



Appendix 4D (rule 4.2A.3)

HALF-YEAR FINANCIAL STATEMENTS
31 December 2020

Results for announcement to the market

Extracts from this report for announcement to the market.

Revenue and net profit

		Percentage Change %	Amount \$'000
Sales revenue	up/(down)	(28.1%) to	236,652
Total revenue	up/(down)	(11.6%) to	296,469
EBITDA (excluding significant items)	up/(down)	(10.7%) to	22,345
EBITDA (including significant items)	up/(down)	- to	13,890
Net loss for the period	up/(down)	(83.4%) to	(9,681)

Dividends

No dividend was declared or paid during the half-year ended 31 December 2020.

Brief explanation of results

During the last quarter, Ovato undertook a recapitalisation/restructure of its balance sheet. Ovato announced to the ASX:

- on 12 November 2020 details of the proposed restructure of the business
- on 19 November 2020 the approval of the Creditors' and Members' Scheme of Arrangement ("Scheme" booklet)
- on 1 December 2020 the \$40 million entitlement offer
- on 8 December 2020 the results of the Scheme meetings, an update on the entitlement offer and a further investor presentation providing details of the restructuring
- on 21 December 2020 confirming court approval of the Scheme and success of the entitlement offer

Elements of the restructuring included debt forgiveness/deferrals and equity conversions, a new enterprise agreement for the Australian print heat set business, a new \$17 million secured debt facility to cash back the existing bank guarantee facility, the exit of various onerous leases, the reduction of the \$40 million corporate bond to \$15 million and the note holders consenting to the conversion of the \$15 million into equity by a further issue of shares in Ovato (subject to existing shareholder approval).

In November 2020, Ovato Ltd lodged an application in the NSW Supreme Court for a Creditors' and Members' Scheme of arrangement to affect a recapitalisation and restructuring of the Group. The Members' Scheme sought approval to restructure the member scheme companies upon the closure of the printing operations at Clayton Victoria. The member scheme companies included Ovato Print Pty Ltd, Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd. Under the scheme, the schemed companies would transfer all assets and liabilities to Ovato Ltd apart from redundant plant and equipment, redundant employees and \$2.03 million in retained funds. The Creditors' Scheme sought agreement from the major trade creditors of Ovato Print Pty Ltd (and certain payroll tax debts of Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd) in addition to the ATO (outstanding GST debt) to receive 50% of unsecured debt claims and release the scheme companies from the obligation to pay the balance remaining. The schemes were passed unanimously by members and creditors and approved by the court at the 2nd hearing on the 21st December 2020. A total significant item gain of \$12.7 million was recorded in the profit or loss statement. The schemed member companies were placed into liquidation on the 29th December 2020 after the third court date and these companies have now been removed from the Ovato deed of cross guarantee. The liquidated companies are being wound up and are not included in the Ovato Limited accounts for 31st December 2020.

A statutory net loss after tax of \$9.7 million was recorded for the half-year ending 31 December 2020 which was \$48.6 million lower versus prior period mainly due to a \$43.8 million reduction in significant items (before tax) including the bond concession \$25 million and \$12.7 million of gains resulting from the scheme of arrangement. Statutory EBITDA before significant items at \$22.3 million was down \$2.7 million or 10.7% on the previous corresponding period ("pcp") after a favourable impact of \$18.3 million from the Australian Government JobKeeper scheme and \$1.6 million from the New Zealand Government Wage Subsidy Scheme.

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Appendix 4D (rule 4.2A.3)

HALF-YEAR FINANCIAL STATEMENTS
31 December 2020

Results for announcement to the market

Extracts from this report for announcement to the market.

Brief explanation of results (continued)

For the half-year ended 31 December 2020, Ovato's sales (before significant items) at \$236.2 million were down \$92.8 million or 28.2% as the business continued to be adversely impacted by the COVID-19 pandemic. Sales (before significant items) at Ovato Australia were down \$80.4 million or 29.6% with major impacts in heatset print and residential distribution from weak customer demand. Book printing sales were up 19.7% versus last year. Ovato New Zealand sales were down \$12.3 million or 21.5%.

Ovato Australia sales (before significant items) at \$191.2 million were down \$80.4 million or 29.6% pcp mostly from \$62.7 million lower print sales as catalogue volumes continued to be impacted by COVID-19. Ovato Australia statutory EBITDA (before significant items) was \$19.9 million down pcp \$2.3 million or 10.5% after receiving \$18.3 million of Australian JobKeeper which offset most of the impact from lower print and residential distribution revenues from retail markets impacted by COVID-19. EBITDA (before significant items) at both book printing and retail distribution were higher year on year.

Ovato New Zealand sales at \$44.9 million were down \$12.3 million or 21.5%, with \$9.3 million lower print sales. Statutory EBITDA (before significant items) at \$2.4 million was down 11.7%, mostly due to lower print revenues which were partially offset by tight cost controls and the receipt of \$1.6 million from the New Zealand Government COVID-19 Wage Subsidy Scheme.

Statutory cashflow from operations in the first half of fiscal 2021 were \$4.3 million, which is \$22.8 million better than pcp due to favourable working capital, lower significant items and receipt of government assistance through the JobKeeper and Wage Subsidy schemes. Net debt at December 2020 of \$34.7 million is \$56.2 million lower than December 2019 mainly due to the restructuring.

After approval of the schemes by the Court, equity of \$40 million was raised by the issue of 8,000,807,935 fully paid ordinary shares on 24 December 2020 at \$0.005 per share. The total number of shares on issue after the equity raising is 8,732,812,252.

Bond holders voted in December 2020 to write-down the corporate bond from \$40 million to \$15 million. The \$25 million write-down was recorded as a significant item gain in the profit or loss statement at the half-year end.

Heatset printing production ceased at the Clayton site in Victoria in mid-December 2020. Costs of \$28.1 million associated with the closure were recorded as a significant item of expense during the half-year reporting period.

In December 2020, Ovato entered into a new \$17 million secured debt facility with Scottish Pacific. This facility was used to cash back the bank guarantee facility with ANZ.

Refer to ASX announcement for further explanation of the group's results.

