



Coventry Group Ltd

ANNUAL REPORT

2017

Coventry Group Ltd and its controlled entities

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Chairman's Report

At a group level, by any measure, 2017 was an extremely disappointing year for all shareholders. After an encouraging 2016, the 2017 first half results, even allowing for some difficult market conditions, indicated that in some parts of the business change was not occurring fast enough or effectively enough. The second half showed some tentative but encouraging signs of improvement but not enough to put any sort of gloss on the full year result. That said we have a number of businesses in the group which are market-leading in their field, well managed and are solidly profitable. These businesses include Cooper Fluids, AA Gaskets and Trade Distribution New Zealand and the CEO will expand on their performance in his report.

Whilst broadly supportive, a number of shareholders have expressed very strong views about the Group's continuing poor financial performance. The board is not sitting on its hands and continues to assess the corporate strategy and a variety of different paths however one of its primary goals is to turn Trade Distribution Australia around such that it becomes again a key contributor to group profitability. Trade Distribution Australia, with years of declining revenue and a disproportionately high cost base has failed to produce the expected turnaround despite a range of initiatives implemented in good faith over time. Its poor financial results and a high level of corporate overheads are eroding the good results coming from the other segments of the business and has been the primary reason for the majority of the significant items recorded this period. The Board knows full well this cannot continue and, as a result, further changes to the operations of this business have been or are being made. The CEO expands on this in his report.

Considerable change occurred in senior management ranks during the second half. In March 2017 our previous Managing Director and CEO Mr Peter Caughey resigned and left the business. We were very pleased to announce the appointment of Mr Robert Bulluss as CEO in May 2017. Robert was previously Coventry Group CFO and joined us after a long and successful career at Bunzl plc a leading B2B procurement and distribution business with a network of stores in its Industrial and Safety division. In addition to his finance skills Robert has a strong operations focus and his commitment to sustainable, profitable growth is underpinning plans for the Trade Distribution business in Australia. In March 2017 Mr Mark Page was appointed General Manager of Trade Distribution in Australia. Mark joined Coventry Group after a long and successful career with Reece Ltd, Australia's leading distributor of plumbing products. Also in March 2017 Mr Mike Wansink was appointed General Manager of Trade Distribution in New Zealand. Mike has successfully led the New Zealand business for the past 5 years.

At Board level, Ms Vicky Papachristos resigned on 28 July 2017 and Mr Nick Willis has decided not to stand for re-election at the 2017 Annual General meeting of the Company and will resign from the Board on 31 August 2017. On 29 August 2017 Mr Robert Bulluss joined the Board as Managing Director and CEO. As a consequence of these recent Board changes, a review of its composition is being undertaken with the assistance of external advisors.

We have seen some promising signs towards the end of the financial year. Pleasingly, the three month period May 2017 to July 2017 saw group revenue increase 6.5% on the same period last year. This improvement was largely driven by Cooper Fluids with Trade Distribution slightly down on the same period last year. It is an unpalatable fact that the revenue decline in Trade Distribution Australia has been a decade in the making and is not going to turn around in one quarter. With the board's endorsement, our CEO's focus on improving stock availability and service levels at branches is expected to reap rewards during 2018 and into 2019 and investment in new branches, people and system and process improvement is carefully occurring where required to drive sales and customer growth.

A detailed review of our inventory and the accounting estimates associated with inventory provisioning has been undertaken by the CEO following his appointment. The scope of the review was Trade Distribution across Australia and New Zealand and Cooper Fluids. As a result of a revised strategy for the business, an increase in our slow stock provisioning has been deemed necessary. A non-cash increase in provisioning of \$7.1m has been booked and the CEO talks to this, and a newly launched Inventory Clearance Program, in his report.

In Australia there will be some consolidation of the Trade Distribution branch network in the coming months. The key purpose of this initiative is to build scale in a number of existing branches whilst exiting locations which are too small and are trading unprofitably. The CEO provides specific branch detail in his report. The board endorses his recommendation that consolidating some branches and improving resources within a merged offering will assist us in providing an enhanced level of customer service and aligns with our strategies for sustainable profitable growth.

In New Zealand the Trade Distribution branch network expanded during the year and we believe there are further opportunities to grow the network.

In May 2017 the Group was subjected to a cyber-attack when a malicious piece of ransomware was executed within our computer networks resulting in a significant disruption to business operations. Recovery was time consuming and costly. Our internal information technology personnel were aided in the recovery process by KPMG and Telstra and we are grateful for the responsiveness, commitment and professionalism of all parties. As part of the recovery there has been a review and strengthening of the Group's defensive controls and monitoring processes. More recently, this type of malicious cyber-attack has received considerable worldwide coverage and severely impacted organisations far larger and with greater resources than Coventry.

As previously reported to shareholders, in 2007 the Company entered into a single term twenty year lease for property in Redcliffe, Perth. We have had some success with sub-leasing parts of the property in a depressed Perth property market albeit at lower rental rates and for shorter terms. A decrease in rental income in the order of \$1m in relation to the sub-leasing of parts of the Redcliffe property is expected in 2018. This remains a challenging legacy issue to deal with.

During the period, and as a result of continuing poor financial performance and accounting requirements, the Board determined to make a number of non-cash adjustments to the carrying value of the Company's assets totalling \$23.9m. Full particulars are detailed in the CEO's report. The impact of these adjustments on net asset backing per share is a reduction of \$0.39c. The Group continues to have a strong working capital position with Current Assets exceeding Current Liabilities by \$47.5m including the debtor financing facility undertaken to support short term liquidity requirements.

The current work environment at Coventry requires drive, determination and resilience and on behalf of the Board my sincere thanks go to the CEO, the Executive Leadership Team and all our colleagues throughout the business for their continuing efforts.

Outlook

With Cooper Fluids increasing activity levels as one of our measures, the signs from the mining segment continue to be positive. This should have a positive flow on effect to Trade Distribution Australia but that business must move as quickly as possible under new leadership to aggressively redirect focus to business development activities and sales and customer growth. Quarterly trading updates will continue to be provided to the market for the foreseeable future in order to keep shareholders informed.

The Board has determined that no final dividend will be paid. Looking ahead the Board will assess the Company's ability to pay dividends against earnings and the financial position of the business.

Neil G. Cathie
Chairman of the Board of Directors

CEO report

The Chairman has expressed our disappointment in the financial performance of the Group during the past financial year. Since accepting the role as Interim CEO at the start of April 2017 and my permanent appointment to the position in May, I have worked diligently with the Executive Leadership Team and Senior Management in our business to implement our revised business strategy for the Trade Distribution Australia division (discussed in detail later in this report).

The Group is now primarily focussed on the customer and achieving sustainable profitable growth. Our aim is to provide the best service levels in the respective markets of our business divisions through high stock availability, agility and expertise.

Our Executive Leadership Team has extensive experience both in the Coventry Group and other leading distribution businesses. By ensuring that we work collaboratively, we are able to utilise our broad experience in order to deliver the best commercial and financial outcomes for the Group.

Recently we restructured our supply chain and category management functions, embedding them into the Trade Distribution Australia business to improve service capability whilst achieving cost savings of close to \$1.2m per annum. Currently we are performing a review of the IT function, which we estimate will deliver savings of approximately \$0.7m per annum.

We are now fully focussed on our customers and people, applying our new values of Respect, Fairness, Teamwork, Professionalism and Integrity.

Business performance

During the latter part of the financial year, Group financial performance showed signs of recovery. Revenue in each business division has improved and we have seen encouraging results particularly during the period May through August month to date. Daily sales run rates are improving in all business divisions. Cooper Fluid Systems revenue is up 25% on the prior year May through July, predominantly from increased repair and maintenance activity in the mining and resources sector. Historically this is a lead indicator for increased activity in Konnect's WA and QLD markets in Australia.

Group revenue for the full year was down 4.3% on the previous year, however the improving trend is evidenced when viewing the year in two halves, with revenue in 2H17 down 0.9% on 2H16. The underlying loss for the financial year was \$8.7m, of which \$3.0m is attributable to 2H17 compared to an underlying loss for 1H17 of \$5.7m.

We have estimated that the cyber-attack impacted sales during the recovery period in the vicinity of \$1.0m.

The reported loss for the year of \$35.5m includes significant items of \$25.0m which are largely non cash in nature. The key significant items are:

- De-recognition of deferred tax assets \$8.9m (\$6.9m reported at the first half).
- Non-cash impairments of \$7.9m (reported at the first half).
- Restructuring/Redundancy costs \$0.9m.
- Provision for Stock Obsolescence/stock adjustments \$7.1m.
- Cyber Attack recovery cost provision \$0.6m.
- Profit on sale of motor vehicle fleet -\$0.4m.

The review of the carrying value of the inventory advised in the Half Year results has been completed. Our revised business strategy is focused on directional buying and selling where we will sell a select product range from preferred suppliers. Product and supplier rationalisation will occur as part of the strategy. As part of the inventory review we determined that parts of our current inventory range is deemed to be 'non-core'. Management has taken a prudent approach and increased the slow stock provision against the non-core, slow moving and obsolete products. In addition, the inventory review identified obsolete stock that has been fully provided for and will be disposed of.

Performance by division

Trade Distribution

TD sales were down 10.6% on the prior year for negative contribution of \$5.2m before significant items. Underlying loss in 2H17 reduced due to improved margin % and the impact of cost reductions despite lower sales.

Trade Distribution Australia (TDA)

TDA sales showed encouraging signs of improvement during May, June, July and August month to date 2017. Daily sales run rates are beginning to improve (particularly in WA and QLD), as the mining and engineering construction sectors rebound and we make material improvements to our service levels.

There has been some consolidation of our branch network in Australia with a small number of branch mergers taking place in order to provide scale benefits and improved service levels. Consolidation of branches is occurring in the following locations:

- Gympie and Caloundra will be merged into Sunshine Coast
- Chinchilla will merge into Toowoomba
- Inner City Brisbane will merge into Morningside; and
- Geebung will merge with North Brisbane into a new location.

In addition, we closed two small unprofitable branches in Richmond in Victoria and Dubbo in New South Wales.

Trade Distribution New Zealand (TDNZ)

TDNZ performed strongly, with revenue up significantly on last year. TDNZ is the leading fastening systems business in the construction and roofing and cladding markets and has good growth prospects.

In New Zealand new branches have been opened in Mount Maunganui and Timaru and the Hastings and Napier branches have been merged to provide greater scale and service levels.

Cooper Fluid Systems (CFS)

CFS continues to perform strongly. Revenue improved steadily throughout the second half of FY17 driven by the increase in repair and maintenance work in the resources sector. We expect reasonable growth and an improved contribution from CFS in FY18.

AA Gaskets (owned 72.5% by the Group)

AA Gaskets had a record year and continues to consolidate its market position as the leading automotive gasket company in Australia and New Zealand. AA Gaskets has continued its strong revenue growth since securing a major new customer in late 2016.

