Coventry Group Ltd

ABN 37 008 670 102

Results for announcement to the market

Six Months Ended 31 December 2014

			$000
Revenues from ordinary activities	Down	5.7% to	101,754
(Loss) from ordinary activities after tax attributable to members (previously a profit)	Down	N/A	(3,563)
Net (loss) for the period attributable to members (previously a profit)	Down	N/A	(3,563)

Dividends (distributions)

	Amount per security	Franked amount per security
Interim dividend	4.25 cents	4.25 cents
Special dividend	17.5 cents	17.5 cents
Date the dividends are payable	13 March 2015	
Record date for determining entitlements to the dividends	6 March 2015	

Amount of dividend per security

		Amount per security	Franked amount per security at 30% tax
Interim dividend	current year	4.25 cents	4.25 cents
	previous year	11 cents	11 cents
Special dividend	current year	17.5 cents	17.5 cents
	previous year	N/A	N/A

Dividend reinvestment plan (DRP)

The Company's DRP remains suspended in relation to the interim and special dividends declared on 26 February 2015 and payable on 13 March 2015.

Net Tangible Assets Per Security	
As at 31 December 2014	$3.20
As at 31 December 2013	$3.58

For an explanation of the figures reported above see the attached commentary.

The attached financial statements and Directors' declaration have been subject to an independent audit review.

Coventry Group Ltd

ABN 37 008 670 102

Results for announcement to the market

26 February 2015

ASX / Media Release

2015 HALF YEAR RESULTS - COVENTRY GROUP

Coventry Group Ltd (ASX:CYG) today announced its financial results for the 6 months ended 31 December 2014

Highlights

- Special dividend of 17.5 cents per share fully franked to be paid in March 2015
- Interim ordinary dividend of 4.25 cents per share fully franked
- Net loss after tax of $3.3 million
- Significant asset write downs and provisions flagged for 2H15
- Refreshed board and management team in place with plans to return the company to profitability

Dividends

The Board has finalised its review of the Company's capital management and dividend intentions as originally announced on 1 July 2014. This has considered the outlook for current and forecast trading results, future investment requirements (as outlined in the Strategic Review announced on 9 February 2015), current cash balances and surplus franking credits.

After taking independent advice, the Board has determined that fully franked dividends are the most efficient way of returning surplus funds to shareholders. As a result, the Board has determined:

- To declare an increased special dividend of 17.5 cents per share fully franked (up from the intended 11 cents announced in July 2014);
- To bring forward the payment of the special dividend to 13 March 2015 (from July 2015); and
- To declare an interim ordinary dividend of 4.25 cents per share fully franked (down from the intended 11 cents announced in July 2014).

Mr Neil Cathie, Non-Executive Chairman, said: "The Board recognises that Coventry has retained a large cash balance for too long whilst it sought the right acquisition. Following feedback from shareholders and after considering the current trading outlook and implementation of the Strategic Review, the Board has carefully reviewed the Company's dividend policy. We have calculated the maximum amount that the Company can prudently pay now whilst retaining the potential to continue paying franked dividends to shareholders."

Whilst the provision of a dividend reinvestment plan or share buy back remains available to the Company, they will only be used when considered appropriate.

Results to 31 December 2014

Revenue for the six months ending 31 December 2014 was down 5.7% to $101.8 million (2013 $107.9 million) and the Group recorded a net loss after income tax of $3.3 million (2013 $0.2 million profit). This result includes an abnormal pre-tax charge of $0.6 million, paid in accordance with the provisions contained in the employment contract of the former Executive Chairman.

CEO and Managing Director, Peter Caughey, commented: "The Coventry Group is highly leveraged to the mining cycle. As conditions have softened, this has negatively impacted the Konnect and Cooper Fluids businesses in particular. Current conditions continue to be very challenging through pressures on volumes and margins."

Current trading conditions and outlook

Strategic Review initiatives announced on 9 February 2015 are being progressed and will enable Coventry Group to better respond to current economic headwinds; primarily through:

- Rationalisation of the distribution network which is forecast to reduce annual operating costs by approximately $4 million per annum within two years; and
- Headcount reductions that are expected to reduce operating costs by approximately $7 million per annum from the start of the 2016 financial year.