Net tangible assets per security

	December 2020	December 2019
	\$	\$
Net tangible assets per security	0.01	0.09

Details of entities over which control has been gained or lost

On 29 December 2020, the NSW Supreme Court ordered that Ovato Print Pty Ltd, Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd be removed from the Ovato deed of cross guarantee and be placed into liquidation. At this date Ovato Ltd lost control of these subsidiaries.

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Ovato Limited

ABN 39 050 148 644

HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2020

WE TURN AUDIENCES INTO CUSTOMERS

O V A T O





Ovato Limited

ABN 39 050 148 644

HALF-YEAR FINANCIAL STATEMENTS
31 December 2020

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Directors' Report

For the half-year ended 31 December 2020.

The Board of Directors of Ovato Limited ("Ovato") submit their report including the condensed consolidated statement of financial position of the economic entity ("Group") at 31 December 2020, and related statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity for the half-year ("the period") then ended and report as follows:

DIRECTORS

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

Kevin Slaven
Michael Hannan
Dhun Karai
Andrew McMaster

REVIEW OF OPERATIONS

(i) Corporate Restructuring

In November 2020, Ovato Ltd lodged an application in the NSW Supreme Court for a Creditors' and Members' scheme of arrangement to affect a recapitalisation and restructuring of the Group.

The Court approved the explanatory statements and ordered meetings of creditors and members to be convened. The meetings were held on 7th December 2020.

The Members' Scheme sought approval to restructure the Members' Scheme companies upon the closure of the printing operations at Clayton Victoria. The Member Scheme companies included Ovato Print Pty Ltd, Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd. The scheme was passed unanimously by members and after approval by the court at the 2nd hearing on the 21st December 2020, transferred all assets and liabilities to Ovato Ltd apart from redundant plant and equipment, redundant employees and \$2.03 million in retained funds. The net significant item gain in the profit or loss statement from the members scheme was \$1.8 million which was the net liability position of the liquidated entities.

The Creditors' Scheme sought agreement from the major trade creditors of Ovato Print Pty Ltd (and certain payroll tax debts of Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd) in addition to the ATO (outstanding GST debt) to receive 50% of unsecured debt claims and release the scheme companies from the obligation to pay the balance remaining. The scheme was passed unanimously by creditors and approved by the court at the 2nd hearing on the 21st December 2020. The total write off was \$10.9 million which was classified as a significant item gain in the profit or loss statement.

The schemed member companies were placed into liquidation on the 29th December 2020 after the third court date and these companies have now been removed from the Ovato deed of cross guarantee. The liquidated companies are being wound up and are not included in the Ovato Limited accounts for 31st December 2020.

On 1st December 2020, Ovato Ltd announced a conditional and partially underwritten pro-rata entitlement offer to existing shareholders. The offer consisted of 10.93 new fully paid ordinary shares in Ovato for every 1 share held at the record date at \$0.005 cents per new share. After approval of the schemes by the Court, gross proceeds of \$40 million was raised. 8,000,807,935 shares were issued on 24th December 2020 and trading commenced on 29th December 2020.

Bond holders voted in December 2020 to write-down the corporate bond from \$40 million to \$15 million. The \$25 million write-down was recorded as a significant item gain in the profit or loss statement at the half-year end. At an extraordinary general meeting to be held on 19 March 2021, shareholder approval will be sought for the conversion of the outstanding \$15 million bond amount to 3 billion fully paid ordinary shares in Ovato Ltd at the issue price of \$0.005 per share.

In December 2020, Ovato entered into a new \$17 million secured debt facility with Scottish Pacific. This facility replaced the bank guarantee facility with ANZ.



Directors' Report (continued)

REVIEW OF OPERATIONS (continued)

Commerzbank is the Group's equipment financier for 2 presses. The Euro loan balance of Euro 4.0 million (A\$6.4 million) and 50% of the \$16.9 million AUD loan balance (being A\$8.5 million) outstanding as at 31 December 2020 were disclosed as current in the half-year financial statements. Principal repayment deferrals of \$13.3 million were agreed with Commerzbank, subject to the execution of loan documentation and approval from Euler Hermes (German Government export credit agency). Approval is expected to occur in March 2021. The balance sheet in the half-year financial statements reflects current liabilities before the deferrals. If the effect of these deferrals had been reflected as at 31 December 2020, net current liabilities of \$8.1 million would have been net current assets of \$5.2 million.

Agreements have been reached to exit various onerous leases and secure forgiveness of certain lease liabilities as well as equity conversions. On 21st December 2020, the Group surrendered its 2 property leases located at Lidcombe NSW. Consideration of \$2.4 million is payable for the surrender of the leases. Final payment or equity conversion is to occur before 30 April 2021. An Extraordinary General Meeting will be held on 19 March 2021 to obtain shareholder approval for the conversion of the outstanding \$2.4 million payable on the surrender of the Lidcombe property leases to 480 million fully paid ordinary shares in Ovato Ltd at the issue price of \$0.005 per share. A net gain of \$2.7 million arose on the surrender of the leases.

Heatset printing production at the Clayton site in Victoria ceased in December 2020. Impairments, freight expenses, site make good and occupancy costs of \$28.1 million associated with the closure were recorded as a significant item of expense during the half-year reporting period.

(ii) Financial overview

A statutory net loss after tax of \$9.7 million was recorded for the half-year ending 31 December 2020 which was \$48.6 million lower versus prior period mainly due to a \$43.8 million reduction in significant items (before tax) including the bond concession \$25 million and \$12.7 million of gains resulting from the scheme of arrangement. Statutory EBITDA before significant items at \$22.3 million was down \$2.7 million or 10.7% on the previous corresponding period ("pcp") after a favourable impact of \$18.3 million from the Australian Government JobKeeper scheme and \$1.6 million from the New Zealand Government Wage Subsidy Scheme.

For the half-year ended 31 December 2020, Ovato's sales (before significant items) at \$236.2 million were down \$92.8 million or 28.2% as the business continued to be adversely impacted by the COVID-19 pandemic.