Trade Distribution Australia strategic plan

We are working diligently to implement our revised strategy for sales growth and sustainable profitable growth. Key initiatives include:

- Returning to a selling model where our branches have control over the delivery of orders to the customer. This involves returning stock to the branches and having direct delivery of local supplier products, where it makes sense, to the branches.
- Ensuring each branch stocks what it sells and improving stock availability of stocked lines to 98%.
- Ensuring branches have the right resources (people, stock, store layout and merchandising, delivery capabilities) to provide excellent service.
- Some consolidation of our branch network in Australia with a small number of branch mergers in order to provide greater scale and service levels.
- Increasing the sales capability across the business with business development capability and sales representatives with appropriate selling tools and training.

- Enhanced customer engagement systems and processes. Returning to basics such as increasing sales to existing customers and re-engaging with lost customers whilst actively pursuing new opportunities in roofing and cladding, construction and infrastructure.
- Re-engagement with suppliers to gain growth through joint selling calls and use of their product expertise.
- Implementation of a directional buying and selling model.
- Investigating further cost reduction and productivity improvement opportunities.
- Reducing inventory levels through stock clearance programs and improving ordering systems.

Operating costs

A review of corporate costs has occurred with savings occurring in IT and other areas. Controllable costs such as consultant fees, legal fees, travel and entertainment have been considerably reduced.

A further review of operating costs across all business divisions and the corporate function is underway. In the medium/longer term we will use technology to improve efficiency and productivity to further reduce costs and minimise the need for additional resources to support sales growth.

Our current DC infrastructure footprint is too large for our revised business strategy and will be reduced in size as lease expiry dates allow, further reducing infrastructure costs.

Working capital

Reducing working capital to maximise cash generation and reduce debt is a key focus area for management.

Our Inventory Clearance Program has successfully produced in excess of \$1.3m in sales to date and will continue through to the end of September 2017. Other inventory reduction projects have commenced including automating purchasing systems, introduction of a China Postponement Hub, direct local supplier deliveries to branches, excess stock reduction programs and relocation of non-moving stranded stock.

Capital expenditure will remain tightly controlled while the TDA revised strategy is implemented.

Outlook

We are confident that our refreshed business strategy for TDA will deliver improvements in financial performance throughout FY18 and beyond. Our TDNZ, CFS and AA Gaskets business divisions will continue to grow and deliver sustainable profitable growth.

Robert J Bulluss
Chief Executive Officer and Managing Director

Coventry Group Ltd and its controlled entities
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

In thousands of AUD

	Note	2017	2016
Revenue from sale of goods		169,146	176,784
Cost of sales		(103,289)	(105,606)
Gross profit		65,857	71,178
Other income		4,596	6,282
Employment costs	4	(43,283)	(44,554)
Depreciation and amortisation expense		(2,924)	(3,327)
Occupancy costs		(10,713)	(9,943)
Communication costs		(2,356)	(2,315)
Freight		(6,132)	(6,671)
Vehicle operating costs		(1,651)	(1,611)
Restructuring, impairment and other significant costs	26	(16,056)	(1,851)
Other expenses		(12,108)	(10,330)
Loss before financial income and tax		(24,770)	(3,142)
Financial income, including net foreign exchange gain		24	85
Financial expense, including net foreign exchange loss		(724)	(17)
Net financial income	5	(700)	68
Loss before income tax		(25,470)	(3,074)
Income tax (expense)/benefit	6	(10,069)	1,253
Loss for the year		(35,539)	(1,821)
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences		(595)	1,048
Effective portion of changes in fair value of cash flow hedges		36	(93)
Other comprehensive loss for the year, net of income tax		(559)	955
Total comprehensive loss for the year		(36,098)	(866)
Loss attributable to:			
Owners of the Company		(36,127)	(2,867)
Non-controlling interests		588	1,046
Loss for the year		(35,539)	(1,821)
Total comprehensive loss attributable to:			
Owners of the Company		(36,672)	(1,942)
Non-controlling interests		574	1,076
Total comprehensive loss for the year		(36,098)	(866)
Loss per share:			
Basic loss per share:	7	(95.7 cents)	(7.6 cents)
Diluted loss per share:		(95.7 cents)	(7.6 cents)

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

Coventry Group Ltd and its controlled entities
Consolidated statement of financial position
As at 30 June 2017

In thousands of AUD

	Note	2017	2016
Assets			
Cash and cash equivalents	8	5,149	3,520
Trade and other receivables	9	29,260	30,821
Inventories	10	49,282	57,393
Total current assets		83,691	91,734
Deferred tax assets	6	6,749	16,092
Property, plant and equipment	12	4,698	16,040
Intangible assets	13	5,935	5,123
Total non current assets		17,382	37,255
Total assets		101,073	128,989
Liabilities			
Trade and other payables	15	23,806	21,838
Employee benefits	17	3,931	4,583
Loans and borrowings	16	8,045	-
Income tax payable		249	803
Provisions	19	131	256
Total current liabilities		36,162	27,480
Employee benefits	17	247	260
Other payables	15	3,089	2,985
Total non current liabilities		3,336	3,245
		39,498	30,725
		61,575	98,264
Equity			
Issued capital		108,063	108,110
Reserves		(815)	(166)
Retained earnings		(47,838)	(11,711)
Total equity attributable to equity holders of the Company		59,410	96,233
Non-controlling interests		2,165	2,031
Total equity		61,575	98,264

The consolidated statement of financial position is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Coventry Group Ltd and its controlled entities
Consolidated statement of changes in equity
For the year ended 30 June 2017

	Share-based payments reserve	Hedge reserve	Translation reserve	Total reserve	Share capital	Retained earnings	Total for members of the Company	Non controlling interests	Total equity
<i>In thousands of AUD</i>									
Balance at 1 July 2016	104	(80)	(190)	(166)	108,110	(11,711)	96,233	2,031	98,264
Total comprehensive (loss)/income for the year	-	-	-	-	-	(36,127)	(36,127)	588	(35,539)
(Loss)/profit for the year	-	-	-	-	-	-	-	-	-
Other comprehensive (loss)/ income:									
Foreign exchange translation differences	-	-	(581)	(581)	-	-	(581)	(14)	(595)
Effective portion of changes in fair value of cash flow hedges	-	36	-	36	-	-	36	-	36
Total other comprehensive (loss)/income	-	36	(581)	(545)	-	-	(545)	(14)	(559)
Total comprehensive (loss)/income for the year	-	36	(581)	(545)	-	(36,127)	(36,672)	574	(36,098)
Transactions with owners, recorded directly in equity									
Cancellation of Director Shares	-	-	-	-	(47)	-	(47)	-	(47)
Share based payment transactions	(104)	-	-	(104)	-	-	(104)	-	(104)
Dividends to equity holders/ re-invested	-	-	-	-	-	-	-	(440)	(440)
Balance at 30 June 2017	-	(44)	(771)	(815)	108,063	(47,838)	59,410	2,165	61,575

Amounts are stated net of tax

	Share-based payments reserve	Hedge reserve	Translation reserve	Total reserve	Share capital	Retained earnings	Total for members of the Company	Non controlling interests	Total equity
<i>In thousands of AUD</i>									
Balance at 1 July 2015	62	13	(1,208)	(1,133)	108,110	(7,898)	99,079	2,618	101,697
Total comprehensive (loss)/income for the year	-	-	-	-	-	(2,867)	(2,867)	1,046	(1,821)
(Loss)/profit for the year	-	-	-	-	-	-	-	-	-
Foreign exchange translation differences	-	-	1,018	1,018	-	-	1,018	30	1,048
Effective portion of changes in fair value of cash flow hedges	-	(93)	-	(93)	-	-	(93)	-	(93)
Total other comprehensive (loss)/income	-	(93)	1,018	925	-	-	925	30	955
Total comprehensive (loss)/income for the year	-	(93)	1,018	925	-	(2,867)	(1,942)	1,076	(866)
Transactions with owners, recorded directly in equity									
Share based payment transactions	42	-	-	42	-	-	42	-	42
Dividends to equity holders/ re-invested	-	-	-	-	-	(946)	(946)	(1,663)	(2,609)
Balance at 30 June 2016	104	(80)	(190)	(166)	108,110	(11,711)	96,233	2,031	98,264

Amounts are stated net of tax

Coventry Group Ltd and its controlled entities
Consolidated statement of cash flows
For the year ended 30 June 2017

In thousands of AUD

	<i>Note</i>	2017	2016
Cash flows from operating activities			
Cash receipts from customers		187,778	202,187
Cash paid to suppliers and employees		(190,917)	(203,499)
Cash used in operations		(3,139)	(1,312)
Interest paid		(560)	(17)
Income taxes paid		(1,280)	(547)
Net cash used in operating activities	24	(4,979)	(1,876)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4,515	4,026
Interest received		24	15
Acquisition of property, plant and equipment	12	(1,305)	(4,203)
Acquisition of intangible assets	13	(3,472)	(1,554)
Net cash (used in)/from investing activities		(238)	(1,716)
Cash flows from financing activities			
Proceeds from Borrowings		83,354	-
Repayment of Borrowings		(75,309)	-
Dividends paid		-	(946)
Dividends paid to non-controlling interests		(440)	(1,663)
Net cash from/(used in) financing activities		7,605	(2,609)
Net (increase)/decrease in cash and cash equivalents		2,388	(6,201)
Cash and cash equivalents at 1 July		3,520	8,709
Effect of exchange rate fluctuations		(759)	1,012
Cash and cash equivalents at 30 June	8	5,149	3,520

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies

Coventry Group Ltd (the "Company") is a for profit company domiciled in Australia. The address of the Company's registered office is 235 Settlement Road Thomastown VIC 3074 Australia. The consolidated financial statements ("financial report" or "consolidated financial report") of the Company for the financial year ended 30 June 2017 comprises the Company and its controlled entities (together referred to as the "Group").

The financial report was authorised for issue by the Directors on 29 August 2017.

(a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the Company's functional currency. The financial report is prepared on the historical cost basis except share based payments which are stated at their fair value.

Going Concern

In preparing the financial report, the Directors have made an assessment of the ability of the Group to continue as a going concern, which contemplates the continuity of business operations, realisation of assets and settlement of liabilities in the ordinary course of business and at the amounts stated in the financial report.

The Group incurred a loss after tax for the year ended 30 June 2017 of \$35.5m primarily as a result of continued poor trading results in the Trade Distribution business, asset impairments, inventory write downs, de-recognition of DTA, restructuring and cyber-attack costs.

As disclosed in note 16, the Group is funded by a secured debtor financing facility ('the Facility') with a minimum term of twelve months that ends on 8 November 2017. The Group's ability to continue as a going concern is largely dependent on the financier extending the term for at least 12 months and the Group remaining in compliance with the Facility terms and conditions. The financier has indicated in writing on 28th August 2017 that should Coventry wish to renew the Facility with a further 12 months minimum term, that at this time they would agree to do so.