CEO and Managing Director, Peter Caughey, commented: "We are confident that the initiatives outlined in the Strategic Review will lead to a significant turnaround in the performance of the Company in financial 2016. The underlying loss in the second half of financial 2015, before any costs associated with the Strategic Review, is expected to be broadly in line with the first half."

Balance Sheet review

The review of the Company's Balance Sheet is not complete and, when completed, will be subject to review by the Company's auditors. As previously announced, total restructuring costs, including redundancies and distribution centre closures, are estimated to result in a one-off cost of $6-7 million during calendar year 2015.

Whilst the Strategic Review is ongoing, internal assessments to date indicate the restructure may give rise to write downs of assets and incurrence of provisions of up to $18 million in the second half. This will be largely non-cash in nature and results from the initiatives announced with the Strategic Review, including:

- Changes in the Group's stock management processes affecting the carrying value of inventory;
- changes in how the Group utilizes its fixed assets and IT systems post restructure;
- the exit of the MSS business; and
- a review of provisions in connection with these activities.

A further update will be provided with the announcement of the full year results for the year ended 30 June 2015.

For further information, please contact:
Peter Caughey
CEO and Managing Director Coventry Group Ltd - (03) 9205 8215

Coventry Group Ltd

ABN 37 008 670 102

INTERIM REPORT
FOR THE SIX MONTHS ENDED
31 December 2014

Coventry Group Ltd and its controlled entities

Contents

Coventry Group Ltd and its controlled entities
ABN 37 008 670 102

Condensed consolidated statement of profit or loss and other comprehensive income
For the six months ended 31 December 2014

In thousands of AUD	*Note*	2014	*Restated 2013
Continuing operations			
Revenue from sale of goods		101,754	107,868
Cost of sales		(62,760)	(64,221)
Gross profit		38,994	43,647
Other revenue		2,049	2,075
Employment costs		(26,356)	(27,737)
Occupancy costs		(5,137)	(5,062)
Freight		(3,043)	(3,322)
Depreciation and amortisation expense		(2,404)	(2,315)
Communication costs		(1,391)	(1,188)
Vehicle operating costs		(1,065)	(1,076)
Restructure (including termination benefits)	3	(630)	-
Other expenses		(6,262)	(5,551)
Loss before financial income and tax		(5,245)	(529)
Financial income		605	1,054
Financial expense, including net foreign exchange loss		(78)	(3)
Net financial income		527	1,051
(Loss)/profit before income tax		(4,718)	522
Income tax benefit/(expense)		1,377	(294)
(Loss)/profit for the half year		(3,341)	228
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Foreign currency translation differences		353	1,013
Effective portion of changes in fair value of cash flow hedges		250	-
Other comprehensive income for the half year, net of income tax		603	1,013
Total comprehensive (loss)/income for the half year		(2,738)	1,241
(Loss)/profit attributable to:			
Owners of the Company		(3,563)	4
Non-controlling interests		222	224
(Loss)/profit for the half year		(3,341)	228
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(2,951)	1,059
Non-controlling interests		213	182
Total comprehensive (loss)/income for the half year		(2,738)	1,241
Earnings per share:			
Basic loss per share:		(9.3) cents	0.0 cents
Diluted loss per share:		(9.3) cents	0.0 cents

* The restatement relates to the reclassification of certain expenses in 'Other expenses' in the comparative period to align with the presentation adopted for 31 December 2014 (refer Note 1 (f)).

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

Condensed consolidated statement of changes in equity
For the six months ended 31 December 2014