Ovato Australia sales (before significant items) at \$191.2 million were down \$80.4 million or 29.6% pcp mostly from \$62.7 million lower print sales as catalogue volumes continued to be impacted by COVID-19. Ovato Australia statutory EBITDA (before significant items) was \$19.9 million down pcp \$2.3 million or 10.5% after receiving \$18.3 million of Australian JobKeeper which offset most of the impact from lower print and residential distribution revenues from retail markets impacted by COVID-19. EBITDA (before significant items) at both book printing and retail distribution were higher year on year.

Ovato New Zealand sales at \$44.9 million were down \$12.3 million or 21.5%, with \$9.3 million lower print sales. Statutory EBITDA (before significant items) at \$2.4 million was down 11.7%, mostly due to lower print revenues which were partially offset by tight cost controls and the receipt of \$1.6 million from the New Zealand Government COVID-19 Wage Subsidy Scheme.

Statutory cashflow from operations in the first half of fiscal 2021 was \$4.3 million, which is \$22.8 million better than pcp due to favourable working capital, lower significant items and receipt of government assistance through the JobKeeper and Wage Subsidy schemes. Net debt at December 2020 of \$34.7 million is \$56.2 million lower than December 2019 mainly due to the restructuring.

SUBSEQUENT EVENTS

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



Directors' Report (continued)

DIVIDENDS

No dividends were declared or paid during the half-year ended 31 December 2020 (2019: Nil).

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the Audit Independence requirements of the Corporations Act 2001, the Directors have received and are satisfied with the "Auditor's Independence Declaration" provided by the Ovato Group external auditors RSM Australia Partners. The Auditor's Independence Declaration is included on Page 26.

ROUNDING OF AMOUNTS

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

Signed in accordance with a resolution of the Directors made pursuant to s306(3) of the Corporations Act 2001.

Michael Hannan
Director and Chairman

Sydney, 25 February 2021

Condensed consolidated statement of profit or loss and other comprehensive income

HALF-YEAR ENDED 31 DECEMBER 2020	NOTES	CONSOLIDATED	
		Half-Year Ended 31 Dec 2020	Half-Year Ended 31 Dec 2019
		\$'000	\$'000
Continuing operations			
Revenues	2(i), 5	296,469	335,458
Expenses	2(ii)	<u>(300,474)</u>	<u>(383,290)</u>
Loss before finance costs and income tax		(4,005)	(47,832)
Finance costs	2(iv)	<u>(10,860)</u>	<u>(9,169)</u>
LOSS BEFORE INCOME TAX EXPENSE		(14,865)	(57,001)
Income tax credit / (expense)	3	<u>5,184</u>	<u>(1,302)</u>
LOSS FOR THE PERIOD		<u>(9,681)</u>	<u>(58,303)</u>
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plan actuarial gain / (loss)		122	(117)
Income tax relating to this item		<u>(37)</u>	<u>35</u>
		85	(82)
Items that may be reclassified subsequently to profit or loss			
Exchange gains arising on translation of foreign operations		7	129
Gain / (loss) on cash flow hedges taken to equity		28	(538)
Income tax relating to these items		<u>(8)</u>	<u>159</u>
		27	(250)
Other comprehensive income / (expense) for the period (net of tax)		<u>112</u>	<u>(332)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u>(9,569)</u>	<u>(58,635)</u>
Basic earnings per share (cents)		(0.9)	(8.0)
Diluted earnings per share (cents)		(0.9)	(8.0)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share ('000)		1,079,866	732,004

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 10 to 24.

Condensed consolidated statement of financial position

HALF-YEAR ENDED 31 DECEMBER 2020	NOTES	CONSOLIDATED		
		AS AT 31 DEC 2020	AS AT 30 JUNE 2020	AS AT 31 DEC 2019
		\$'000	\$'000	\$'000
CURRENT ASSETS				
Cash and cash equivalents		39,022	16,200	18,238
Receivables		66,142	50,654	89,742
Inventories		62,233	87,871	98,369
Financial assets		-	80	32
Other	7	26,272	6,278	5,041
TOTAL CURRENT ASSETS		193,669	161,083	211,422
NON-CURRENT ASSETS				
Property, plant and equipment		80,365	105,952	121,579
Right-of-use assets		51,804	58,341	68,485
Deferred tax assets		46,720	41,559	53,797
Goodwill and intangible assets		1,068	1,410	3,783
Other	7	6,873	13,082	11,083
TOTAL NON-CURRENT ASSETS		186,830	220,344	258,727
TOTAL ASSETS		380,499	381,427	470,149
CURRENT LIABILITIES				
Payables		127,073	131,394	138,838
Interest bearing liabilities	8	16,743	37,192	5,710
Lease liabilities		22,109	23,878	21,341
Income tax payable		6	8	10
Financial liabilities		22	110	524
Provisions		35,778	29,804	34,430
TOTAL CURRENT LIABILITIES		201,731	222,386	200,853
NON-CURRENT LIABILITIES				
Interest bearing liabilities	8	54,611	48,829	100,242
Lease liabilities		68,404	83,776	92,308
Provisions		8,572	8,678	7,934
TOTAL NON-CURRENT LIABILITIES		131,587	141,283	200,484
TOTAL LIABILITIES		333,318	363,669	401,337
NET ASSETS		47,181	17,758	68,812
EQUITY				
Contributed equity	6	536,515	497,523	497,523
Reserves		11,103	11,076	11,453
Accumulated losses		(500,437)	(490,841)	(440,164)
TOTAL EQUITY		47,181	17,758	68,812

The statement of financial position is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 10 to 24.