The Directors have assessed the forecast trading results and cash flows for the Group, including the impact of restructuring and other initiatives implemented by management to adjust to market conditions. These forecasts are necessarily based on best-estimate assumptions that are subject to influences and events outside of the control of the Group.

Uncertainty around the Group's ability to continue as a going concern exists to the extent that the Group is dependent on:

- The extension of the Facility for a term of at least 12 months from 8 November 2017; and
- Achieving budget, after allowing for reasonably possible changes.

Should trading conditions not improve or continue to deteriorate or the Facility not be available for the forecast period, the Group could seek to:

- Make further adjustments to business operations.
- Raise additional funds from shareholders or other parties; or
- Divest assets to raise additional funds.

After making enquiries and considering the matters described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue to meet its obligations as they fall due. For these reasons, the Directors continue to adopt the going concern basis in preparing the financial report.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The basis on which the Directors have determined the recoverable amount of:

- Non-current assets which comprise goodwill, deferred tax assets, computer software and plant and equipment is set out in Notes 1 and 14; and
- Inventory is set out in Note 1.

The recoverable amounts are predicated on the assumption that the Group will continue as a going concern. In the event that the Group is unable to continue as a going concern, a further provision would be required to write down the value of assets to an alternative basis of valuation.

The preparation of a financial report in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Group.

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial report, and estimates with a significant risk of material adjustment in the next year, are discussed in Note 1(u).

(c) Change in accounting policies

The Group has consistently applied the accounting policies as set out in Note 1(d) - (w) to all periods presented in this consolidated financial report.

(d) Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Controlled entities

Controlled entities are entities controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements, net of impairment write downs. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(e) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognised in the statement of comprehensive income. Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

(f) Cash, cash equivalents and term deposits

Cash and cash equivalents comprise cash balances and short term deposits with a maturity of three months or less at inception date. Term deposits with a maturity of three months or greater at inception date are disclosed separately in the consolidated statement of financial position.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on weighted average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

An impairment allowance is made for obsolete, damaged and slow moving inventories. Impairment allowances are estimated by analysing the ageing and stock holding by reference to the age of the individual inventory item or the estimated time taken to sell that inventory item. Varying percentages are applied to the determined profile to estimate the allowance for impairment.

(h) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(i) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

Cost includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.

Subsequent costs

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

Depreciation

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

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
- Plant and Equipment	5% - 40%
- Buildings	2%

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

(j) Intangible assets and goodwill

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see Note 1(d).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

Computer software

Computer software comprises licence costs and direct costs incurred in preparing for the operation of that software, including associated process re-engineering costs. Computer software is stated at cost less accumulated amortisation and impairment losses.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(j) Intangible assets and goodwill (continued)

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Except for goodwill, intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

In current and comparative periods, goodwill was estimated to have an indefinite useful life and computer software was estimated to have a useful life of 3 to 12 years.

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

(k) Impairment of assets (financial and non financial)

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(l) Employee benefits

A provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. These benefits include wages and salaries, annual leave and long service leave. Sick leave is non vesting and has not been provided for.

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

The Group's net obligation in respect to long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

The Group makes contributions to accumulation style superannuation funds for its employees. These contributions are charged through the statement of comprehensive income.

A liability is recognised for short term incentive plans. The calculation is based on the achievement of annually agreed key performance indicators by eligible employees.

An Executive Incentive Plan was approved by shareholders in 2015. The Plan governs the future granting of performance rights and issue of shares and is designed to align the interests of the Company's executives with the shareholders in the medium to long term. Performance targets for 2017 were not met therefore no incentives triggered under the plan.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(m) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Material provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Warranties

Provisions for warranty claims are made for claims received and claims expected to be received in relation to sales made prior to reporting date, based on historical claim rates, adjusted for specific information arising from internal quality assurance processes.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

Make good

Provision for make good in respect of leased properties is recognised where appropriate based on the estimated cost to be incurred to restore premises to the required condition under the relevant lease agreements.

(n) Trade and other payables

Trade and other payables are stated at amortised cost.

Trade payables are non interest bearing and are normally settled within 45 - 60 day terms.

(o) Revenue

Sale of goods

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns, rebates and goods and services tax payable to the taxation authority.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Rental income

Rental income is recognised in the statement of profit or loss and other comprehensive income on a straight line basis over the term of the lease. Rental income from subleased property is recognised as other income.

(p) Leases

Leased assets

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments

Payments made and material incentives received under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(q) Finance income and finance costs

Finance income comprises interest income on funds invested and dividend income. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Groups' right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Finance costs comprise interest expense on borrowings and finance leases.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(r) Operating segments

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Operating segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Operating segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax consolidated group with effect from 1 November 2002 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Coventry Group Ltd.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(s) Income tax (continued)

Tax consolidation (continued)

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the controlled entities is assumed by the head entity in the tax consolidated group and recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(t) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(u) Accounting estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant affect on the amounts recognised in the financial statements are described in the following notes:

- Note 1 (g) - significant accounting policies - inventories;
- Note 1 (s) - significant accounting policies - income tax and recovery of deferred tax assets (Note 6);
- Note 14 - measurement of the recoverable amount of cash generating units; and
- Note 21 - allowance for trade receivable impairment losses.

(v) Share capital

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

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(w) New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2017 are outlined below.

Description	Application of Standard *	Application by Group *
The effects of the following Standards are not expected to be material:		
<i>AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	The amendments to AASB 107 <i>Statement of Cash Flows</i> are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt.	1 January 2017 1 July 2017
<i>AASB 9 Financial Instruments</i>	AASB 9 replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i> . AASB 9 adopts a more principle-based approach to the classification of financial instruments. As such the classification and measurement requirements for financial assets and financial liabilities has been changed. In addition there are changes to the credit loss model and requirements for hedge accounting. The impact of this standard depends upon the financial assets and liabilities and hedges as at 30 June 2018. This Standard amends AASB 2 <i>Share-based Payment</i> and clarifies how to account for certain types of share-based payment transactions.	1 January 2018 1 July 2018 1 January 2018 1 July 2018
<i>AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration</i>	The amendments provide clarification on the determination of the spot exchange rates to use for specific transactions.	1 January 2018 1 July 2018
<i>AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investments Property, Annual Improvements 2014-2016 Cycle and Other Amendments</i>	The Standard makes amendments to AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> ; AASB 12 <i>Disclosure of Interests in Other Entities</i> ; AASB 128 <i>Investments in Associates and Joint Ventures</i> and AASB 140 <i>Investment Property</i> arising from the IASB's Disclosure Initiative project.	1 January 2018 1 July 2018
The effects of the following Standard is still being determined:		
<i>AASB 15 Revenue from Contracts with Customers</i>	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of the Standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The potential effects on adoption of AASB 15 are yet to be determined.	1 January 2018 1 July 2018
<i>AASB 16 Leases</i>	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. Lessees must now recognise a right-of-use asset and lease liability on the statement of financial position and account for the lease in accordance with AASB 16. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. The Group has performed a preliminary assessment of AASB 16 and notes that on application of the standard on 1 July 2019, for the leases where the Group is the lessee, the Group is required to recognise a right-of use asset and a lease liability in the Statement of Financial Position. The amount to be recognised will depend on the term and value of leases that exist at 30 June 2019.	1 January 2019 1 July 2019

* Designates the beginning of the applicable annual reporting period.

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

2. Operating segments

The Group has reportable segments as described below. For each of the strategic operating segments, the CEO reviews internal management accounts on a monthly basis. The following summary describes the operations of each of the Group's reportable operating segments:

- *Trade Distribution*: Includes the importation, distribution and marketing of industrial fasteners and associated products and cabinet making hardware.
- *Fluids*: Includes the design, manufacture, distribution, installation and maintenance of lubrication and hydraulic fluid systems and hoses.
- *Gaskets*: Includes manufacturing and distribution of automotive and industrial gaskets.

Information regarding the results of each reportable operating segment is included below. Performance is measured based on operating segment profit before income tax as included in the internal management reports that are reviewed by the CEO.

Information about reportable segments	Note	Trade Distribution	Fluids	Gaskets	Total reportable segment	Other business units and consolidation adjustments	Total
<i>In thousands of AUD</i>		2017	2017	2017	2017	2017	2017
External sales		96,936	54,091	18,119	169,146	-	169,146
Other income		1,411	(197)	206	1,420	3,176	4,596
External revenue		98,347	53,894	18,325	170,566	3,176	173,742
Inter segment revenue		-	-	-	-	-	-
Total revenue		98,347	53,894	18,325	170,566	3,176	173,742
Reportable segment profit/(loss) before finance costs, income tax and significant items		(4,622)	2,627	3,158	1,163	(9,432)	(8,269)
Net financial income/(loss)		313	-	23	336	(1,036)	(700)
Other significant items:							
Gain on sale of assets (Motor Vehicle Leaseback Transaction)		-	-	-	-	361	361
Impairment loss	26	(5,576)	-	-	(5,576)	(2,292)	(7,868)
Stock obsolescence/adjustments		(5,635)	(903)	(518)	(7,056)	-	(7,056)
Restructuring and other related costs	26	(400)	(70)	(94)	(564)	(286)	(850)
Cyber Attack provision		-	-	-	-	(644)	(644)
Other one-off provisions		-	-	-	-	(444)	(444)
Reportable segment profit/(loss) before income tax		(15,920)	1,654	2,569	(11,697)	(13,773)	(25,470)
Reportable segment assets		53,545	25,418	9,998	88,961	12,112	101,073
Reportable segment liabilities		11,579	6,726	2,215	20,520	18,978	39,498
Capital employed		41,966	18,692	7,783	68,441	(6,866)	61,575
Capital expenditure		2,882	425	130	3,437	1,340	4,777
Depreciation and amortisation		1,121	984	147	2,252	672	2,924

Information about reportable segments	Note	Trade Distribution	Fluids	Gaskets	Total reportable segment	Other business units and consolidation adjustments	Total
<i>In thousands of AUD</i>		2016	2016	2016	2016	2016	2016
External sales		108,484	53,181	15,119	176,784	-	176,784
Other revenue		1,165	205	211	1,581	2,689	4,270
Gain on sale of property, plant and equipment		-	-	2,012	2,012	-	2,012
External revenue		109,649	53,386	17,342	180,377	2,689	183,066
Inter segment revenue		15	2	-	17	(17)	-
Total revenue		109,664	53,388	17,342	180,394	2,672	183,066
Reportable segment profit/(loss) before finance costs, income tax and material items		(967)	2,823	4,926	6,782	(8,073)	(1,291)
Net financial income/(loss)		19	-	22	41	27	68
Other material items:							
Restructuring and other related costs	26	(1,484)	(94)	-	(1,578)	(273)	(1,851)
Reportable segment profit/(loss) before income tax		(2,432)	2,729	4,948	5,245	(8,319)	(3,074)
Reportable segment assets		68,761	26,953	10,651	106,365	22,624	128,989
Reportable segment liabilities		15,622	5,968	2,841	24,431	6,294	30,725
Capital employed		53,139	20,985	7,810	81,934	16,330	98,264
Capital expenditure		3,885	1,024	117	5,026	731	5,757
Depreciation and amortisation		1,306	981	211	2,498	829	3,327

Geographic information

Revenue based on the geographic location of customers was Australia \$145,891,000 (2016: \$155,888,000) and New Zealand \$27,851,000 (2016: \$27,178,000).