In thousands of AUD	*Note*	Share-based payments reserve	Hedge reserve	Translation reserve	Total reserve	Share capital	Retained earnings	Total for members of the company	Minority interest	Total equity
Balance as at 1 July 2014		22	-	(536)	(514)	108,943	33,743	142,172	2,673	144,845
Profit for the half year		-	-	-	-	-	(3,563)	(3,563)	222	(3,341)
Other comprehensive income										
Foreign currency translation differences		-	-	362	362	-	-	362	(9)	353
Effective portion of changes in fair value of cash flow hedges, net of tax	5	-	250	-	250	-	-	250	-	250
Total other comprehensive income		-	250	362	612	-	-	612	(9)	603
Total comprehensive income for the half year		-	250	362	612	-	(3,563)	(2,951)	213	(2,738)
Transactions with owners, recorded directly in equity										
Own shares acquired	4	-	-	-	-	(648)	-	(648)	-	(648)
Share based payment transactions		19	-	-	19	-	-	19	-	19
Dividends to equity holders	4	-	-	-	-	-	(8,381)	(8,381)	(234)	(8,615)
Total transactions with owners		19	-	-	19	(648)	(8,381)	(9,010)	(234)	(9,244)
Balance as at 31 December 2014		41	250	(174)	117	108,295	21,799	130,211	2,652	132,863

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

Coventry Group Ltd and its controlled entities
ABN 37 008 670 102

Condensed consolidated statement of changes in equity (continued)
For the six months ended 31 December 2013

In thousands of AUD	*Note*	Share-based payments reserve	Translation reserve	Total reserve	Share capital	Retained earnings	Total for members of the company	Minority interest	Total equity
Balance as at 1 July 2013		305	(1,249)	(944)	108,460	41,261	148,777	2,840	151,617
Profit for the half year		-	-	-	-	4	4	224	228
Other comprehensive income									
Foreign currency translation differences, net of tax		-	1,055	1,055	-	-	1,055	(42)	1,013
Total other comprehensive income		-	1,055	1,055	-	-	1,055	(42)	1,013
Total comprehensive income for the half year		-	1,055	1,055	-	4	1,059	182	1,241
Transactions with owners, recorded directly in equity									
Issue of ordinary shares		-	-	-	908	-	908	-	908
Share based payment transactions		(58)	-	(58)	-	-	(58)	-	(58)
Transfer between reserves		(247)	-	(247)	-	247	-	-	-
Dividends to equity holders	4	-	-	-	-	(4,154)	(4,154)	(303)	(4,457)
Total transactions with owners		(305)	-	(305)	908	(3,907)	(3,304)	(303)	(3,607)
Balance as at 31 December 2013		-	(194)	(194)	109,368	37,358	146,532	2,719	149,251

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

Coventry Group Ltd and its controlled entities
ABN 37 008 670 102

Condensed consolidated statement of financial position
As at 31 December 2014

In thousands of AUD	*Note*	31 December 2014	30 June 2014
Assets			
Cash and cash equivalents		15,357	8,786
Term deposits		15,200	39,200
Trade and other receivables		31,539	33,408
Inventories		59,905	55,307
Derivatives asset		357	-
Income tax receivable		116	109
Total current assets		122,474	136,810
Deferred tax assets	6	9,833	8,228
Property, plant and equipment		19,106	19,210
Intangible assets		8,890	9,608
Total non current assets		37,829	37,046
Total assets		160,303	173,856
Liabilities			
Trade and other payables		20,052	21,784
Employee benefits		6,561	6,129
Finance leases		17	18
Income tax payable		113	98
Provisions		103	169
Total current liabilities		26,846	28,198
Employee benefits		594	805
Finance leases		-	8
Total non current liabilities		594	813
Total liabilities		27,440	29,011
Net assets		132,863	144,845
Equity			
Issued capital		108,295	108,943
Reserves		117	(514)
Retained earnings	4	21,799	33,743
Total equity attributable to equity holders of the Company		130,211	142,172
Non controlling interests		2,652	2,673
Total equity		132,863	144,845

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

Coventry Group Ltd and its controlled entities
ABN 37 008 670 102

Condensed consolidated statement of cash flows
For the six months ended 31 December 2014

