)	(33)
Director fees		(35)	(35)
Other expenses		(100)	(98)
Total expenses		(2,448)	(2,432)
Profit before income tax		12,452	36,210
Income tax expense		(2,885)	(10,638)
Net profit after income tax for the period		9,567	25,572
Other comprehensive income net of tax		-	-
Total comprehensive income for the period attributable to shareholders		9,567	25,572
Earnings per share for profit attributable to ordinary equity holders of the Company	Notes	Cents	Cents
Basic and diluted earnings per share	5	15.9	41.7

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 2021

	Note	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Assets			
Cash and cash equivalents		2,435	3,355
Trade and other receivables		260	328
Financial assets at fair value through profit or loss	2	163,522	154,265
Current tax assets		-	600
Deferred tax assets		131	251
Total assets		166,348	158,799
Liabilities			
Trade and other payables		2,532	2,181
Current tax liabilities		1,356	-
Deferred tax liabilities		7,052	6,266
Total liabilities		10,940	8,447
Net assets		155,408	150,352
Shareholders' equity			
Issued capital	3	122,819	122,819
Profits reserve		53,839	48,783
Accumulated losses		(21,250)	(21,250)
Total equity		155,408	150,352

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 2021

	Note	Issued capital \$'000	Profits reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Half-year ended 31 December 2021					
Balance as at 1 July 2021		122,819	48,783	(21,250)	150,352
Total comprehensive income					
Profit for the period		-	-	9,567	9,567
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	9,567	9,567
Transfers between reserves					
Transfers to profit reserve		-	9,567	(9,567)	-
Total transfers between reserves		-	9,567	(9,567)	-
Transactions with owners in their capacity as owners					
Dividend paid to shareholders	4(a)	-	(4,511)	-	(4,511)
Total transactions with owners in their capacity as owners		-	(4,511)	-	(4,511)
Balance as at 31 December 2021		122,819	53,839	(21,250)	155,408
Half-year ended 31 December 2020					
Balance as at 1 July 2020		125,957	12,237	(21,250)	116,944
Total comprehensive income					
Profit for the period		-	-	25,572	25,572
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	25,572	25,572
Transfers between reserves					
Transfers to profit reserve		-	25,572	(25,572)	-
Total transfers between reserves		-	25,572	(25,572)	-
Transactions with owners in their capacity as owners					
Purchase of shares under on market share buy-back	3(b)	(1,061)	-	-	(1,061)
Dividend paid to shareholders	4(a)	-	(1,534)	-	(1,534)
Total transactions with owners in their capacity as owners		(1,061)	(1,534)	-	(2,595)
Balance as at 31 December 2020		124,896	36,275	(21,250)	139,921

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 2021

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Cash flows from operating activities			
Proceeds from sale of investments		32,857	36,621
Payments for investments		(31,308)	(34,191)
Interest received		-	1
Dividends received		3,298	981
Payments to suppliers		(1,256)	(792)
Income taxes paid		-	(468)
Net cash provided by operating activities		3,591	2,152
Cash flows from financing activities			
Purchase of shares under on-market share buy-back	3(b)	-	(1,061)
Dividends paid to shareholders	4(a)	(4,511)	(1,534)
Net cash used in financing activities		(4,511)	(2,595)
Net decrease in cash and cash equivalents		(920)	(443)
Cash assets at beginning of the financial period		3,355	1,970
Cash assets at the end of the financial period		2,435	1,527

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 2021

Note 1 Summary of significant accounting policies

The interim financial statements were authorised for issue on 25 February 2022 by the Board.

Basis of preparation

These interim financial statements for the half-year ended 31 December 2021 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 2021 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.

Significant 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 2021 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 2021				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	163,522	-	-	163,522
Total financial assets	163,522	-	-	163,522
30 June 2021				
<i>Financial assets at fair value through profit and loss</i>				
Australian listed equity securities	154,265	-	-	154,265
Total financial assets	154,265	-	-	154,265

There were no liabilities measured at fair value at 31 December 2021 or 30 June 2021.