Condensed consolidated statement of cash flows

HALF-YEAR ENDED 31 DECEMBER 2020	NOTES	CONSOLIDATED	
		Half-Year Ended 2020 \$'000	Half-Year Ended 2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		428,203	575,696
Payments to suppliers and employees		(434,384)	(584,926)
Government grants received		20,367	-
Fee for bond holder consent to forgive corporate bond debt	2(iv)	(173)	-
Interest received		499	380
Interest and other costs of finance paid		(5,578)	(4,430)
Interest expense of lease liabilities		(4,592)	(5,120)
Income taxes paid		(4)	(33)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		4,338	(18,433)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(152)	(18,868)
Proceeds from sale of property, plant and equipment		70	817
Payments for development and licence costs		(48)	(245)
Cash funds given up to liquidator under the scheme of arrangement		(2,030)	-
Receipts from subleases, excluding the financing component		845	341
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,315)	(17,955)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities		(11,799)	(9,862)
Cash backing ANZ guarantees & other facilities	7	(17,128)	-
Repayment of receivables financing facility		-	(37,696)
Proceeds from receivables financing facility		-	48,669
Proceeds from close out of cross currency swap		-	1,866
Repayment of borrowings		(10,931)	(4,023)
Proceeds from borrowings		20,672	16,917
Proceeds from share issue net of transaction costs	6	38,992	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		19,806	15,871
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		22,829	(20,517)
Add opening cash and cash equivalents brought forward		16,200	38,701
Effects of exchange rate changes on cash and cash equivalents		(7)	54
CLOSING CASH AND CASH EQUIVALENTS		39,022	18,238

The statement of cash flows is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 10 to 24.



Condensed consolidated statement of changes in equity

HALF-YEAR ENDED 31 DECEMBER 2020

CONSOLIDATED

31 DECEMBER 2020

	Attributable to owners of the Ovato Group				
	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Total equity \$'000
At 1 July 2020	497,523	(490,841)	11,096	(20)	17,758
Currency translation differences	-	-	7	-	7
Cash flow hedges (net of tax)	-	-	-	20	20
Defined benefit plan (net of tax)	-	85	-	-	85
Total income for the period recognised directly in equity	-	85	7	20	112
Loss for the period	-	(9,681)	-	-	(9,681)
Total comprehensive loss for the period	-	(9,596)	7	20	(9,569)
Shares issued ¹	38,992	-	-	-	38,992
At 31 December 2020	536,515	(500,437)	11,103	-	47,181

31 DECEMBER 2019

	Attributable to owners of the Ovato Group				
	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Total equity \$'000
At 1 July 2019	497,523	(367,353)	11,531	172	141,873
Change in accounting policy (net of tax) ²	-	(14,426)	-	-	(14,426)
Restated total equity at the beginning of the financial year	497,523	(381,779)	11,531	172	127,447
Currency translation differences	-	-	129	-	129
Cash flow hedges (net of tax)	-	-	-	(379)	(379)
Defined benefit plan (net of tax)	-	(82)	-	-	(82)
Total (expense)/income for the period recognised directly in equity	-	(82)	129	(379)	(332)
Loss for the period	-	(58,303)	-	-	(58,303)
Total comprehensive loss for the period	-	(58,385)	129	(379)	(58,635)
At 31 December 2019	497,523	(440,164)	11,660	(207)	68,812

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

² Cumulative effect of the initial application of AASB 16 Leases on 1 July 2019.

The statement of changes in equity is to be read in conjunction with the notes to the condensed consolidated interim financial statements set out on pages 10 to 24.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS

Basis of preparation

The half-year financial statements are general-purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The half-year financial statements do not include all the notes of the type normally included within the annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements.

The half-year financial statements should be read in conjunction with Ovato Limited's annual financial statements for the year ended 30 June 2020 and any public announcements made by Ovato Limited and its controlled entities during the half-year ended 31 December 2020 in accordance with the continuous disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules.

The half-year financial statements have been prepared in accordance with the historical cost convention, except for derivative financial instruments that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The consolidated entity incurred a loss of \$9.7 million for the half year ended 31 December 2020. As at that date the consolidated entity had net current liabilities of \$8.1 million.

The half-year financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business. The Directors believe this is appropriate based on the successful completion of restructuring activities in the financial period (refer Significant Events and Transactions (i) - (vii) on pages 11 to 13) and on cashflow forecasts prepared by management.

There remains uncertainty in respect of the ongoing effects of the COVID-19 pandemic on the operations of the consolidated entity. Following the restructuring activities, there exists a greater ability to manage costs in line with actual revenue generated.

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Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Changes in accounting policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the annual financial report, except for the adoption of new standards effective as of 1 July 2020.

New accounting standards applied for the half-year

The following new standards, amendments to, or interpretation of standards have been issued which applied for the half-year ended 31 December 2020. They have no material impact on the half-year financial report of the Group.

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-6 <i>Amendments to AASB 3 Definition of a Business</i>	1 January 2020	30 June 2021
AASB 2018-7 <i>Amendments to AASB 1 and AASB 8 Definition of Material</i>	1 January 2020	30 June 2021
AASB 2019-3 <i>Amendments to AASB 7, AASB 9 and AASB 139 Interest Rate Benchmark Reform</i>	1 January 2020	30 June 2021
AASB 2019-1 <i>Conceptual Framework for Financial Reporting</i>	1 January 2020	30 June 2021
AASB 2020-4 <i>Amendments to AASs - Covid-19-Related Rent Concessions</i>	1 June 2020	30 June 2021

Other

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Group's accounting policies. The Group has not elected to early adopt any of these new accounting standards in this financial report.

Significant events and transactions

The following provides an explanation of significant events and transactions since the end of the last annual reporting period, as required under *AASB 134 Interim Financial Reporting*.

(i) Schemes of arrangement

In November 2020, Ovato Ltd lodged an application in the NSW Supreme Court for a Creditors' and Members' scheme of arrangement to affect a recapitalisation and restructuring of the Group.

The Members' Scheme sought approval to restructure the member scheme companies upon the closure of the printing operations at Clayton Victoria. The member scheme companies included Ovato Print Pty Ltd, Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd. Under the scheme, the schemed companies transferred all assets and liabilities to Ovato Ltd apart from redundant plant and equipment \$0.7 million, redundant employee entitlements \$4.5 million and \$2.03 million in retained funds.

The Creditors' Scheme sought agreement from the major trade creditors of Ovato Print Pty Ltd (and certain payroll tax debts of Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd) in addition to the ATO (outstanding GST debt) to receive 50% of unsecured debt claims and release the scheme companies from the obligation to pay the balance remaining of \$11.5 million. After the GST adjustments required in respect of input tax credits previously claimed, the net gain to the Ovato Group is \$10.9 million.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Significant events and transactions (continued)

(i) Schemes of arrangement (continued)

The Court approved the explanatory statements and ordered meetings of creditors and members to be convened. The meetings were held on 7th December 2020.