In thousands of AUD	*Note*	2014	2013
Cash flows from operating activities			
Cash receipts from customers		118,934	127,136
Cash paid to suppliers and employees		(125,622)	(122,757)
Cash generated from operations		(6,688)	4,379
Interest paid		(3)	-
Income taxes (paid)/received		(304)	814
Net cash (used in)/from operating activities		(6,995)	5,193
Cash flows from investing activities			
Proceeds from sale of plant and equipment		27	52
Interest received		419	707
Proceeds from term deposits		24,000	9,850
Dividends received		1	1
Acquisition of business, net of cash acquired		-	(2,012)
Acquisition of property, plant and equipment		(1,936)	(2,464)
Acquisition of intangible assets		(25)	(383)
Net cash from investing activities		22,486	5,751
Cash flows from financing activities			
Repayment of borrowings on finance leases		(10)	(34)
Issue of shares		-	908
Payments for share buy-back	*4*	(648)	-
Dividends paid	*4*	(8,381)	(4,154)
Dividends paid to non-controlling interests		(234)	(303)
Net cash used in financing activities		(9,273)	(3,583)
Net increase in cash and cash equivalents		6,218	7,361
Cash and cash equivalents at 1 July		8,786	10,546
Effect of exchange rate fluctuations		353	986
Cash and cash equivalents at 31 December		15,357	18,893
Monies invested in term deposits maturing in greater than 90 days at inception		15,200	34,084
Cash, cash equivalents and term deposits at 31 December		30,557	52,977

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

Notes to the condensed consolidated interim financial statements
For the six months ended 31 December 2014

1. Significant accounting policies

(a) Reporting entity

Coventry Group Ltd (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2014 comprise the Company and its controlled entities (together referred to as the "Group"). The Group primarily is involved in the distribution of fasteners and hardware products, the provision of fluid products and services and the manufacture and distribution of gaskets (see Note 2).

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2014 are available upon request from the Company's registered office at 525 Great Eastern Highway Redcliffe WA 6104 Australia or at www.cgl.com.au

(b) Statement of compliance

The condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001, and with IAS 34 *Interim Financial Reporting*.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2014. The consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at and for the year ended 30 June 2014.

These condensed consolidated interim financial statements were approved by the Board of Directors on 26 February 2015.

(c) Basis of preparation

The financial report is presented in Australian dollars. The financial report is prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

(d) Judgements and estimates

In preparing these condensed consolidated interim financial statements, Management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Except for the changes below, the significant judgements made by Management in applying the Group's accounting policies, and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2014.

Change in useful lives of technology assets

In accordance with its policy, the Company reviews the estimated useful lives of its fixed assets on an ongoing basis. Technology changes are occurring at an accelerating rate with older hardware and software becoming unsupported faster than has been the case historically.

The Company carried out a wide ranging review of its use of technology assets and as a result revised its estimated useful lives of each asset type so as to better reflect the periods over which these assets will be in service. In the same period an integrated phone system was widely deployed across the Group, this investment is anticipated to reduce future communication spend and increase internal efficiency. As a result of the deployment $302,000 of antiquated or unsupported phone assets were written down.

1. Significant accounting policies (continued)

(d) Judgements and estimates (continued)

Change in useful lives of technology assets (continued)

The effect of this revision in estimate and write down of assets on the financial statements was an increase in expense of approximately $150,000, a decrease to the carrying amount of plant and equipment by $275,000 and an increase to the carrying value of intangible assets by $125,000 for the six months ended 31 December 2014. The estimated annual impact to the depreciation expense is a decrease of $316,000. The revisions and deployment of replacement assets now better reflect the cost of technology on the Group going forward.

(e) Financial instruments

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency exposure. On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to hedged risk, and whether the actual results of each hedge are within a range of 80 - 125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

1. Significant accounting policies (continued)

(f) Restatement of comparative period disclosures

To achieve consistency with current period disclosures, the following reclassifications of comparative period balances (for the six months ended 31 December 2013) has occurred:

- Other expenses reduced from $8,494,000 to $5,551,000
- Employee benefits expense has been renamed to 'Employment costs' and now includes both the direct and indirect costs relating to employees and accordingly has increased from $25,870,000 to $27,737,000
- Vehicle operating costs increased from $nil to $1,076,000

(g) Provisions

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Restructuring

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

2. Operating segments

The Group has 4 reportable segments as described below. For each of the strategic operating segments, the Executive Chairman reviews internal management accounts on a monthly basis. The following summary describes the operations of each of the Group's reportable operating segments:

- Konnect: Includes distribution and marketing of fastener products
- *Fluids*: Includes the design, manufacture, distribution and installation of lubrication and hydraulic fluid systems and hoses
- *Hardware*: Includes the importation, distribution and marketing of hardware components and finished products
- *Gaskets*: Includes manufacturing and distributing 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. Operating segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Information about reportable segments

	Konnect		Fluids		Hardware		Gaskets		Total	
In thousands of AUD	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
External sales	52,735	58,782	31,243	30,393	8,417	10,004	7,170	6,479	99,565	105,658
Other revenue	502	387	132	96	112	263	111	101	857	847
External revenue	53,237	59,169	31,375	30,489	8,529	10,267	7,281	6,580	100,422	106,505
Inter-segment revenue	3	1	-	-	-	11	-	-	3	12
Total revenue for reportable segments	53,240	59,170	31,375	30,489	8,529	10,278	7,281	6,580	100,425	106,517
Reportable segment profit/(loss) before finance costs and income tax	(3,803)	380	916	639	(400)	(946)	1,167	1,161	(2,120)	1,234

In thousands of AUD	31 December 2014	30 June 2014	31 December 2014	30 June 2014	31 December 2014	30 June 2014	31 December 2014	30 June 2014	31 December 2014	30 June 2014
Reportable segment assets	55,691	53,153	30,693	32,600	10,765	11,103	12,370	12,296	109,519	109,152
Reportable segment liabilities	16,251	14,934	6,887	8,383	1,079	1,393	1,033	621	25,250	25,331
Capital employed	39,440	38,219	23,806	24,217	9,686	9,710	11,337	11,675	84,269	83,821

2. Operating segments (continued)

Reconciliation of reportable segment profit or loss
For the six months ended 31 December 2014

In thousands of AUD	*Note*	2014	2013
Total (loss)/profit for reportable segments before tax		(2,120)	1,234
Corporate expenses and income		(1,901)	(1,597)
MSS [(i)] expenses and income		(594)	(166)
Net finance income		527	1,051
Consolidated (loss)/profit before income tax and restructure costs		(4,088)	522
Restructure: termination benefits for Managing Director	3	(630)	-
Consolidated (loss)/profit before income tax		(4,718)	522

[(i)] Managed System Services (MSS) operations are not material within the Group

3. Restructure

Key management personnel leadership transition

During the six month period ended 31 December 2014 the Group announced that Roger Flynn would cease to be Executive Chairman with the role to be restructured such that the CEO position is separated from the Chairman role, which is to be of a non-executive nature.

As per the key terms of Mr. Flynn's contract of employment, disclosed in the 2014 annual report, a cost of $630,000 was recognised as a result of his ceasing to be Executive Chairman. This has been recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

As announced to the market on 19 November 2014, Peter Caughey has been appointed the Group's CEO and Managing Director effective 1 January 2015.

Neil Cathie became the Group's Non-Executive Chairman from 1 January 2015.

4. Equity

Renewal on-market share buy back

The Group renewed its share buy back period for a further 12 month period commencing on 23 November 2014.

The effect on issued capital as a result of this undertaking for the six month period ended 31 December 2014 was a reduction of $648,000 (2013: $nil). The total number of own shares acquired was 265,803 (2013: nill). At the end of the period 37,931,313 shares remained in issue (2013: 38,160,444).

Dividends

The following dividends were declared and paid by the consolidated entity for the six months ended 31 December 2014:

In thousands of AUD	2014	2013
Special Dividend - paid 25 July 2014		
$0.11 per ordinary share fully franked (2013: nil)	4,179	-
Final 2014 Ordinary Dividend - paid 19 September 2014		
$0.11 per ordinary share fully franked (2013: $0.11 per ordinary share fully franked)	4,202	4,154
	8,381	4,154

The directors have also declared subsequent to period end, an interim dividend of 4.25 cents per ordinary share, fully franked, and a special dividend of 17.5 cents per ordinary share, fully franked. The dividends are payable on 13 March 2015 to shareholders registered as at 6 March 2015 (the record date). The dividend reinvestment plan will continue to be suspended for these dividends. For the previous comparative period an 11 cent, fully franked, interim dividend was declared.