Non current assets, excluding deferred tax assets, based on the geographic location of the assets were Australia \$9,638,000 (2016: \$20,074,000) and New Zealand \$995,000 (2016: \$1,089,000).

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

3. Auditor's remuneration

In AUD

Audit services

Auditors of the Group

KPMG Australia:

Audit and review of financial reports

Other services

Auditors of the Group

KPMG Australia:

Advisory services

KPMG New Zealand:

Tax services

	Consolidated	
	2017	2016
	267,375	219,550
	267,375	219,550
	131,888	-
	13,559	7,750
	145,447	7,750

4. Employment costs

In thousands of AUD

Wages and salaries

Liability for annual leave and long service leave

Contributions to superannuation funds

Payroll taxes

Other associated personnel expenses

Share based payments

	Consolidated	
	2017	2016
	32,526	33,614
	3,544	3,882
	2,995	3,323
	1,851	2,010
	2,320	1,683
	47	42
	43,283	44,554

5. Finance income and finance expenses

In thousands of AUD

Interest income from other entities

Net foreign exchange gain

Financial income

Interest expense

Net foreign exchange loss

Financial expenses

Net financing loss

	Consolidated	
	2017	2016
	24	15
	-	70
	24	85
	560	17
	164	-
	724	17
	(700)	68

6. Taxes

Current tax expense

Tax recognised in the profit or loss

In thousands of AUD

Current tax expense

Current year

Overprovision prior year

Deferred tax expense

Origination and reversal of temporary differences

Revenue tax losses (recognised)/not recognised

Derecognition of previously recognised DTA

Total income tax (expense)/benefit

	Consolidated	
	2017	2016
	7,270	498
	71	-
	7,341	498
	416	738
	(8,899)	-
	(8,927)	17
	(17,410)	755
	(10,069)	1,253

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

6. Taxes (continued)

Current tax expense (continued)

Reconciliation of effective tax rate

In thousands of AUD

	Consolidated	
	2017	2016
Loss for the period	(35,539)	(1,821)
Total income tax benefit (loss)	10,069	(1,253)
Loss excluding income tax	(25,470)	(3,074)
Income tax using the Company's domestic tax rate of 30%	7,641	922
Tax profit on sale of land and buildings	-	305
Revenue tax losses (recognised)/not recognised	(8,899)	-
Non-deductible expenditure	51	9
Over provision in prior periods	71	-
Effect of lower tax rate applicable to foreign controlled entity	(6)	17
Impairment of Deferred Tax Asset	(8,927)	-
	(10,069)	1,253

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated

In thousands of AUD

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Trade and other receivables	333	66	-	(11)	333	55
Inventories	2,412	1,234	-	(100)	2,412	1,134
Property, plant and equipment	2,360	1,050	-	-	2,360	1,050
Intangible assets	-	29	-	-	-	29
Employee benefits	267	1,441	-	(27)	267	1,414
Trade and other payables	228	155	-	-	228	155
Provisions	1,018	77	-	-	1,018	77
Translation Reserve	19	-	-	-	19	-
Tax loss carry forward	112	12,178	-	-	112	12,178
Tax assets/(liabilities)	6,749	16,230	-	(138)	6,749	16,092
Set off of deferred tax liability	-	(138)	-	138	-	-
Net deferred tax asset	6,749	16,092	-	-	6,749	16,092

Deferred tax asset of \$8,927,000 has been de-recognised until it becomes probable that future taxable profits will be available in a reasonable timeframe against which temporary differences and unused tax losses can be utilised.

Tax losses in the Group Australian operations consist of post-consolidation carried forward tax losses of \$51,782,899 (30 June 2016: \$38,538,000), represented by the deferred tax asset of \$ Nil (30 June 2016: \$11,561,000), that the Group expects to fully utilise against the forecasted taxable profits in the Australian tax group.

The tax losses in the New Zealand operations of \$1,606,008 (30 June 2016: \$2,203,000), represented by the deferred tax asset of \$112,637 (30 June 2016: \$617,000), can be fully utilised against the future forecasted taxable profits in the New Zealand tax group.

7. Earnings per share

	Consolidated	
	2017	2016
Earnings used in basic and diluted earnings per share calculation	(36,127,858)	(2,867,189)
Weighted average of shares in year used in basic and diluted earnings per share	37,753,145	37,836,479
Earnings per share	(95.7 cents)	(7.6 cents)

8. Cash, cash equivalents and term deposits

In thousands of AUD

	Consolidated	
	2017	2016
Cash on hand	5	25
Bank balances	5,144	3,162
Short term deposits (less than 90 days to maturity at inception)	-	333
Cash and cash equivalents	5,149	3,520

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 21.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

9. Trade and other receivables

In thousands of AUD

	Consolidated	
	2017	2016
Trade receivables	28,075	28,180
	<u>28,075</u>	<u>28,180</u>
Other receivables	701	1,889
Prepayments	484	752
	<u>1,185</u>	<u>2,641</u>
Total trade and other receivables	<u>29,260</u>	<u>30,821</u>
Current	29,260	30,821
Total trade and other receivables	<u>29,260</u>	<u>30,821</u>

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 21. Included in "other expenses" in the statement of profit or loss and other comprehensive income are impairment losses on trade receivables for the Group of \$52,000 (2016: -\$159,000).

10. Inventories

In thousands of AUD

	Consolidated	
	2017	2016
Finished goods	57,652	58,707
Provision for obsolescence	(8,370)	(1,314)
Net Inventory balance	<u>49,282</u>	<u>57,393</u>

The movement in the provision is represented by significant items as per Note 26.

11. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2017 the parent company of the Group was Coventry Group Ltd.

Results of the parent entity

In thousands of AUD

	Company	
	2017	2016
Loss for the period	(43,345)	(1,774)
Other comprehensive income	36	(93)
Total comprehensive loss for the period after tax	<u>(43,309)</u>	<u>(1,867)</u>

Financial position of parent entity at year end

	Company	
	2017	2016
Current assets	61,534	67,656
Total assets	97,636	131,007
Current liabilities	29,948	20,256
Total liabilities	33,285	23,422
Total equity of the parent entity comprising of:		
Issued capital	108,063	108,110
Reserves	(44)	23
Retained earnings	(43,668)	(548)
Total equity	<u>64,351</u>	<u>107,585</u>

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

12. Property, plant and equipment

<i>In thousands of AUD</i>	<i>Note</i>	Land and buildings	Consolidated Plant and equipment	Total
Cost at 1 July 2016		-	43,725	43,725
Accumulated Depreciation at 1 July 2016		-	27,685	27,685
Carrying amounts at 1 July 2016		-	16,040	16,040
Additions		-	1,305	1,305
Depreciation charge for the year		-	(2,533)	(2,533)
Impairment charge for the year	14	-	(5,599)	(5,599)
Disposals		-	(4,530)	(4,530)
Effect of movements in foreign exchange		-	15	15
Carrying amounts at 30 June 2017		-	4,698	4,698
Cost at 1 July 2015		2,299	39,766	42,065
Accumulated Depreciation at 1 July 2015		480	24,774	25,254
Carrying amounts at 1 July 2015		1,819	14,992	16,811
Additions		83	4,120	4,203
Depreciation charge for the year		(22)	(2,911)	(2,933)
Disposals		(1,880)	(142)	(2,022)
Write offs		-	(35)	(35)
Effect of movements in foreign exchange		-	16	16
Carrying amounts at 30 June 2016		-	16,040	16,040

Disposals for the year end 30 June 2017 were recorded for the sale and leaseback transaction of the motor vehicle fleet of the parent entity. Refer Note 22.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

13. Intangible assets

<i>In thousands of AUD</i>	<i>Note</i>	Goodwill	Consolidated Computer software	Total
Carrying amounts at 1 July 2016		3,327	1,796	5,123
Additions		-	3,472	3,472
Amortisation for the year		-	(391)	(391)
Impairment charge for the year		-	(2,269)	(2,269)
Disposals		-	-	-
Write offs		-	-	-
Effect of movements in foreign exchange		-	-	-
Carrying amounts at 30 June 2017		3,327	2,608	5,935
Carrying amounts at 1 July 2015		3,327	636	3,963
Additions		-	1,554	1,554
Amortisation for the year		-	(394)	(394)
Disposals		-	-	-
Write offs		-	-	-
Effect of movements in foreign exchange		-	-	-
Carrying amounts at 30 June 2016		3,327	1,796	5,123

14. Impairment of non-financial assets

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions. The aggregate carrying amounts of goodwill allocated to each CGU are as follows.

<i>In thousands of AUD</i>	Consolidated	2017	2016
Cooper Fluid Systems		3,327	3,327

The key assumptions used in the value in use calculations include projected sales growth, projected gross margins, terminal value, improvements in working capital and the discount rate. These assumptions are based on historical experience and projected performance incorporating in the company's restructure programme.

As a result of continuing poor performance of the business, the Group assessed the carrying value of its assets.

Consistent with the disclosure in the consolidated interim financial statements as at 31 December, 2016, the carrying value of certain assets were determined to be higher than their recoverable amount based on a value in use basis. This resulted in an impairment charge of \$7.86m (\$5.58m related to Trade Distribution) across Property Plant & Equipment and Intangible Assets.