The schemes were passed unanimously by members and creditors and at the second court hearing date on the 21st December 2020, the implementation of the schemes were approved by the court.

The Court ordered that the member scheme companies be removed from the Ovato deed of cross guarantee and be placed into liquidation. This occurred on the 29th December 2020 after the third court date. At this date Ovato Ltd lost control of the subsidiaries, Ovato Print Pty Ltd, Hannanprint NSW Pty Ltd, Hannanprint VIC Pty Ltd and Inprint Pty Ltd. In accordance with *AASB 10: Consolidated Financial Statements* Ovato Ltd derecognised the assets and liabilities of the subsidiaries from the consolidated statement of financial position and recognised the gain associated with the loss of control.

The gain on loss of control was recorded as a significant item in the profit or loss statement for the half-year ended 31 December 2020. This is summarised as follows:

	2020
	\$'000
- Gain from creditor debt forgiveness ¹	10,875
- Gain from write back of employee entitlement provisions ²	4,483
- Loss on cash funds given up ³	(2,030)
- Loss on redundant plant and equipment ⁴	(654)
	<u>12,674</u>

¹ The Creditors' Scheme sought agreement from the major creditors of the schemed companies to receive 50% of unsecured debt claims and release the schemed companies from the obligation to pay the balance remaining. The gain arose after the Creditors' Scheme was passed unanimously by creditors and approved by the court at the 2nd hearing on 21st December 2020 such that \$11.5 million in debts were forgiven, with that gross gain reduced by around \$0.6 million in respect of GST adjustments required in respect of input tax credits previously claimed, resulting in a net gain of \$10.9 million.

² The Member Scheme companies transferred all liabilities to Ovato Ltd apart from the employee entitlement provisions of redundant staff. The write back arises as these provisions are no longer payable by the Ovato Group.

³ Cash remaining under the scheme of arrangement to assist the liquidator with employee liabilities and liquidator fees.

⁴ The Member Scheme companies transferred all assets to Ovato Ltd apart from redundant plant and equipment.

(ii) Write-down of \$25 million of corporate bond debt

Bond holders voted in December 2020 to write-down the corporate bond from \$40 million to \$15 million. The \$25 million write-down was recorded as a significant item gain in the profit or loss statement at the half-year end. At an extraordinary general meeting to be held on 19 March 2021, shareholder approval will be sought for the conversion of the outstanding \$15 million bond amount to 3 billion fully paid ordinary shares in Ovato Ltd at the issue price of \$0.005 per share. A fee of \$0.173 million was charged for bond holder consent to write-down corporate bond debt. It was recorded as a significant item of finance expense during the half-year reporting period. Refer to Note 2(iii).

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Significant events and transactions (continued)

(iii) Equity raising, net of transaction costs

On 1st December 2020, Ovato Ltd announced a conditional and partially underwritten pro-rata entitlement offer to existing shareholders. The offer consisted of 10.93 new fully paid ordinary shares in Ovato for every 1 share held at the record date. After approval of the schemes by the Court, net proceeds of \$39.0 million was raised, net of transaction costs of \$1.0 million and resulted in 8,000,807,935 shares being issued on 24th December 2020 at \$0.005 cents per share. Refer to Note 6.

(iv) Closure of heatset printing facility at Clayton Victoria

As part of the scheme the Group's heatset printing facility at Clayton Victoria ceased production in mid-December 2020. As a result, 131 employees were made redundant. Costs associated with the closure include impairment of fixed assets and ROU assets, site clean up costs, freight costs, property outgoing and utility costs and inventory write downs. Total costs of \$28.1 million have been recorded as a significant item of expense in the profit or loss statement during the half-year reporting period. This included non-cash impairments of \$21.3 million.

(v) Surrender of Lidcombe NSW property leases

On 21st December 2020, the Group surrendered its 2 property leases located at Lidcombe NSW to Rathdrum Property Pty Ltd (a related party) and the sub-tenants became direct tenants to Rathdrum Property Pty Ltd. The finance sub-lease receivables and lease liabilities were written-off. The make good and onerous lease provisions were released. Consideration of \$2.4 million is payable to Rathdrum Property Pty Ltd for agreeing to the surrender of the lease. This amount is payable on or before 30 April 2021. This has been recorded as a current liability as at 31 December 2020. At an extraordinary general meeting to be held on 19 March 2021, shareholder approval will be sought for the conversion of the outstanding amount to 480 million fully paid ordinary shares in Ovato Ltd at the issue price of \$0.005 per share. The surrender of the leases resulted in net gain of \$2.7 million. This was recognised as a significant item in the profit or loss statement during the half-year reporting period.

(vi) Commerzbank repayment concessions

Commerzbank is the Group's equipment financier for 2 presses. The Euro loan balance of Euro 4.0 million (A\$6.4 million) and 50% of the \$16.9 million AUD loan balance (being A\$8.5 million) outstanding as at 31 December 2020 were disclosed as current in the half-year financial statements. Principal repayment deferrals of \$13.3 million were agreed with Commerzbank, subject to the execution of loan documentation and approval from Euler Hermes (German Government export credit agency). Approval is expected to occur in March 2021. The balance sheet in the half-year financial statements reflects current liabilities before the deferrals. If the effect of these deferrals had been reflected as at 31 December 2020, net current liabilities of \$8.1 million would have been net current assets of \$5.2 million.

(vii) Government grant income

During the half-year reporting period, the Group continued to receive income from government grants as a result of the COVID-19 pandemic. Due to the impact of COVID-19, the Group received \$19.9 million in government assistance through the Australian Federal Government JobKeeper program and New Zealand government Employer Wage Subsidy Scheme. The Group recognised the government grants in other income. It was recognised in the same period as the related wage costs were recognised as an expense. Refer to Note 2(i).

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL STATEMENTS (continued)

Critical accounting estimates, assumptions and judgements

(i) *Deferred tax assets*

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

The deferred tax asset of \$9.8 million pertaining to the current half-year's Australian and New Zealand tax losses was not recognised in the financial statements as at 31 December 2020.