5. Reserves

During the six month period ended 31 December 2014 the Group entered into forward contracts to hedge certain of its foreign exchange exposure to USD and Euros for a period of six months ending 31 March 2015. The fair value of the forward contracts is based on broker quotes (level 2 in the fair value hierarchy). Similar contracts are traded in an active market and the broker quotes reflect the actual transactions in similar instruments.

The change in fair value of these contracts as at 31 December 2014 was $250,000 net of tax and is recognised in the condensed consolidated statement of changes in equity (hedge reserve).

6. Taxes

Recognised deferred tax assets and liabilities

During the six month period ended 31 December 2014 the Group recognised a deferred tax asset of $9,833,000 (30 June 2014: $8,228,000), of which $6,449,000 (30 June 2014: $5,450,000) relates to carried forward tax losses.

Tax losses in Coventry Group's Australian operation consist of;

- pre-consolidation carried forward tax losses of $13,301,000 (30 June 2014: $13,301,000), represented by the deferred tax asset of $3,990,000 (30 June 2014: $3,990,000), that can be utilised at an annual rate of 7.0% of the taxable profit in the Australian tax group.
- post-consolidation carried forward tax losses of $6,333,000 (30 June 2014: $2,463,000), represented by the deferred tax asset of $1,900,000 (30 June 2014: $739,000), that can be fully utilised against the future forecasted taxable profits in the Australian tax group.

Based on CGL's Australian Group history of past profits, Board approved forecasts, including the savings to be derived from the announced restructure and anticipation of continuing to satisfy the requirements of the taxation legislation, Directors believe that the utilisation of the deferred tax asset is probable.

7. Subsequent events

As announced to the ASX on 9 February 2015, the Group is undertaking a comprehensive review of its operations to enable it to respond to the realities of a keenly competitive and cyclical marketplace.

The Group will be restructured into two core business units, Konnect/Artia and Coopers so as to streamline the Group's operations and lower the cost-of doing-business by removing duplication in logistics, back office service and administration functions. The Managed System Services business was determined to be non-core and will be exited by the end of March 2015.

A thorough review of the distribution network by supply chain consultants XAct Solutions is also underway and has already concluded that the Group's volumes can be efficiently managed through four distribution centres. As a result, the Sydney and Adelaide distribution centres will be closed effective from 30 June 2015. Capital expenditure in the remaining distribution centres will be required to enhance their operational efficiencies. In conjunction with this review, management is also considering its stock management strategies.

As a result of this restructure program 100 positions have been identified as redundant in the logistics, back office and administrative functions.

Total restructuring costs, including redundancies and distribution centre closures, are estimated to be in the order of $6 - $7 million as foreshadowed in the ASX announcement of 9 February 2015.

Whilst the Strategic Review is on-going, internal assessments to date indicate the restructure may give rise to write down of assets and incurrance of provisions of up to $18 million in the second half. A significant proportion will be non-cash in nature and results from the initiatives announced with the Strategic Review, including:

- changes in the Group's stock management processes affecting the carrying value of inventory;
- changes in how the Group utilises its fixed assets and IT systems giving rise to a re-assessment of their recoverable amount;
- the exit of the MSS business; and
- a review of provisions arising in connection with these initiatives.

Directors' report
For the six months ended 31 December 2014

The directors present their report together with the consolidated financial statements of Coventry Group Ltd (the Company) and its controlled entities (the Group) for the six months ended 31 December 2014.

DIRECTORS

The directors of the Company at any time during the six month period ended 31 December 2014 and up to the date of this report are:

Name	Period of Directorship
Non-executive	
Barry Frederick Nazer	Director since September 2003
Kenneth Royce Perry	Director since September 2009
John Harold Nickson	Director since November 2007, retired 19 September 2014
Nicholas John Willis	Director since 19 September 2014
Neil George Cathie	Director since 19 September 2014, Chairman since 1 January 2015
Executive	
Roger Baden Flynn	Director since October 2001 Chairman since November 2006 Executive Chairman since April 2007 to December 2014 (Resigned as a Director 1 January 2015)
Peter John Caughey	Chief Executive Officer since 1 January 2015 Managing Director since 1 January 2015

Review of operations and results

Group results and business overview

Revenue for the six months ending 31 December 2014 was down 5.7% to $101.8 million (2013 $107.9 million) and the Group recorded a loss after income tax of $3.3 million (2013 $0.2 million profit). This result includes an abnormal pre-tax charge of $0.63 million in accordance with the employment contract of former Executive Chairman, Mr. Roger Flynn.