Trade Distribution

For the year ended 30 June 2017, the Group's value in use model indicated no evidence of further impairment. Value in use was based on the following key assumptions:

- Sales growth at 4% for Year 1-2 based on budget, 5% at Year 3-5 assuming strong growth as we fix service levels and resource the branch network correctly.
- Terminal growth 2.5%
- Post tax WACC of 11.5%

Cooper Fluids Systems

For the year ended 30 June 2017, the Group's value in use model showed the recoverable amount exceeded the carrying amount of the Cooper Fluids Systems CGU by \$2.7 million (2016 \$3.7 million). The values assigned to the key assumptions were:

- Sales growth at 5% Year 1 to Year 5, based on strong current growth as Mining & Resources servicing and repairs increase.
- Terminal growth 2.5%
- Post tax WACC of 11.5%

The model is sensitive to reasonably possible changes in the key assumptions keeping all other assumptions constant, the headroom would be eliminated if the WACC increased to 14%.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

15. Trade and other payables

<i>In thousands of AUD</i>	Consolidated	
	2017	2016
Trade payables	18,386	17,501
Non trade payables and accrued expenses	8,509	7,322
	26,895	24,823
Current	23,806	21,838
Non current	3,089	2,985
	26,895	24,823

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

16. Interest-bearing loans and borrowings

<i>In thousands of AUD</i>	Consolidated	
	2017	2016
Financing facilities		
Total facilities available at balance sheet date		
Overdraft Facility	-	3,000
Debtor Financing Facility	10,000	-
Guarantee facility	140	200
Corporate credit card facility	500	750
Lease Liability	51	-
	10,691	3,950
Facilities utilised at balance sheet date		
Debtor Financing Facility	7,994	-
Lease Liability	51	-
	8,045	-
Facilities not utilised at balance sheet date		
Overdraft Facility	-	3,000
Debtor Financing Facility	2,006	-
Guarantee facility	140	200
Corporate credit card facility	500	478
	2,646	3,678

The Group established a \$10 million, securitised trade receivables facility with Scottish Pacific with a minimum period of 12 months from November 2016. The facility is subject to a floating interest on funds drawn. Refer to Note 1(b) Going concern.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

16. Interest-bearing loans and borrowings (continued)

Guarantee facility

Bank guarantees may be arranged from time to time under this facility, whereby the bank guarantees the performance of the Group in relation to certain contractual commitments, up to the limit specified in each individual guarantee. The Guarantee facility available at 30 June 2017 was \$140,000 (2016: \$200,000).

Corporate credit card facility

Credit cards for business use may be issued under this facility from time to time.

Securities

The securitised trade receivables facility is secured by a fixed and floating charge over relevant assets. The guarantee and corporate credit card facility is secured by fixed and floating charges over the assets and undertakings of the Company, general security agreements as well as corporate guarantees and indemnities from Coventry Group Limited and Coventry Group (NZ) Limited, a deed of priority and a security sharing deed.

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

17. Employee benefits

Current

In thousands of AUD

Liability for long service leave
Liability for annual leave

Consolidated	
2017	2016
1,952	2,177
1,979	2,406
3,931	4,583

Non-current

In thousands of AUD

Liability for long service leave

Consolidated	
2017	2016
247	260

18. Share-based payments

Executive incentive plan

An Executive Incentive Plan was approved by shareholders in 2015. The Plan governs the future granting of performance rights and issue of shares and is designed to align the interests of the Company's executives with the shareholders in the medium to long term. Performance targets for 2017 were not met therefore no incentives triggered under the Plan.

Loan funded share issue

During financial year 2014, 200,000 fully paid ordinary shares were issued to Peter Caughey. These were funded by a non recourse loan from the Company. The loan repayment under the terms of the loan funded share issue was the the lower of the original nominal loan value and the value of 200,000 shares at the time the loan settled. These shares were issued and held in escrow with a trading lock until loan settlement in January 2017. The structure of the loan had no 'down side' exposure. The non cash accounting expense/charge in the year is \$21,000 (2016: \$42,000).

In January 2017, the 200,000 fully paid ordinary shares were returned to the company in satisfaction of the non-recourse loan. The shares were cancelled.

19. Provisions

Current

In thousands of AUD

Balance at 30 June 2016
Provisions increased/(decreased)
Provisions used
Balance at 30 June 2017

	Warranty	Restructuring/ onerous contracts	Total
74	182	256	
156	(136)	20	
(145)	-	(145)	
85	46	131	

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

20. Capital and reserves

Share capital

In thousands of shares

On issue at 1 July (start of financial year)
Share buy back ⁽ⁱ⁾
Cancellation of Director shares (ii)
On issue at 30 June

		The Company	
		Ordinary shares	
		2017	2016
		37,836	37,836
		-	-
		(200)	-
		37,636	37,836

⁽ⁱ⁾ In 2009 the Group announced an on-market share buy back of up to 10% of its issued ordinary shares. The 12 month buy back period commenced on 23 November 2009 and has been renewed on a yearly basis. The latest renewal of the share buy back was for a 12 month period which commenced on 22 November 2016.

⁽ⁱⁱ⁾ In January 2017, the 200,000 fully paid ordinary shares issued under an interest free non recourse loan to Peter Caughey were returned to the company in satisfaction of the non-recourse loan. The shares were cancelled.

Ordinary shares

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

Nature and purpose of reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the functional currency of the reporting entity, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Share based payments reserve

The share based payment reserve comprises the fair value of shares and options that are yet to vest under share based payment arrangements.

Hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

Dividends

No dividends have been declared or paid for the year ended 30 June 2017 (2016:\$Nil).

Dividend franking account

In thousands of AUD

30 per cent franking credits available to shareholders of the Company for subsequent financial years

		The Company	
		2017	2016
		4,743	4,246

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

21. Financial risk management

Overview

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

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Credit risk

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. The Group has no significant concentration of customer base.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group's terms and conditions of trade have been amended to incorporate the Personal Property Security legislation. The Group does not normally require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 60 days.

The ageing of the Group's trade receivables at the reporting date showed 92% of debtors were within terms (2016: 91%). The amount of trade debtors that is past due but not impaired is \$2,258,000 (2016: \$4,068,000). The movement in the allowance for impairment in respect of trade receivables during the year was \$52,000 (2016: -\$159,000).

Cash at bank and short or long term deposits are held with Australian and New Zealand banks with acceptable credit ratings.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated	
		Carrying amount	
		2017	2016
Cash and cash equivalents	8	5,149	3,520
Trade and other receivables ⁽ⁱ⁾	9	28,776	30,069
		33,925	33,589

⁽ⁱ⁾ The above "other receivables" accounts only include those accounts that are contractually recoverable in the form of a financial instrument and do not include statutory assets e.g. income tax receivable.

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was Australia \$24,084,000 (2016: \$24,100,000) and New Zealand \$4,692,000 (2016: \$4,080,000).

Coventry Group Ltd and its controlled entities

Notes to the consolidated financial statements

21. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group maintains a \$10 million securitised trade receivables facility on which interest is payable at prevailing market rates. Refer to Note 1(b) Going concern.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated

In thousands of AUD

Non derivative financial liabilities

Trade and other payables ⁽ⁱ⁾

Borrowings

	Carrying amount	Contractual cash flow	2017			
			6 mths or less	6-12 mths	1-2 years	More than 2 years
Trade and other payables ⁽ⁱ⁾	23,806	(23,806)	(23,806)	-	-	-
Borrowings	8,045	(8,045)	(8,045)	-	-	-

The outflows associated with forward contracts used for hedging are US\$2.8 million (A\$3.7 million), 2016: US\$4.7 million, (A\$6.5 million) and will have been made within 6 months or less.

Consolidated

In thousands of AUD

Non derivative financial liabilities

Trade and other payables ⁽ⁱ⁾

	Carrying amount	Contractual cash flow	2016			
			6 mths or less	6-12 mths	1-2 years	More than 2 years
Trade and other payables ⁽ⁱ⁾	21,838	(21,838)	(21,838)	-	-	-

⁽ⁱ⁾ The above "other payables" carrying amount does not include statutory obligations e.g. amounts owing to the ATO.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of AUD

Variable rate financial assets ⁽ⁱ⁾

	Consolidated Carrying amount	
	2017	2016
Variable rate financial assets ⁽ⁱ⁾	5,144	3,162

⁽ⁱ⁾ Variable financial assets do not include "cash on hand" as changes in interest rates do not affect this account.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

The impact of a change of 100 basis points in interest rates at the reporting date is immaterial.

Fair values

The fair values of financial assets and financial liabilities of the Group approximate their carrying amounts in the statement of financial position.

Market risk

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

Currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the Australian dollar. The currencies giving rise to this risk are primarily US dollars, Euros and Japanese yen. The Group adopts a policy of obtaining forward cover for USD forecast exposure.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group defines capital as cash, banking facilities and equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

22. Operating leases

Leases as lessee

Non cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated	
	2017	2016
Less than one year	9,007	7,292
Between one and five years	20,215	17,484
More than five years	12,876	14,974
	42,098	39,750

The Group leases various premises, plant and equipment and motor vehicles under operating leases. The leases typically run for periods ranging from 1 month to 15 years and in some cases provide for an option to renew the lease after expiry. Lease payments are reviewed periodically to reflect market rentals. None of the leases include contingent rentals.

On the 30 June 2017, the parent entity entered into a sale and operating lease back transaction of its existing motor vehicle fleet. The future operating lease commitments of \$1.4 million over the term of the arrangement are reflected in the table above.

During the financial year ended 30 June 2017, the Group recognised \$7,597,948 (2016: \$8,381,000) as an expense in the statement of profit or loss and other comprehensive income in respect of operating leases.

Leases as lessor

At the end of the reporting period, the future minimum lease payments under non-cancellable leases are receivable as follows.

<i>In thousands of AUD</i>	Consolidated	
	2017	2016
Less than one year	1,998	2,229
Between one and five years	2,846	9,072
More than five years	171	3,895
	5,015	15,196

The Group subleases various premises under operating leases. The leases typically run for periods ranging from 1 year to 5 years and in some cases provide for an option to renew the lease after expiry.

During the financial year ended 30 June 2017, the Group recognised \$2,854,034 (2016: \$2,576,000) as income in the statement of profit or loss and other comprehensive income.

23. Controlled entities

	Country of Incorporation	Ownership interest	
		2017	2016
		%	%
AA Gaskets Pty Ltd	Australia	72.5	72.5
Coventry Group (NZ) Limited	New Zealand	100	100
NZ Gaskets Limited ⁽ⁱ⁾	New Zealand	72.5	72.5

The ultimate parent entity is Coventry Group Ltd.

⁽ⁱ⁾ The company is a 100% controlled entity of AA Gaskets Pty Ltd and operates in New Zealand

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

24. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Note	Consolidated	
		2017	2016
Cash flows from operating activities			
Loss for the period		(35,539)	(1,821)
<i>Adjustments for:</i>			
Provision for stock obsolescence	26	7,056	-
Depreciation and amortisation		2,924	3,327
Impairment Charge for the year	26	7,868	-
Other non-cash or non-operating exceptional items		659	-
Interest income from other entities		(24)	(15)
Interest expense	5	560	17
Net (gain) on disposal of property, plant and equipment		(610)	(2,003)
Income tax expense/(benefit)	6	10,069	(1,253)
Operating loss before changes in working capital and provisions		(7,037)	(1,748)
Change in trade and other receivables		1,561	614
Change in inventories		1,055	2,243
Change in trade and other payables		2,072	(333)
Change in provisions and employee benefits		(790)	(2,088)
		(3,139)	(1,312)
Interest paid		(560)	(17)
Income taxes paid		(1,280)	(547)
Net cash used in operating activities		(4,979)	(1,876)

25. Related parties

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation comprised the following:

<i>In AUD</i>	Consolidated	
	2017	2016
Short-term employee benefits	1,185,502	1,254,421
Post-employment benefits	79,766	99,570
Termination benefits	360,073	50,612
Other long-term benefits	19,309	61,598
Benefits derived from non recourse loan	20,768	41,533
	1,665,418	1,507,733

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

Key management personnel transactions

From time to time, key management personnel may purchase goods from companies within the Group on the same terms as apply to other employees of the Group. The value of these transactions is insignificant.

