# Contango MicroCap Limited and Controlled Entities

**ABN 47 107 617 381**

# Financial report for the half-year ended 31 December 2013

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2013

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# DIRECTORS' REPORT

The directors present their report together with the condensed financial report of the consolidated entities consisting of Contango MicroCap Limited ("the Company") and controlled entities, for the half-year ended 31 December 2013 and independent review report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

## Directors

The following persons held office as directors during the half-year or since the end of the half-year and up to the date of this report:

| Name | Period of Directorship |
|---|---|
| Mark G Kerr (Chairman) | Director since 7 December 2009 |
| David I Stevens (Managing Director) | Director since 14 January 2004 |
| Ian N Ferres | Director since 7 December 2009 |
| Glenn Fowles | Director since 14 January 2004 |

All directors have been in office since the start of the financial period to the date of this report.

## Review of operations

The consolidated entity's net operating profit after tax for the half-year was $26,999,471 (2012: $601,277). Basic earnings per share amounted to 17.6 cents per share for the half-year (2012: 0.4 cents).

The current period profit is primarily attributed to profits earned from the Company's investment portfolio, dividend and interest income. The period has seen a solid rise in the Australian sharemarket which the Company operates within.

The Company continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Company and in accordance with the provisions of its Constitution.

## Significant changes in the state of affairs

Other than those disclosed in Note 7 ("Business Combinations") of these financial statements, there were no other significant changes in the state of affairs of the Company that occurred during the half-year under review.

## Events subsequent to balance date

There have been no significant events subsequent to 31 December 2013 that have occurred that would have any material impact on the content of these financial statements.

## Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the directors' report and financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year is provided with this report.

This report is signed in accordance with a resolution of the directors.

Director
February 2014

**AUDITOR'S INDEPENDENCE DECLARATION**

**To the Directors of Contango MicroCap Limited.**

In relation to the half-year independent review for the six months to 31 December 2013, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the Corporations Act 2001; and

(ii) No contraventions of any applicable code of professional conduct.

# Condensed Consolidated Statement of Comprehensive Income

| | **Half-year ended 31 Dec 2013 $'000** | Half-year ended 31 Dec 2012 $'000 |
|---|---|---|
| ***Revenue from continuing operations*** | | |
| Revenue | **2,329** | 2,730 |
| Other income | **38,513** | (976) |
| **Total revenue from continuing operations** | **40,842** | 1,754 |
| ***Expenses*** | | |
| Employee benefits expense | **591** | - |
| Impairment of goodwill | **194** | - |
| Management fees | **468** | 1,123 |
| Other expenses | **1,690** | 1,346 |
| | **2,943** | 2,469 |
| ***Add:*** | | |
| Share of profits of associate accounted for using the equity method | **(443)** | 121 |
| **Profit/(loss) before income tax** | **37,456** | (594) |
| Income tax expense/(benefit) | **10,457** | (1,195) |
| **Profit/(loss) from continuing operations** | **26,999** | 601 |
| **Profit/(loss) for the half-year** | **26,999** | 601 |
| **Total comprehensive income for the half-year** | **26,999** | 601 |
| **Total comprehensive income attributable to:** | | |
| Members of Contango MicroCap Limited | **26,999** | 651 |
| Non-controlling interest | **-** | (50) |
| | **26,999** | 601 |
| | **Cents** | Cents |
| ***Earnings per share for profit from continuing operations attributable to members of Contango MicroCap Limited:*** | | |
| Basic earnings per share | **+17.6** | +0.4 |
| Diluted earnings per share | **+17.6** | +0.4 |

The accompanying notes form part of these financial statements.