The reduction in profit was, in part, due to a series of macro-economic factors however an inflexible business model and inappropriate cost base played a significant part. As announced on 9 February 2015, Coventry Group's new CEO, Peter Caughey, is leading a Group-wide Strategic Review in order to restore profitability as soon as practicable.

Dividends

Subsequent to the announcement on 9 February 2015 the Board of Directors has assessed the outlook for profit, cash and franking credits and has determined to alter the dividend policy. Since July 2014 the performance of the business has been below internal forecasts and budgets, reducing anticipated cash and franking credit balances. The Strategic Review announced on 9 February 2015 foreshadows further losses in the short term, expenses to restructure and a future need for capital expenditure. Accordingly, and after taking independent advice, the Board has resolved to declare a fully franked interim dividend of 4.25 cents per share. Further, in order to immediately release surplus cash and franking credits to shareholders, the Board has declared a special fully franked dividend of 17.5 cents per share. Whilst the Board will aim to maintain a reliable and fully franked dividend stream, future dividends will be declared based on the performance of the business and its outlook at the time.

The Board carefully considered various capital management strategies. Considering the makeup of investors it was determined that fully franked dividends were the most efficient way of enhancing shareholder value.

Whilst the provision of the dividend reinvestment plan or share buy backs remains available to the Company, they will only be used when considered appropriate.

Both dividends will be paid on 13 March 2015 with a record date of 6 March 2015.

Review of operations and results (continued)

Review of results by business

See Note 2 (Operating segments) for details of the financials

Fasteners - Konnect

Konnect is the largest specialty fastener distributor in Australia and New Zealand.

During the period the Konnect business experienced tough competition across all of its Australian markets. Revenue and margin continue to fall reflecting short term currency effects, declining mining sector spend and increasing competition. The announced Group-wide restructure will touch the Konnect business significantly and will result in a leaner and more nimble business better able to compete in the current market.

34 branches have been reconfigured or relocated to reduce footprint, operating costs and inventory with the remaining 20 branches to be reconfigured or relocated in calendar 2015. Further branch openings are also planned.

The import program continues to expand with an increase in products being directly imported.

Artia - Hardware operations

Artia is a niche supplier of hardware to the kitchen & cabinet maker industry.

Artia has rationalised its supply chain fully into that of the Konnect business and closed all Artia focused distribution centres.

Sales for the Hardware business were impacted by its exit from "Furniture". Pleasingly, the business was profitable in the second quarter of the financial year. This improvement was driven by cost rationalisation and integration into the Konnect supply chain as well as year on year growth in continuing products.

Cooper Fluid Systems

Cooper Fluid Systems is a supplier of spare parts, workshop and on-site services to the mining and related industries.

Cooper Fluid Systems continues to transition to support the mining industry as it moves to a production phase. Despite conditions worsening throughout the half, sales and earnings before interest and tax were up on the previous corresponding period.

The Coopers business operates mainly in the mining services and capital equipment spaces of Western Australia and Queensland. In the previous 18 months the division has been impacted, like many companies, by reduced capital spend and deferral of maintenance expenditure coming from major customers. During this time the Coopers business has continued to successfully develop relationships in the mining sector. The Group anticipates contraction in mining will continue in the short term although the split between capital spend and repair spend will shift significantly.

In the period, the business continued to expand its trading presence in the key areas of Newman (Western Australia) and the Hunter Valley (New South Wales). The Coopers business has also benefitted from a full period of trading for the acquisition made in December 2013 based in Toowoomba and St George (Queensland).

Managed System Services (MSS)

As previously announced, given continuing losses, likely prospects and the commitment needed in management time to deliver positive earnings, a decision was taken to exit operations in January 2015. The business will be run down in an orderly fashion to meet all contractual commitments. It is anticipated this will be completed in the first quarter of calendar 2015.