Other related party transactions

The Group has a related party relationship with its controlled entities (see Note 23). All transactions with controlled entities are at arms length.

The aggregate amounts included in the profit before tax for the year that resulted from transactions with controlled entities are:

The parent entity only:	2017	2016
Dividend revenue	1,160,000	4,386,250
Revenue from sale of goods	655,684	640,973
Management fees	1,510,613	1,621,243
Aggregate amounts receivable from controlled entities:		
Advance account subject to interest charges (Australian controlled entities)	-	251,593
Other receivables	146,049	1,621,243
Aggregate amounts payable to controlled entities	-	36,970

During the year ended 30 June 2015, the Company entered into a intercompany loan with Coventry Group (NZ) Limited (CGL NZ). The intercompany loan is subject to an interest charge of 5.63% p.a and at 30 June 2017 the balance owing was \$114,728 (2016: \$1,877,785).

During the year ended 30 June 2017, the Company charged CGL NZ management fees of \$1,510,613 (2016: \$1,621,243).

Coventry Group Ltd and its controlled entities
Notes to the consolidated financial statements

26. Restructuring, impairment and other significant costs

During the prior financial year Coventry Group undertook a re-organisation and restructure of the Group. These changes were undertaken to remove cost from the organisation, to improve efficiency and enable the ongoing business to better service its customer base.

As number of restructure initiatives are ongoing, restructure costs were incurred in the year ended 30 June 2017.

In thousands of AUD

Restructuring, impairment and other significant costs

	Consolidated	
	2017	2016
Redundancy costs	850	883
Impairment of assets	7,868	-
Stock obsolescence	7,056	-
(Gain) on sale of motor vehicles per sale and leaseback transaction	(362)	-
Fixed assets disposal and write off	-	35
Third party consultants, temporary staff and relocations	-	1,213
Onerous leases and exit costs	-	10
Other costs and legal fees	-	(290)
Cyber Attack	644	-
	16,056	1,851

Redundancy costs

Costs associated with restructuring of head office employee costs.

Cyber Attack

Represents costs associated with remediation resulting from Cyber Attack event in June 2017.

Impairment of Assets

Consistent with disclosure in the half-year report as at 31 December, 2016, the board reassessed the carrying value of assets in the business and determined a non cash impairment of \$7.9m comprising:

- \$2.1m Fixtures and Fittings associated with the leased Perth Warehouse
- \$3.5m in fixtures and fittings across the branch network
- \$2.3m in Intangibles relating to Software

Stock Obsolescence

The board assessed the carrying value of inventory as at 30 June 2017 with this amount representing the movement in the provision for obsolescence. Refer note 10.

(Gain) on sale of motor vehicles per sale and leaseback transaction

A profit resulted from the sale of the net book value of motor vehicles as per the sale and leaseback transaction which occurred on the 30 June, 2017.

Coventry Group Ltd

Directors' report

For the year ended 30 June 2017

The directors present their report together with the financial report of Coventry Group Ltd (the "Company") and of the Group, being the Company and its subsidiaries for the year ended 30 June 2017.

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Coventry Group Ltd
Directors' report
For the year ended 30 June 2017

1. Directors

Information on Directors

The directors of the Company at any time during or since the end of the financial year and up to the date of this report are:

Name, qualifications, independence status and special responsibilities

Neil George Cathie, FCPA, GAICD, FCIS
Chairman
Chairman of remuneration committee; member audit and risk committee

Robert James Bulluss, FCPA, GAICD, B Bus (Acc)
Managing Director
Chief Executive Officer

Kenneth Royce Perry, B.Sc (Hons), MBA, MAICD
Independent non-executive director
Chairman of audit and risk committee; member of remuneration committee

Nicholas John Willis, B.Sc, FAIM
Independent non-executive director
Member of remuneration committee

Vicky Papachristos, BE (Chem), MBA, AICD
Independent non-executive director
Member of audit and risk committee

Peter John Batman Caughey, B.Eng, MBA
Managing Director
Chief Executive Officer

Experience and other directorships

Mr Cathie was appointed as a director of the Company in September 2014 and as Chairman in January 2015. He has extensive experience in very relevant areas including having a 27 year career at Australia's largest and most successful plumbing and bathroom distributor, ASX listed Reece Australia Ltd, during which time he served as its Chief Financial Officer, Company Secretary and General Manager, Finance and IT. He is currently a director of and advisor to a number of private companies.

He held no other listed company directorships during the past 3 financial years.

Mr Bulluss was appointed Chief Executive Officer on 3 May 2017 and Managing Director and Chief Executive Officer on 29 August 2017. He was previously Chief Finance Officer (CFO) of the Company from October 2016 to April 2017. Prior to joining the Company he was CFO for over 15 years for the Australasian division of Bunzl plc.

Mr Bulluss is also a Non-Executive Director for the privately owned Allpower Industries Pty Ltd.

Mr Perry was appointed a director of the Company in September 2009. He was Chief Executive Officer of VDM Group Limited, a publicly listed Australian engineering, construction and contracting business until March 2011. Prior to this appointment in February 2010, Mr Perry was the Managing Director of Brandrill Limited from 2002 to 2009 when the company merged with Ausdrill Limited. Mr Perry has over 25 years' experience in senior management roles, including serving as President of Rio Tinto Group's Taiwanese steel mill and as the Director General of the Department of Minerals and Energy (WA) between 1994 and 1997. Subsequently he worked for Resource Finance Corporation, a private merchant and investment bank specialising in the natural resources sector. Mr Perry is also a member of various private boards.

He held no other listed company directorships during the past 3 financial years.

Mr Willis was appointed a director of the Company in September 2014. He has extensive and highly relevant experience in industry spaces of Coventry including leading the national marketing and operation functions in ACI Insulation and Laminex Industries and as Group General Manager at Ramset Building Products. In these roles he has had many years at a senior level in ASX listed companies.

He held no other listed company directorships during the past 3 financial years.

Ms Papachristos was appointed as a director of the Company in April 2015. She is an experienced non-executive director with a strong sales and marketing background having spent over 25 years as an executive with major corporations in Australia and the USA.

She held no other listed company directorships during the past 3 financial years.

Ms Papachristos resigned as Director on 28 July 2017.

Mr Caughey was appointed Managing Director and Chief Executive Officer in January 2015. He was previously the Business Leader of Konnect since September 2012 and Artia since April 2013.

He held no other listed company directorships during the past 3 financial years.

Mr Caughey resigned as Director and Chief Executive Officer on 30 March 2017.

Coventry Group Ltd
 Directors' report
 For the year ended 30 June 2017

1. Directors (continued)

Directors' Interests

As at the date of this report particulars of the relevant interest of each director in the securities of the Company are as follows:

	<u>Number of Ordinary Shares</u>
NG Cathie	72,200
KR Perry	30,000
NJ Willis	5,400
RJ Bulluss	-

During the 2016/17 financial year and as at the date of this report no director has declared any interest in a contract or proposed contract with the Company, the nature of which would be required to be reported in accordance with subsection 300(1)(d) of the Corporations Act 2001, except as follows:

Directors' Meetings

The following table sets out the number of meetings of the Company's board of directors and each board committee, held during the year ended 30 June 2017, and the number of meetings attended by each director.

	Board of Directors			Audit & Risk Committee			Remuneration Committee		
	Held	Eligible to attend	Attended	Held	Eligible to attend	Attended	Held	Eligible to attend	Attended
NG Cathie	10	10	10	3	3	3	2	2	2
NJ Willis	10	10	10	-	-	-	2	2	1
V Papachristos	10	10	10	3	3	3	-	-	-
KR Perry	10	10	10	3	3	3	2	2	2
PJB Caughey	10	7	7	-	-	-	-	-	-

Note: Directors may pass resolutions in writing without a formal meeting being convened. Such resolutions are deemed by the Company's Constitution to be meetings. The above table does not include such meetings.

2. Principal activities

The principal activities of the Group during the financial year were:

Trade Distribution

- distribution and marketing of industrial fasteners, stainless steel fasteners and hardware, construction fasteners, specialised fastener products and systems, and associated industrial tools and consumables
- importation, distribution and marketing of hardware, components and finished products to the commercial cabinet making, joinery and shop fitting industries.

Fluids

- design and installation of lubrication systems
- distribution of hose, connectors, fittings and hydraulic hose assemblies
- design and supply of service truck components
- installation of fire suppression systems
- design and distribution of fluid handling systems, pneumatic component sales and sale of hydraulic associated products and consumables
- rock hammer service and repairs

Gasket Manufacturing

- manufacture, importation and distribution of automotive and industrial gaskets.

There have been no changes to the principal activities of the Group during the year ended 30 June 2017.

Coventry Group Ltd
Directors' report
For the year ended 30 June 2017

3. Consolidated results

Results of the Group for the year ended 30 June 2017 were as follows:

In thousands of AUD

Revenue from sale of goods
Loss before tax
Income tax (expense)/benefit
Loss for the year

Loss after tax for the year attributable to:

- equity holders of the Company
- minority interest
Loss after tax for the year

	2017	2016
Revenue from sale of goods	169,146	176,784
Loss before tax	(25,470)	(3,074)
Income tax (expense)/benefit	(10,069)	1,253
Loss for the year	(35,539)	(1,821)
Loss after tax for the year attributable to:		
- equity holders of the Company	(36,127)	(2,867)
- minority interest	588	1,046
Loss after tax for the year	(35,539)	(1,821)

4. Dividends

There were no dividends paid or declared by the Group to members for the year ended 30 June 2017 (2016: \$Nil).

5. Review of operations and results

People

The Group had no Lost Time Injuries during the year which is an excellent result. A newly appointed Group Health and Safety Manager will continue to drive improvement in our Health, Safety and Well Being systems. Our priority has always been safety first.

The Executive Leadership Team, Senior Management and Human Resources are committed to implementing our new values and improving employee retention.