# Condensed Consolidated Statement of Financial Position

| | **As at 31 Dec 2013 $'000** | As at 30 Jun 2013 $'000 |
|---|---|---|
| ***Assets*** | | |
| Cash and cash equivalents | **6,047** | 12,451 |
| Receivables | **1,353** | 2,478 |
| Investments at fair value | **177,228** | 136,438 |
| Other financial assets | **87** | - |
| Property, plant and equipment | **63** | - |
| Goodwill | **9,455** | - |
| Equity accounted investments | **-** | 5,150 |
| **Total assets** | **194,233** | 177,045 |
| ***Liabilities*** | | |
| Payables | **606** | 1,163 |
| Employee provision | **383** | - |
| Provision for tax | **154** | - |
| Deferred tax liabilities | **12,240** | 1,939 |
| **Total liabilities** | **13,383** | 3,102 |
| **Net assets** | **180,850** | 153,415 |
| ***Equity*** | | |
| Contributed equity | **188,636** | 182,180 |
| Reserves | **17,600** | 4,073 |
| Retained earnings | **26,999** | - |
| Accumulated losses | **(52,385)** | (32,838) |
| **Equity attributable to owners of Contango MicroCap Limited** | **180,850** | 153,415 |
| Non-controlling interest | **-** | - |
| **Total equity** | **180,850** | 153,415 |

The accompanying notes form part of these financial statements.

# Condensed Consolidated Statement of Changes in Equity

| | Contributed Equity $'000 | Reserves $'000 | Accumulated Losses $'000 | Non-controlling Interest $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| **As at 1 July 2012** | 180,121 | 180 | (3,247) | 4,289 | 181,343 |
| Profit/(loss) for the half-year | - | - | 651 | (50) | 601 |
| **Total comprehensive income for the half year** | - | - | 651 | (50) | 601 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Transfer to dividend payment reserve | - | 16,998 | (16,998) | - | - |
| Dividend re-investment | 1,148 | - | - | - | 1,148 |
| Dividends paid | - | (6,977) | - | - | (6,977) |
| **Total transactions with owners as in their capacity as owners:** | 1,148 | 10,021 | (16,998) | - | (5,829) |
| **As at 31 December 2012** | **181,269** | **10,201** | **(19,594)** | **4,239** | **176,115** |
| **As at 1 July 2013** | 182,180 | 4,073 | (32,838) | - | 153,415 |
| Profit/(loss) for the half-year | - | - | 26,999 | - | 26,999 |
| **Total comprehensive income for the half year** | - | - | 26,999 | - | 26,999 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Transfer to dividend payment reserve | - | 19,547 | (19,547) | - | - |
| Options exercised | 3 | - | - | - | 3 |
| Acquisition activities | 5,430 | - | - | - | 5,430 |
| Dividend re-investment | 1,023 | - | - | - | 1,023 |
| Dividends paid | - | (6,020) | - | - | (6,020) |
| **Total transactions with owners as in their capacity as owners:** | 6,456 | 13,527 | (19,547) | - | 438 |
| **As at 31 December 2013** | **188,636** | **17,600** | **(25,386)** | **-** | **180,850** |

The accompanying notes form part of these financial statements.

# Condensed Consolidated Statement of Cash Flows

| | **Half-year ended 31 Dec 2013 $'000** | Half-year ended 31 Dec 2012 $'000 |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Payments to suppliers and employees | **(2,119)** | (2,527) |
| Receipts from customers | **95** | - |
| Dividends received | **2,364** | 2,476 |
| Interest received | **71** | 254 |
| **Net cash inflow from operating activities** | **411** | 203 |
| | | |
| ***Cash flows from investing activities*** | | |
| Proceeds from sale of investments | **54,915** | 81,854 |
| Payments for investments | **(57,573)** | (67,728) |
| Acquisition of subsidiaries net of cash acquired | **(4,593)** | - |
| Transactions with associate | **-** | 466 |
| **Net cash inflow/(outflow) from investing activities** | **(7,251)** | 14,592 |
| | | |
| ***Cash flows from financing activities*** | | |
| Proceeds of shares issued | **5,433** | 1,148 |
| Dividends paid | **(4,997)** | (6,977) |
| **Net cash inflow/(outflow) from financing activities** | **436** | (5,829) |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | **(6,404)** | 8,966 |
| Cash and cash equivalents at the beginning of the half-year | **12,451** | 12,597 |
| **Cash and cash equivalents at end of the half-year** | **6,047** | 21,563 |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2013

## 1. Basis of preparation of the half-year financial report

This half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by Contango MicroCap Limited during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001.* The half-year financial report was authorised for issue by the directors as at the date of the directors' report.