The Directors believe that the Australian deferred tax asset of \$5 million and the New Zealand deferred tax asset of \$0.7 million pertaining to tax losses is supportable given the level of forecast future tax profits. The timeframe over which Ovato expects to recoup those tax losses is around 6-8 years, a time frame the Directors consider is reasonable. This position will continue to be reassessed on an ongoing basis.

In total Ovato has around \$448.4 million of gross tax losses which haven't been recognised on the balance sheet. This comprises \$439.8 million of Australian tax losses and \$8.6 million of New Zealand tax losses. Despite the non-recognition of these losses on the balance sheet, the losses will be available indefinitely for offset against future taxable profits, subject to continuing to meet the statutory tax tests of continuity of ownership or failing that, with respect to the Australian tax losses, the same business test.

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

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

Based on testing carried out at 31 December 2020, the Ovato Australia cash generating unit impairment analysis showed a surplus. The Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10% the carrying value of this cash generating unit would continue to exceed the recoverable amount.

While the Ovato New Zealand cash generating unit impairment analysis shows a surplus, the Directors estimate, that if forecast EBITDA reflected in the model were to decrease by 10%, it could result in the aggregate carrying value of this cash generating unit exceeding the recoverable amount in the range of approximately NZ\$2 million to NZ\$3 million.

Refer to the annual financial statements of Ovato Limited as at 30 June 2020 for further details of these assumptions.

(iii) *AASB 16 Leases*

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

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

	NOTES	CONSOLIDATED	
		2020 \$'000	2019 \$'000
2. REVENUES AND EXPENSES			
(i) Revenues			
Sales revenue			
External sales		227,366	313,723
Freight	5	<u>9,286</u>	<u>15,194</u>
		236,652	328,917
Other revenue			
Interest	2(iv)	1	142
Unwind of discount on finance lease receivables	2(iv)	498	238
Rental income		50	31
Net gain on disposal of property, plant and equipment		-	407
Government grants		19,871	-
Net gain from scheme of arrangement and forgiveness of debt	2(iii)	37,674	-
Other		1,723	5,723
	5	<u>296,469</u>	<u>335,458</u>
(ii) Expenses			
Raw materials and consumables		(92,415)	(130,616)
Cost of finished goods sold		(7,675)	(1,877)
Employee expenses		(98,322)	(132,219)
Outside production services		(6,313)	(7,144)
Freight		(25,102)	(33,831)
Repairs and maintenance		(5,333)	(7,542)
Occupancy costs		(11,122)	(3,591)
Impairment of plant and equipment	2(iii)	(18,702)	(670)
Impairment of right-of-use (ROU) assets	2(iii)	(2,586)	-
Impairment of goodwill	2(iii)	-	(35,203)
Amortisation of intangibles	5	(391)	(387)
Depreciation of property, plant and equipment	5	(9,659)	(10,310)
Depreciation of ROU assets	5	(7,845)	(8,004)
Net loss on disposal of property, plant and equipment		(531)	-
Net impairment losses on financial assets		-	(112)
Other expenses		(14,478)	(11,784)
		<u>(300,474)</u>	<u>(383,290)</u>

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

	NOTES	CONSOLIDATED	
		2020 \$'000	2019 \$'000
2. REVENUES AND EXPENSES (continued)			
(iii) Significant items			
Included in net loss before income tax are the following significant items of income and expense:			
- Sales rebate		500	-
- Gain on approval from bond holders to forgive corporate bond debt	2(i)	25,000	-
- Gain from creditor debt forgiveness ¹	2(i)	10,875	-
- Gain from write back of employee entitlement provisions ²	2(i)	4,483	-
- Loss on cash funds given up ³	2(i)	(2,030)	-
- Loss on redundant plant and equipment ⁴	2(i)	(654)	-
- (Loss)/Gain on sale of assets		(511)	329
- Gain on de-recognition of ROU asset and recognition of finance lease receivable		-	2,573
- Restructure initiatives and other one off costs including Clayton heatset printing operations and Moorebank site closures (HY 20)		(12,921)	(17,035)
- Onerous leases and make good provisions		(7,644)	-
- Relocation of presses		(15)	(3,533)
- Impairment of goodwill		-	(35,203)
- Impairment of property, plant and equipment	2(ii)	(18,702)	(670)
- Impairment of ROU assets	2(ii)	(2,586)	-
- Impairment of inventory		(4,250)	(605)
- Loss on cross currency swap realised	2(iv)	-	(133)
- Fee for consent to forgive corporate bond debt	2(iv)	(173)	-
- Write off of prepaid financing costs	2(iv)	(1,849)	-
Net significant expense items (included in net loss before income tax)		(10,477)	(54,277)
Tax benefit associated with significant items		13,902	5,714
Tax losses not brought to account	3	(9,832)	(7,484)
Tax loss adjustment prior year		-	127
Tax credit/(expense) included in net loss after tax		4,070	(1,643)

1 The Creditors' Scheme sought agreement from the major creditors of the schemed companies to receive 50% of unsecured debt claims and release the schemed companies from the obligation to pay the balance remaining. The gain arose after the Creditors' Scheme was passed unanimously by creditors and approved by the court at the 2nd hearing on the 21st December 2020 such that \$11.5 million in debts were forgiven, with that gross gain reduced by around \$0.6 million in respect of GST adjustments required in respect of input tax credits previously claimed, resulting in a net gain of \$10.9 million.

2 The member scheme companies transferred all liabilities to Ovato Ltd apart from the employee entitlement provisions of redundant staff. The write back arises as these provisions are no longer payable by the Ovato Group.