Financial performance

\$m	Full year to 30.06.17	Full year to 30.06.16	% change
Revenue (from continuing operations)	169.1	176.8	-4.30%
(Loss)/Profit before income tax	-25.5	-3.1	n/m
(Loss)/Profit after tax	-35.5	-1.8	n/m
NTA per share	1.30	2.03	-36.00%
Basic loss per share (cents)	-95.6	-7.6	n/m

n/m = not meaningful

Significant items

Significant items \$m	1H17	2H17	FY17
Restructuring/Redundancy costs	0.4	0.5	0.9
Provision for Stock Obsolescence/stock adjustments	-	7.1	7.1
Cyber Attack Provision	-	0.6	0.6
De-recognition of Deferred Tax Asset	6.9	2.0	8.9
Impairment Adjustments	7.9	-	7.9
Profit on sale of motor vehicle fleet	-	-0.4	-0.4
Total significant items	15.2	9.8	25.0

Review of businesses

Trade Distribution

TD sales were down year on year by 10.6%. We are seeing positive signs in daily sales run rates early in FY18 as market conditions improve and implementation of our revised strategy begins to impact on performance.

Cooper Fluid Systems

CFS sales were up on prior year by 1.7% and the business has had very strong growth in the past three months. The business is investing in additional equipment and recruiting service technicians to manage current growth and opportunities. The business contributed \$2.6m.

Investments/Other

AA Gaskets

CGL's 72.5% investment in AAG continued to improve during 2017. Sales growth of 19.8% was achieved during the year and the business paid dividends to CGL of \$1.2m.

6. Earnings per share

Basic loss per share for the year ended 30 June 2017 was 95.7 cents. This compares to a basic loss per share of 7.6 cents for the previous year.

7. Significant change in the company's affairs

The directors are not aware of any significant change in the Group's state of affairs that occurred during the financial year not otherwise disclosed in this report or the consolidated accounts.

8. Events subsequent to reporting date

The directors are not aware of any matter or circumstance having arisen since the end of the financial year and the date of this report 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 future financial years.

9. Likely developments

Complete the restructure plan and continue to operate in the markets in which it currently participates.

Coventry Group Ltd
 Directors' report
 For the year ended 30 June 2017

10. Remuneration report - audited

Remuneration is referred to as compensation throughout this remuneration report.

10.1 Key Management Personnel (KMPs)

KMPs are the persons who have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. The following were KMPs of the Group at any time during the reporting period and unless otherwise indicated were KMPs for the entire period:

Non-executive directors

KR Perry
 NG Cathie
 NJ Willis
 V Papachristos (resigned 28 July 2017)

Executive directors

PJB Caughey, CEO & Managing Director (resigned 30 March 2017)

Executives

Robert Bulluss, Chief Executive Officer and Managing Director (appointed CFO 18 October 2016, appointed acting CEO 30 March 2017, appointed CEO 3 May 2017, appointed CEO and Managing Director 29 August 2017)
 Joe Nicolazzo, Chief Financial Officer (CFO) (appointed 21 September 2015, resigned 1 September 2016)

10.2 Principles used to determine the nature and amount of compensation

Non-executive directors

Non-executive directors receive cash fees for their board and committee work and do not receive performance based payments. Non-executive directors do not receive termination benefits. The aggregate remuneration paid to non-executive directors is capped at the level approved by shareholders.

Directors' fees

Non-executive directors' fees are determined within an aggregate directors' fees pool limit, which is periodically recommended for approval by shareholders. The total pool currently stands at \$550,000 per annum, which was last approved by shareholders in November 2004 with effect from 1 July 2004. The Board determines the allocation of the maximum amount approved by shareholders amongst the respective directors, having regard to their duties and responsibilities. Directors' fees are not directly linked to Company performance nor are bonuses paid to non-executive directors. There is no provision for retirement allowances to be paid to non-executive directors.

As at 30 June 2017 the non-executive directors fees were allocated as follows (includes statutory superannuation contributions):

	2017	2016
	\$	\$
Chairman (base fee)	127,500	127,500
Non-executive Directors (base fee)	85,000	85,000
Chairman of Audit & Risk Committee (in addition to base fee)	15,000	15,000
Member of Audit & Risk Committee (in addition to base fee)	5,000	5,000
Chairman and Member of Remuneration Committee (in addition to base fee)	5,000	5,000

Executive pay

Remuneration policies

Remuneration of directors and senior executives is the responsibility of the Remuneration Committee. The Committee has resolved to set remuneration packages which are appropriate in the context of the company's size, complexity and performance but which will attract the calibre of executive required to drive necessary change in order to enhance performance. The Committee seeks external advice in relation to these matters where necessary.

Remuneration for senior executives is currently largely cash based, comprising fixed remuneration (which includes superannuation and benefits) and short term incentives. There was no share based remuneration during the year. The CEO and senior executives have employment contracts with notice periods executable by either party. There are no arrangements in place to provide the CEO or any senior executive with a retirement benefit other than those which accrue by law. Superannuation contributions are paid at the superannuation guarantee rate.

Short-term cash incentives of up to 60% of fixed annual compensation are payable to the senior executives upon the achievement of various annual performance targets. The short term incentives paid for the year were based on the continuing implementation of key elements of the company-wide restructure plan and the company's safety record.

An Executive Incentive Plan was approved by shareholders at the 2015 annual general meeting. The plan was not triggered during the year.

Coventry Group Ltd
Directors' report (continued)
For the year ended 30 June 2017

10. Remuneration report - audited (continued)
10.3 Details of compensation

The following table provides the details, nature and amount of elements of compensation for the key management personnel of the Company and the Group for the year ended 30 June 2017.

In AUD		Short-term			Post-employment Superannuation ⁽ⁱ⁾	Other long-term Long service & annual leave provision accrual	Termination benefits	Share-based payment	Total	Proportion of remuneration performance related	Value of loans as proportion of remuneration
		Cash salary, leave paid and fees	STI cash bonus ⁽ⁱ⁾	Non-monetary benefits							
Directors											
Non-executive directors											
	2017	125,571	-	-	11,929	-	-	-	137,500	-	-
	2016	125,573	-	-	11,929	-	-	-	137,502	-	-
	2017	82,192	-	-	7,808	-	-	-	90,000	-	-
	2016	55,001	-	-	34,999	-	-	-	90,000	-	-
	2017	82,192	-	-	7,808	-	-	-	90,000	-	-
	2016	82,192	-	-	7,808	-	-	-	90,000	-	-
	2017	95,890	-	-	9,110	-	-	-	105,000	-	-
	2016	95,892	-	-	9,109	-	-	-	105,001	-	-
	2017	385,845	-	-	36,655	-	-	-	422,500	-	-
	2016	358,658	-	-	63,845	-	-	-	422,503	-	-
	2017	455,508	-	-	19,616	-	360,073	20,768	855,965	2.4%	2.4%
	2016	585,382	60,000	-	19,308	60,975	-	41,533	767,198	13.2%	5.4%
	2017	455,508	-	-	19,616	-	360,073	20,768	855,965	-	-
	2016	585,382	60,000	-	19,308	60,975	-	41,533	767,198	-	-
	2017	841,353	-	-	56,271	-	360,073	20,768	1,278,465	-	-
	2016	944,040	60,000	-	83,153	60,975	-	41,533	1,189,701	-	-
Key management personnel											
	2017	226,826	-	-	14,475	19,309	-	-	260,610	-	-
	2017	117,323	-	-	9,020	-	-	-	126,343	-	-
	2016	210,003	20,000	-	14,481	623	-	-	245,107	8.2%	-
	2017	344,149	-	-	23,495	19,309	-	-	386,953	-	-
	2016	210,003	20,000	-	14,481	623	-	-	245,107	-	-
	2017	1,185,502	-	-	79,766	19,309	360,073	20,768	1,665,418	-	-
	2016	1,154,043	80,000	-	97,634	61,598	-	41,533	1,434,808	-	-

Premiums in respect of the Directors' and Officers' insurance policy are not included above, as the policy does not specify the premium paid in respect of individual directors and officers.
⁽ⁱ⁾ Includes statutory superannuation contributions and additional voluntary contributions.

Coventry Group Ltd
Directors' report (continued)
For the year ended 30 June 2017

10. Remuneration report - audited (continued)

10.4 Service contracts

Compensation and other terms of employment for the CEO and Managing Director and other key management personnel are formalised in employment contracts. Major provisions of the contracts relating to compensation are set out below:

Robert Bulluss, CEO and Managing Director (appointed CEO 3 May 2017, appointed CEO and Managing Director 29 August 2017)

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Remuneration Committee.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- The contract provides for participation in short-term and long-term incentive plans.
- Other than for an act that may have a serious detrimental effect on the Company, such as wilful disobedience, fraud or misconduct, termination of employment requires 6 months notice by the Company.

Coventry Group Ltd
 Directors' report (continued)
 For the year ended 30 June 2017

10.5 Executive incentive plan

There was no share based remuneration during the financial year.

Non recourse share loan

In January 2014 the Group issued 200,000 fully paid ordinary shares under an interest free (conditional on employment) non recourse loan to Peter Caughey. In January 2017, the 200,000 fully paid ordinary shares were returned to the company in satisfaction of the non-recourse loan. The shares were cancelled. Mr Caughey resigned his position on 30 March 2017.

Movements in shares

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 30 June 2016	Held on appointment	Purchases	Sales / Cancelled	Held at Resignation/ Retirement	Held at 30 June 2017
Directors						
KR Perry	30,000	-	-	-	-	30,000
NG Cathie	72,200	-	-	-	-	72,200
NJ Willis	5,400	-	-	-	-	5,400
PJB Caughey (resigned 30 March 2017)	300,176	-	-	(200,000)	100,176	N/A
RJ Bulluss	-	-	-	-	-	-
V Papachristos (resigned 28 July 2017)	-	-	-	-	-	-

No other key management person held shares, directly, indirectly or beneficially, in the Company at 30 June 2017 (2016: Nil).

11. Environmental regulation

The Group is not subject to any specific environmental regulation.

The Group mainly operates warehousing and distribution facilities throughout Australia and New Zealand which have general obligations under environmental legislation of the respective statutory authorities in relation to pollution prevention.

The Company has reviewed its obligations under the National Greenhouse & Energy Reporting Act 2007 (the Act). As the Group is under the minimum greenhouse and energy thresholds stipulated in the Act, there are no registration and reporting requirements that have to be complied with as at the date of this report.

For the financial year ended 30 June 2017 and as at the date of this report, the Group has not been prosecuted nor incurred any infringement penalty for environmental incidents.

12. Insurance of officers

During the financial year the Company has paid premiums in respect of contracts insuring the directors and officers of the Company against certain liabilities incurred in those capacities. The contracts prohibit further disclosure of the nature of the liabilities and the amounts of the premiums.

Coventry Group Ltd
Directors' report (continued)
For the year ended 30 June 2017

13. Corporate governance

The Statement of Corporate Governance Practices is disclosed on the company's website.

14. Non-audit services

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

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

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in Note 3 to the full financial report.

15. Lead auditors independence declaration

The lead auditor's independence declaration made in accordance with Section 307C of the Corporations Act 2001 forms part of this directors' report.

16. Company secretary

Mr Christopher Lloyd was appointed to the position of Company Secretary in October 2015 following the resignation of Mr Keith Smith.