### (a) Basis of preparation

This general purpose half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2013 and the corresponding half-year.

### (b) Accounting for profits and losses

At the conclusion of each calendar month, the parent company records profits earned during the month to Retained Earnings and losses incurred during the month to Accumulated Losses with the intention of transferring undistributed Retained Earnings to Reserves at the conclusion of the financial year for the purpose of enabling the Directors to declare or determine to pay dividends from the reserve to shareholders at a future date.

### (c) Rounding amounts

The company is of a kind referred to in ASIC Class Order CO 98/0100 and in accordance with that Class Order, amounts in the financial statements have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### (d) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity, Contango MicroCap Limited, and subsidiaries, Contango Capital Partners Limited, Contango Group Pty Ltd and Servusus Pty Ltd, which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised from the date that control ceases.

Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

**(e) Business combinations**

A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses and results in the consolidation of the assets and liabilities acquired. Business combinations are accounted for by applying the acquisition method.

The consideration transferred is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control. Deferred consideration payable is discounted to present value using the group's incremental borrowing rate.

Goodwill is recognised initially at the excess over the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), less the fair value of the identifiable assets acquired and liabilities assumed.

If the fair value of the acquirer's interest is greater than the aggregate of the consideration transferred, the fair value of the non-controlling interest, and the acquisition date fair value of the acquirer's previously held equity interest (in case of step acquisition), the surplus is immediately recognised in the statement of comprehensive income.

Acquisition related costs are expensed as incurred.

**(f) Investments in associates**

An associated company is a company over which the company is able to exercise significant influence.

The equity method of accounting has been applied in relation to all associated companies. The company recognises its share of an associate post acquisition profits and losses within the statement of comprehensive income and its share of an associate movement in reserves is recognised in reserves. These movements are adjusted against the carrying amount of the investment less any distribution received.

Unrealised gains and losses on transactions between the company and an associate are eliminated to the extent of the entities share in an associate.

## 2. Significant items

| | **Half-year ended 31 Dec 2013** | Half-year ended 31 Dec 2013 |
|---|---|---|
| **Other income** | **$000** | $000 |
| Dividends | **2,258** | 2,475 |
| Interest | **71** | 255 |
| Change in fair value of investments through profit and loss | **38,182** | (976) |

## 3. Dividends

| | | |
|---|---|---|
| Dividends paid during the half-year: | | |
| Ordinary Shares – 4.0 cents per share (2012: 4.7 cents) | **6,020** | 6,977 |

## 4. Segment Information

### *(a) Description of segments*

The consolidated entity has 2 reportable segments as described below:

- Microcaps investment portfolio – this segment represents the contribution of the investment portfolio of listed stocks from the microcap sector of the Australian share market which is managed by Contango Asset Management Limited – a wholly owned subsidiary of the Company. Direct costs of these activities are borne directly by the investment portfolio with a management fee charged by Contango Asset Management Limited. This fee is eliminated on consolidation.
- Funds management – this segment covers the management of investment portfolios for wholesale clients. This includes clients external to the Company as well as the microcap portfolio described above. All staff costs incurred within the consolidated entity are incurred within this segment.

### *(b) Segment information*

| **31 Dec 2013** | **MicroCaps** | **Funds Management** | **Total** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| **Segment revenue** | | | |
| Total segment revenue | 40,501 | 341 | 40,842 |
| Inter-segment revenue | - | 193 | 193 |
| **Segment revenue from external source** | 40,501 | 534 | 41,035 |
| **Segment result** | | | |
| Total segment result | 27,225 | (33) | 26,999 |
| Inter-segment eliminations | 193 | (193) | - |
| **Segment result from external source** | 27,225 | (226) | 26,999 |
| **Total segment assets** | 192,499 | 1,804 | 194,303 |
| **Total segment liabilities** | 12,678 | 775 | 13,453 |
| | | | |
| **31 Dec 2012** | | | |
| **Segment revenue** | | | |
| Total segment revenue | 1,754 | - | 1,754 |
| Inter-segment revenue | - | - | - |
| **Segment revenue from external source** | 1,754 | - | 1,754 |
| **Segment result** | | | |
| Total segment result | 601 | - | 601 |
| Intersegment eliminations | - | - | - |
| **Segment result from external source** | 601 | - | 601 |
| **Total segment assets** | 177,045 | - | 177,045 |
| **Total segment liabilities** | 930 | - | 930 |