3 Cash remaining under the scheme of arrangement to assist the liquidator with employee liabilities and liquidator fees.

4 The member scheme companies transferred all assets to Ovato Ltd apart from redundant plant and equipment.



Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

CONSOLIDATED

	2020	2019
	\$'000	\$'000

2. REVENUES AND EXPENSES (continued)

(iii) Significant items (continued)

Significant items have been included in the Condensed Statement of Profit or Loss and Other Comprehensive Income within the following categories:

- External sales	500	-
- Other revenue	37,674	2,902
- Raw materials and consumables used	30	(1,437)
- Cost of finished goods sold	(4,250)	(605)
- Employee expenses	(2,991)	(13,332)
- Freight	(738)	(561)
- Repairs and maintenance	(84)	(45)
- Occupancy costs	(7,644)	(55)
- Other expenses impairment	(21,288)	(35,873)
- Other expenses legal and professional fees	(9,138)	(1,506)
- Other expenses net loss on disposal of plant and equipment	(511)	-
- Other expenses press relocation	(15)	(3,533)
- Other expenses	-	(99)
- Finance costs	(2,022)	(133)
	(10,477)	(54,277)

(iv) Finance costs

Interest expense		
- Bank loans and overdraft	(4,158)	(3,889)
- Unwind of discount on long term provisions	(88)	(27)
- Interest on lease liabilities	(4,592)	(5,120)
Total interest expense	(8,838)	(9,036)
- Loss on cross currency swap realised	-	(133)
- Fee for consent to forgive corporate bond debt	(173)	-
- Write off of prepaid financing costs	(1,849)	-
Total finance cost	(10,860)	(9,169)
Interest received		
- Other corporations and persons	1	142
- Unwind of discount on finance lease receivables	498	238
Net finance costs	(10,361)	(8,789)



Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

CONSOLIDATED

	2020 \$'000	2019 \$'000
3. INCOME TAX		
(a) Income tax (benefit)/expense		
Loss before income tax	<u>(14,865)</u>	<u>(57,001)</u>
Prima facie income tax thereon at 30%	(4,459)	(17,100)
Tax effect of non-temporary and other differences:		
Income tax under provided in previous year	-	141
Non-assessable items for tax purposes	(10,763)	-
Non-deductible items for tax purposes	182	10,752
Effect of differences in overseas tax rate	24	25
Benefit of tax losses not brought to account	<u>9,832</u>	<u>7,484</u>
	<u>(5,184)</u>	<u>1,302</u>
(b) Major component of income tax (benefit)/expense		
Current tax (benefit)	(9,832)	(7,832)
Deferred tax expense	<u>4,648</u>	<u>9,134</u>
	<u>(5,184)</u>	<u>1,302</u>
(c) Tax losses not brought to account		
	Gross	Gross
	\$'000	\$'000
Revenue losses	<u>448,395</u>	357,580
Capital losses	<u>287,956</u>	287,956

The benefit of these revenue losses has not been brought to account as realisation is not probable. Refer to Note 1 for further details.

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

4. CONTINGENT ASSETS AND LIABILITIES

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

Related bodies corporate

- Ovato Limited has guaranteed the borrowings of Ovato Finance Pty Ltd and Ovato NZ Limited to facilitate group banking arrangements.

- Wholly owned entities in the Ovato Group have provided guarantees to banks, in respect of debt and foreign currency management.

- Entities in the Ovato Group contribute to a number of defined benefit superannuation funds and have undertaken to contribute annually such amounts as the actuaries consider necessary to secure the rights of members.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

5. SEGMENT INFORMATION

Description of segments

Management has determined the operating segments based on the manner the Group is structured and managed by the Executive Management Team ('EMT'). All reports regularly reviewed by the Chief Executive Officer and the EMT are presented on this basis which groups similar operations or geographic locations.

Ovato Australia Group segment includes all businesses in Australia and corporate. Ovato New Zealand Group segment includes all businesses in New Zealand.

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

Segment revenue and results

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

Operating and Geographic segments	Ovato Australia Group		Ovato New Zealand Group		Consolidated	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Revenue						
External sales	185,336	260,996	41,530	52,727	226,866	313,723
External sales significant item	500	-	-	-	500	-
Freight	5,891	10,672	3,395	4,522	9,286	15,194
Other revenue	20,250	2,934	1,893	705	22,143	3,639
Other revenue significant item	37,674	2,902	-	-	37,674	2,902
Total revenue	249,651	277,504	46,818	57,954	296,469	335,458
EBITDA ~ before significant items	19,911	22,255	2,434	2,758	22,345	25,013
Depreciation and amortisation	(14,950)	(15,744)	(2,945)	(2,957)	(17,895)	(18,701)
EBIT ^ before significant items	4,961	6,511	(511)	(199)	4,450	6,312
Significant items before income tax	(8,579)	(53,739)	124	(405)	(8,455)	(54,144)
Segment EBIT ^ after significant items	(3,618)	(47,228)	(387)	(604)	(4,005)	(47,832)
Significant items - Finance costs					(2,022)	(133)
Finance costs					(8,838)	(9,036)
Loss before income tax					(14,865)	(57,001)
Income tax credit / (expense)					5,184	(1,302)
Net loss after income tax					(9,681)	(58,303)

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

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

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

6. CONTRIBUTED EQUITY

CONSOLIDATED

	2020 Number '000	2019 Number '000	2020 \$'000	2019 \$'000
Balance as at 1 July	732,004	732,004	497,523	497,523
Share issue	8,000,808	-	38,992	-
Balance as at 31 December	8,732,812	732,004	536,515	497,523

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

7. OTHER ASSETS

	December 2020 \$'000	June 2020 \$'000
(a) Current other assets		
Cash backing ANZ guarantees and other facilities	17,128	-
Prepayments	7,144	3,063
Finance lease receivables	2,000	3,215
Total current other assets	26,272	6,278
(b) Non-current other assets		
Finance lease receivables	5,298	11,576
Defined benefit plan asset	1,194	1,093
Other	381	413
Total non-current other assets	6,873	13,082

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

8. INTEREST BEARING LIABILITIES

	December 2020 \$'000	June 2020 \$'000
(a) Current interest bearing liabilities		
Secured		
Overdraft: Australian dollars	-	4,280
Chattel Mortgage Facility: Australian dollars	3,133	-
Equipment financing repayable in: Euros #	6,352	4,887
Equipment financing: Australian dollars	8,458	4,229
Receivables financing: Australian dollars	-	21,401
Corporate bond: Australian dollars	-	3,750
Other		
Prepaid finance costs	(1,200)	(1,355)
Total current interest bearing liabilities	16,743	37,192
(b) Non-current interest bearing liabilities		
Secured		
Chattel Mortgage Facility: Australian dollars	13,555	-
Equipment financing repayable in: Euros #	-	1,628
Equipment financing: Australian dollars	8,459	12,688
Receivables financing: Australian dollars	18,734	-
Corporate bond: Australian dollars	15,000	36,250
Other		
Prepaid finance costs	(1,137)	(1,737)
Total non-current interest bearing liabilities	54,611	48,829

Represents Euro denominated equipment financing facility of 4.0 million at 31 December 2020 measured at the exchange rate prevailing rate at balance date.