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 2021 Number	31 Dec 2021 \$'000	30 Jun 2021 Number	30 Jun 2021 \$'000
Fully paid ordinary shares	60,150,633	122,819	60,150,633	122,819
Total share capital	60,150,633	122,819	60,150,633	122,819

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

Note 3 Issued capital (continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Price	Total \$'000
Half-year ended 31 December 2021				
1 July 2021	Balance	60,150,633		122,819
	No changes	-		-
31 December 2021	Balance	60,150,633		122,819
Half-year ended 31 December 2020				
1 July 2020	Balance	61,958,396		125,957
Various	Purchase of ordinary shares under on-market share buy-back (refer (d) below)	(748,968)		(1,061)
31 December 2020	Balance	61,209,428		124,896

(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.

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.

(d) On-market share buy-back

On 1 July 2019 the Company commenced an on-market share buy-back as a pro-active measure to assist with addressing the Company's shares trading at a discount to NTA. The buy-back was most recently extended by the Company on 25 February 2021 so that a maximum of 1,500,000 shares were able to be bought back through to 31 December 2021.

During the half-year ended 31 December 2021, no shares were purchased under the buy-back (31 Dec 2020: 748,968 shares purchased for consideration of \$1,061,000). The buy-back has now ceased.

(e) Capital Management

The Company's objective in managing its capital is to satisfy its aim to provide shareholders with total return in excess of the Company's Benchmark and capital growth over each investment cycle. The Company considers its capital to be its issued capital, reserves and accumulated retained earnings.

The Company's capital will fluctuate with market conditions. The Company can manage its capital through the level of dividends paid to shareholders, the issue of shares or the use of share buy-backs.

The Company is an ASX listed investment Company and is subject to ASX listing rule requirements.

Note 4 Dividends

(a) Dividend paid

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

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Final dividend for financial year ended 30 June 2021 of \$0.05 per fully paid ordinary share paid on 22 September 2021 - fully franked at 30% (31 Dec 2020: \$0.025 paid on 23 September 2020, fully franked at 26%)	3,007	1,534
Quarterly dividend for period ended 30 September 2021 of \$0.025 per fully paid ordinary share paid on 31 October 2021 - fully franked at 30%	1,504	-
Total dividends paid	4,511	1,534

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

The Board declared a fully franked quarterly dividend of 2.6 cents per share, which was paid on 31 January 2022, with a record date of 20 January 2022 (31 Dec 2020: fully franked interim dividend of 3.5 cents per share paid on 24 March 2021).

Based on the number of issued shares at 31 December 2021, the aggregate amount of dividend payable but not recognised as a liability at period end, is \$1,564,000 (31 Dec 2020: \$2,105,000).

(c) Dividend franking account

The balance of the Company's dividend franking account at 31 December 2021 was \$5,825,000 (31 Dec 2020: \$6,143,000). The franking debit that arose 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 2021, was \$670,000 (31 Dec 2020: \$753,000).

Note 5 Earnings per share

(a) Earnings used in the calculation of basic and diluted earnings per share	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Profit from continuing operations attributable to the owners of the Company	9,567	25,572
(b) Basic and diluted earnings per share	Cents	Cents
Profit from continuing operations attributable to the owners of the Company	15.9	41.7
(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	60,150,633	61,350,750
Adjustments for calculation of diluted earnings per share	-	-
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	60,150,633	61,350,750

Note 6 Subsequent events

Except as referred to in note 4(b), 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 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 15 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 2021 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.



Jonathan Trollip

Chairman

Sydney

25 February 2022

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201 Sussex Street
Sydney NSW 2000

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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 2021, 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 significant 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 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 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 Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and 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 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.



S M WHIDDETT
Partner



PITCHER PARTNERS
Sydney

25 February 2022

Corporate directory

Board of Directors

Jonathan Trollip (Chairman)
Lorraine Berends
Matthew Booker

Secretary

Calvin Kwok

Manager

Spheria Asset Management Pty Limited
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Level 35
60 Margaret Street
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Toll Free: 1300 010 311

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Auditors

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Share Register

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Principal Place of Business

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Website Address

<http://www.spheria.com.au/spheria-emerging-companies-limited/>