Investments - AA Gaskets

AA Gaskets is the market leader in specialised gaskets for the spare parts auto sector. CGL holds a 72.5% interest in AA Gaskets which in turn owns a 100% interest in the NZ subsidiary, NZ Gaskets. Both the Australian and NZ businesses supply gasket kits to the DIY and professional auto repair sector.

Sales and earnings for the Gaskets business were up on the previous corresponding period.

Review of operations and results (continued)

Employees

Overall staff numbers fell from full time equivalents of 742 at 31 December 2013 to 672 at 31 December 2014. The decline is reflective of management's ongoing cost review process and alignment to our changing customer needs. As part of the Strategic Review announced on 9 February 2015 a decision was taken to reduce staff numbers further. The further reduction of approximately 100 staff will significantly reduce operating costs across all areas of business operations.

Working Capital

In the 12 months ended 31 December 2014 $12.6 million has been paid to shareholders in the form of three dividend payments. In this period the Group net cash position reduced from $53.0 million at 31 December 2013 to $30.6 million at 31 December 2014. The largest factor behind the outflow of cash was the dividend, but a further $8.1 million has been invested in inventory over the 12 month period as sales slowed and as the Konnect business transitioned from local buyer to direct importer. Management have set clear targets to reduce the inventory levels in the second half of the financial year thereby liberating cash from Group working capital.

Debtors remain well controlled and there has been a reduction in bad debt write-offs compared to the prior corresponding period.

Subsequent Events

As previously announced on 1 January 2015 Peter Caughey was appointed CEO and Managing Director of Coventry Group Limited.

As previously announced on 9 February 2015 a significant restructure of Coventry Group, led by CEO Peter Caughey, is underway.

Restructure Review

Strategic Review initiatives announced on 9 February 2015 are being progressed and will enable Coventry Group to better respond to current economic headwinds; primarily through:

- Rationalisation of the distribution network which is forecast to reduce annual operating costs by approximately $4 million per annum within two years; and
- Headcount reductions that are expected to reduce operating costs by approximately $7 million per annum from the start of the 2016 financial year.

Asset Review and Additional Provision Requirements

The effect of the Strategic Review announced on 9 February 2015 is likely to impact the carrying value of assets and give rise to additional provisions in the second half of the year. The process of restructuring involves the reassessment by the Company of how it utilises plant, equipment and IT systems. The Board is also carefully considering the Group's inventory position and assessing its net realisable value. Whilst the Group wide asset review is not complete indications are that write downs and additional provisions of up to $18 million may be required as a consequence of the restructure.

Acquisitions

The previously stated acquisition strategy, whilst not discontinued entirely, has been determined by the Board to be a lower priority. Going forward, efforts will be focused on restoring the existing business to profitability.

Future Outlook

The program outlined in the 9 February 2015 announcement is focused on cost reduction to deliver a cost base that is competitive and from which revenue growth can be leveraged. This program will take two years to deliver in full. The underlying loss in the second half of financial 2015 is expected to be broadly in line with the first before any costs associated with the restructure are taken into account however, with more than $7 million of annualised savings expected to have been secured by 30 June 2015, the Company is expected to return to profitability in financial year 2016.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 19 and forms part of the directors' report for the six months ended 31 December 2014.

ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 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

Perth
26 February 2015

P.J. CAUGHEY
CEO and Managing Director

Perth
26 February 2015

Directors' declaration

In the opinion of the directors of Coventry Group Ltd ("the Company"):

1 the condensed consolidated interim financial statements and notes, set out on pages 3 to 13, are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance, for the six months ended on that date; and

   (b) complying with Australian Accounting Standards AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001; and

2 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:

N.G. CATHIE
Chairman

Perth
26 February 2015

P.J. CAUGHEY
CEO and Managing Director

Perth
26 February 2015

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

To: the directors of Coventry Group Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Matthew Beevers
Partner

Perth

26 February 2015

KPMG

Independent auditor's review report to the members of Coventry Group Ltd

Report on the financial report

We have reviewed the accompanying interim financial report of Coventry Group Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2014, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 7 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Coventry Group Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Matthew Beevers
Partner

Perth

26 February 2015