Mr Robert Bulluss was appointed to the position of Company Secretary in November 2016 following the resignation of Mr Christopher Lloyd.

Ms. Angela Donaldson and Ms. Beatrice Silva were appointed to the position of Company Secretary in May 2017 following the appointment of Mr Robert Bulluss as CEO.

Ms Beatrice Silva resigned as company secretary in August 2017.

17. Rounding off

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

Signed in accordance with a resolution of the directors.



N.G. CATHIE
Chairman

Melbourne
29 August 2017



R.J. BULLUSS
CEO and Managing Director

Melbourne
29 August 2017

Directors' declaration

1. In the opinion of the directors of Coventry Group Ltd ("the Group"):
 - (a) the financial statements and notes, and the remuneration report in the directors' report, set out on pages 31 to 33, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a) of the full financial report;
 - (c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2017 pursuant to Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.



N.G. CATHIE
Chairman

Melbourne
29 August 2017



ROBERT BULLUSS
CEO and Managing Director

Melbourne
29 August 2017



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Coventry Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Coventry Group Limited for the financial year ended 30 June 2017 there have been:

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


KPMG



Suzanne Bell

Partner

Melbourne

29 August 2017



Independent Auditor's Report

To the shareholders of Coventry Group Limited

Report on the audit of the Financial Report

Opinion

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

We have audited the **Financial Report** of the Group.

The **Financial Report** comprises the:

- Consolidated statement of financial position as at 30 June 2017;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of Coventry Group Limited (the Company) and the entities it controlled at the year end and from time to time during the financial year.

Basis for opinion

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

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

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



Material uncertainty related to going concern

We draw attention to Note 1(b) "Going Concern" in the financial report. The conditions disclosed in Note 1(b), indicate a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern, we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. Our approach to this involved:

- Evaluating the feasibility, quantum and timing of the Group's plans renegotiate existing debt facilities/revise funding arrangements to address going concern;
- Assessing the Group's cash flow forecasts for incorporation of the Group's operations and plans to address going concern, in particular in light of the recent history of loss making operations; and
- Determining the completeness of the Group's going concern disclosures for the principle matters casting significant doubt on the Group's ability to continue as a going concern, the Group's plans to address these matters, and the material uncertainty.

Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the **Key Audit Matters**:

- Asset valuation; and
- Valuation of inventory.

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Asset valuation (impairment of Trade Distribution CGU \$5.8 million)

Refer to Note 14 to the Financial Report

The key audit matter

A key audit matter for us was the valuation of the Group's Trade Distribution non-current assets given the existence of the following impairment indicators at 30 June 2017:

- The market capitalisation of the Group was \$22.7m, \$38.9m lower than the net asset position of \$61.6m; and
- The Trade Distribution business'

How the matter was addressed in our audit

Our audit procedures included:

- We considered the appropriateness of the CGU designation applied by the Group;
- We considered the appropriateness of the value in use method applied by the Group to perform impairment testing against the requirements of the accounting standards;
- We assessed the integrity of the value in use model used, including the mathematical accuracy of the



recent history of losses and not achieving budget.

Significant forward-looking assumptions the Group applied in its Trade Distribution value in use model are inherently difficult to determine with precision, including:

- Forecast operating cash flows – Trade Distribution has a recent history of losses and not meeting budget as a result of an inability to deliver on initiatives targeting cost reductions and sales growth from diversification into new markets, in response to the mining sector contraction.
- The Group's model is sensitive to small changes in key assumptions. This drives additional audit effort specific to the feasibility and consistency of application to the Group's strategy. These conditions increase the possibility of non-current assets being impaired, plus the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider.
- Discount rate – these are inherently complex and vary according to the conditions and environment the specific Cash Generating Unit (CGU) is subject to from time to time and the model's approach to incorporating risks into the cash flows or discount rates. The Group's modelling is highly sensitive to small changes in the discount rate.

The Group uses a complex model to perform its impairment assessment. The model is largely manually developed and uses a range of internally and externally sourced inputs. The Group's Trade Distribution business has not met prior forecasts, raising our concern for the reliability of current forecasts. Complex modelling, particularly those containing highly judgemental allocations of corporate costs to CGUs, and forward-looking assumptions tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in

underlying calculation formulas;

- We assessed the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows contained in the value in use model, for consistency with our understanding of the business and the criteria in the accounting standards;
- We compared the forecast cash flows contained in the value in use model to Board approved forecasts;
- We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. We noted previous trends for use in further testing;
- We considered the sensitivity of the model by varying key assumptions, such as forecast sales growth rates, discount rates, terminal growth rates and gross margins within a reasonably possible range;
- We challenged the Group's significant forecast cash flow and growth assumptions in light current market conditions, working capital requirements and restructuring activities. We compared key initiatives to the Board approved plan and strategy. We applied scepticism to forecasts in the areas where previous forecasts were not achieved. We compared forecast growth rates to published studies of industry trends and expectations, and considered differences for the Group's Trade Distribution operations. We used our knowledge of Trade Distribution, its past performance, business and customers, and our industry experience;
- Working with our valuation specialists we independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to Trade Distribution and the industry it operates in;
- We recalculated the impairment charge against the recorded amount disclosed; and
- We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.



particular to address the objectivity of sources used for assumptions, and their consistent application.

The inherent complexity of this key audit matter requires the involvement of valuation specialists to supplement our senior audit team members.

Valuation of inventory 1948.7 million

Refer to Note 10 to the Financial Report

The key audit matter

We consider valuation of inventory to be a key audit matter given:

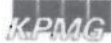
- The quantum of inventory held at 30 June 2017 represents 49% of the Group's total assets; and
- The inherent judgement used in determining the saleability and net realisable value of inventory.

Assessing the judgments contained in the valuation models for forecast demand and sales price required considerable judgement. A key indicator for at-risk inventory values, is the identification of current slow moving and obsolete inventory. These can signal demand shifts resulting in potential over-supply issues and downward pressure on prices.

How the matter was addressed in our audit

Our audit procedures included:

- Testing key controls designed by the Group to identify slow moving and obsolete inventories, which if existing, may indicate valuation issues;
- Obtaining, on a sample basis, the initial purchase invoices and most recent sales invoices of selected product lines to compare the carrying amount to the realisable value of the product line;
- Attending year-end stock takes in significant locations which included observing the process of identifying slow moving and potentially obsolete inventory;
- We assessed the mathematical accuracy of the provision for slow moving and obsolete stock computation and analysed the product lines contained therein; and
- Assessing the Group's inventory valuation methodologies and the Group's disclosure in respect of inventory valuation against the requirements of relevant accounting standards.



Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Coventry Group Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2017.

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

KPMG

Suzanne Bell
Partner
Melbourne
29 August 2017

Shareholder Information As at 23 August 2017

TWENTY LARGEST SHAREHOLDERS

Name	Ordinary Shares	
	Number	% of Total
1 J P MORGAN NOMINEES AUSTRALIA LIMITED	5,652,660	15.02
2 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,674,140	12.42
3 ONE MANAGED INVT FUNDS LTD <SANDON CAPITAL INV LTD A/C>	1,668,714	4.43
4 DORSETT INVESTMENTS PTY LTD	1,356,660	3.60
5 MRS ANNE KYLE	1,000,000	2.66
6 DEVADIUS PTY LTD	836,619	2.22
7 NATIONAL NOMINEES LIMITED	820,642	2.18
8 ELLAND ROAD PTY LTD	442,000	1.17
9 ARUMA BEACH PTY LTD	415,000	1.10
10 GARSIND PTY LTD <RUTH ROSS SUPER FUND A/C>	400,000	1.06
10 TPSC SMIRK PTY LTD	400,000	1.06
12 DAVID NEWNHAM SUPER PTY LTD <DAVID NEWNHAM SUPERFUND	377,000	1.00
13 MR CLIFFORD MAXWELL KYLE	361,208	0.96
14 BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT	360,902	0.96
15 BENTALE PTY LTD <ALLAMBI ROAD FAMILY A/C>	350,000	0.93
16 CITICORP NOMINEES PTY LIMITED	349,539	0.93
17 FFSF ASSET MANAGEMENT PTY LTD <FF SUPER FUND A/C>	347,248	0.92
18 BUDUVA PTY LTD	325,000	0.86
19 MR GEOFFREY KYLE	320,000	0.85
20 MRS JUDITH ANNE SMIRK	206,663	0.55
	20,663,995	54.90

DISTRIBUTION OF SHAREHOLDING

Size of Holding	Number of holders	%	Number of shares	%
1 - 1,000	1,745	54.60	608,427	1.62
1,001 - 5,000	834	26.10	2,165,144	5.75
5,001 - 10,000	245	7.67	1,814,579	4.82
10,001 - 100,000	330	10.33	9,339,516	24.82
100,001 Over	42	1.31	23,708,813	62.99
	3,196	100.00	37,636,479	100.00

Unmarketable parcels field information:	Minimum Parcel Size	Holders	Units
	562	1,484	401,028

SUBSTANTIAL SHAREHOLDERS

The Company's register of substantial shareholders showed the following particulars as at 23 August 2017.

Name of Substantial Shareholder	Extent of Interest (Number of Shares)	Date of last notification
Viburnum Funds Pty Ltd	4,485,296	31.07.2017
Intrepid Capital Management Inc	2,820,026	03.07.2017
Sandon Capital Investments Pty Ltd	2,297,056	22.03.2016

*Schroder Investment and Investors Mutual ceased to be substantial shareholders during the financial year.

UNQUOTED EQUITY SECURITIES

Nil

VOTING RIGHTS

Each member present at a general meeting of the Company in person or by proxy, attorney or official representative is entitled:

- on a show of hands - to one vote
- on a poll - to one vote for each share held

Corporate Directory

Coventry Group

ABN 37 008 670 102

Registered and Principal Administrative Office

235 Settlement Road,
Thomastown, Victoria 3074

Postal Address

P O Box 526
Thomastown, Victoria 3074

Website

www.cgl.com.au

Secretary

Angela Donaldson

Bankers

Australian and New Zealand Banking Group Limited
Scottish Pacific Business Finance Pty Ltd

Auditors

KPMG
Tower Two
Collins Square
727 Collins Street
Melbourne, Victoria 3008

Share Registry

Computershare Investor Services Pty Ltd
Level 11 172 St Georges Terrace
Perth Western Australia 6000

or

GPO Box 2975
Melbourne, Victoria 3000

Telephone from within Australia: 1300 763 414
Telephone from outside Australia: +(61) 3 9415 4000
Facsimile: +(61) 3 9473 2500
Email: web.queries@computershare.com.au
Website: www.investorcentre.com/au

Securities Exchange Listing

The Company's shares are listed on the ASX Limited and trade under the code CYG. The home exchange is Perth.

Shareholder Enquiries/Change of Address

Shareholders wishing to enquire about their shareholdings, dividend payments, or change their address should contact the Company's share registry.