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

8. INTEREST BEARING LIABILITIES (continued)

(c) Terms and conditions

The overdraft facilities that were previously provided by ANZ Banking Group were repaid in full on 23 December 2020.

On 22 December 2020, Ovato entered into a new A\$17 million secured Chattel Mortgage debt facility with Scottish Pacific. The security is supported by a first ranking fixed and floating charge over the assets of Ovato, including the subsidiaries in Australia and New Zealand. The facilities are also subject to the warranties and conditions of those agreements. The A\$17 million is held in a pledged deposit account with the ANZ to support the bank guarantee facility provided through ANZ. The facility has a maturity date of December 2023.

Ovato entered into a A\$50 million Receivables Financing Facility with Scottish Pacific on 5 August 2020, replacing the previous A\$39.5 million facility from Asset Secure. As at 31 December 2020, this loan was drawn to A\$18.7 million which represented the amount of receivables able to be sold into the facility at that date. This facility has a maturity date of 4 August 2023.

Ovato issued a secured A\$40 million corporate bond on 22 November 2018 with a maturity date of 22 November 2022. The bond principal amount outstanding was reduced from A\$40 million to A\$15 million on 16 December 2020 via a bond holder vote. The bond holders also consented to the removal of the security securing the notes and the removal of the amortisation of the principal outstanding under the notes. These amendments to the notes were implemented on 22 December 2020. The bond holders also resolved to seek the approval of the shareholders of Ovato Ltd, at an extraordinary general meeting, to convert the notes balance of A\$15 million to ordinary shares in Ovato Ltd. The Extraordinary General Meeting will be held on 19 March 2021.

Ovato entered into a Euro 17 million export financing loan agreement in February 2013, secured against an offset rotary press. As at 31 December 2020, this loan was fully drawn and had a balance of Euro 4.0 million. This facility has a maturity date of 30 September 2021 with semi-annual amortisations. The lender is Commerzbank AG. The facility is subject to the warranties and conditions of the agreement during the term of it.

Ovato entered into an Australian Dollar floating rate equipment financing bank loan agreement in April 2019, secured against an offset rotary press. As at 31 December 2020, this loan was drawn to A\$16.9 million. This facility has a maturity date of 7 July 2023 with semi-annual amortisations. The lender is Commerzbank AG. The facility is subject to the warranties and conditions of the agreement during the term of it.

(d) Net debt

	December 2020 \$'000	June 2020 \$'000
Cash	(39,022)	(16,200)
Overdraft: Australian dollars	-	4,280
Chattel Mortgage Facility: Australian dollars	16,688	-
Corporate bond: Australian dollars	15,000	40,000
Equipment Financing repayable in: Euros measured at the exchange rate prevailing at balance date	6,352	6,515
Equipment Financing: Australian dollars	16,917	16,917
Receivables Financing: Australian dollars	18,734	21,401
Net debt	34,669	72,913
Lease Liabilities	90,513	107,654
Finance Lease Receivables	(7,298)	(14,791)
Net lease adjusted debt	117,884	165,776

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

8. INTEREST BEARING LIABILITIES (continued)

(e) Reconciliation of liabilities arising from financing activities

	NOTES	June 2020 \$000	Cash Flows \$000	Non-cash changes			December 2020 \$000
				Other \$000	Foreign Exchange Movement \$000	Fair Value Changes \$000	
Overdraft	8(a)	4,280	(4,280)	-	-	-	-
Chattel Mortgage Facility	8(a) & 8(b)	-	16,688	-	-	-	16,688
Corporate Bond	8(a) & 8(b)	40,000	-	(25,000)	-	-	15,000
Equipment Financing - EUR	8(a) & 8(b)	6,515	-	-	(163)	-	6,352
Equipment Financing	8(a) & 8(b)	16,917	-	-	-	-	16,917
Receivables Financing ¹	8(a) & 8(b)	21,401	(2,667)	-	-	-	18,734
Total current & non-current interest bearing liabilities #		89,113	9,741	(25,000)	(163)	-	73,691
Lease Liabilities		107,654	(16,391)	(809)	59	-	90,513
Finance Lease Receivables		(14,791)	1,344	6,149	-	-	(7,298)
Total liabilities from financing activities		181,976	(5,306)	(19,660)	(104)	-	156,906

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

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

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

Notes to the Financial Statements

HALF-YEAR ENDED 31 DECEMBER 2020

9. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value measurement principles adopted in this report are consistent with those applied in the Ovato Limited Annual Report for the year ended 30 June 2020.

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level(s) 1 to 3 based on the degree to which the fair value is observable:

- Level 1 quoted prices (unadjusted) in active markets from identical assets or liabilities;
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable for the asset or liability.

	As at 31 December 2020			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	-	(22)	-	(22)
Financial derivatives not hedge accounted				
Forward Foreign Exchange Contracts	-	-	-	-
Total financial derivatives	-	(22)	-	(22)

	As at 30 June 2020			
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Financial derivatives being hedge accounted				
Forward Foreign Exchange Contracts	-	(99)	-	(99)
Financial derivatives not hedge accounted				
Forward Foreign Exchange Contracts	-	69	-	69
Total financial derivatives	-	(30)	-	(30)

10. SUBSEQUENT EVENTS

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



Directors' Declaration

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2020 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with the Corporations Act 2001, Australian Accounting Standard *AASB 134 Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors pursuant to s303(5) of the *Corporations Act 2001*.

On behalf of the Board

A handwritten signature in black ink, appearing to be "Michael Hannan", written over a horizontal line.

Michael Hannan
Director and Chairman

Sydney, 25 February 2021