## 5. Contributed Capital

| | **Half-year ended 31 Dec 2013 No. of shares** | Half-year ended 31 Dec 2012 No. of shares | **Half-year ended 31 Dec 2013 $'000** | Half-year ended 31 Dec 2012 $'000 |
|---|---|---|---|---|
| Opening balance | **150,502,289** | 148,448,269 | **182,180** | 180,121 |
| Shares issued to fund acquisitions | **4,909,811** | - | **5,430** | - |
| Options exercised | **2,300** | - | **3** | - |
| Dividend reinvestment - final dividend | **1,043,709** | 1,215,410 | **1,022** | 1,148 |
| **Closing balance** | **156,458,109** | 149,663,679 | **188,636** | 181,269 |

## 6. Events occurring after the balance sheet date

On 24 February 2014, the Company announced the details of its interim dividend for FY14.
4 cents per share will be paid to shareholders on 31 March 2014 for those shareholders registered as at close of business on 7 March 2014. This dividend is 25% franked.
There were no other events specific to the Company of which the Directors are aware which have had a material effect on the Company or its financial position since balance date.

## 7. Business combinations

**Current period - Bellwether Partners Limited**

On 30 October 2013, the consolidate entity diversified its exposure to funds management by acquiring 100% of the boutique funds management firm, Bellwether Partners Limited for consideration of $100,000 in cash.

*Details of the transaction were:*

| | **$'000** |
|---|---|
| Consideration and costs paid | 100 |
| Total consideration | 100 |

| | **Recognised on acquisition at fair value $'000** |
|---|---|
| Assets and liabilities acquired | |
| – Cash | 2 |
| – Trade receivables | 65 |
| – Other assets | 22 |
| – Trade and other creditors | (110) |
| – Provisions | (73) |
| Net identifiable liabilities acquired | (94) |
| Goodwill | 194 |

Goodwill is not deductible for tax purposes.

**Purchase consideration – cash outflow**

| | Half-year | |
|---|---|---|
| | **31 Dec 2013 $'000** | **31 Dec 2012 $'000** |
| Consideration paid, net of cash acquired | 100 | - |
| Less: Cash balances acquired | | |
| Cash | 2 | - |
| *Bank Overdraft* | - | - |
| Net cash balance acquired | 2 | - |
| Outflow of cash – investing activities | 98 | - |

**Contractual amounts**

The fair value of trade receivables equals the contractual amounts due.

**Contribution since acquisition**

Since the acquisition date Bellwether Partners Limited has contributed revenue of $102,914 and a loss after tax of $70,617 which is included within the consolidated profit. Had the combination occurred from the beginning of the year, the operating loss for the consolidated entity would have been $165,781 and revenue would have been $330,677.

**Current period - Contango Group Pty Ltd**

At the Company's Annual General Meeting, shareholders approved the acquisition of the 50.004% of Contango Group Pty Ltd that it did not already own.

The acquisition was completed on 30 November 2013, for net consideration of $5,430,251 which was funded through the issue of 4,909,811 ordinary shares in the Company.

Contango Group Pty Ltd is the parent company of the Company's investment manager, Contango Asset Management Limited.

*Details of the transaction were:*

| | **$'000** |
|---|---|
| Shares issued as consideration | 5,430 |
| Total consideration | 5,430 |

4,909,811 shares were issued as part of the consideration. The issue price of $1.106 was based on the volume weighted average price during the month of August 2013 as described within the Annual General Meeting explanatory memorandum.

Assets and liabilities acquired as a result of the business combination were:

| | **Recognised on acquisition at fair value** |
|---|---|
| | **$'000** |
| Assets and liabilities acquired | |
| – Cash | 935 |
| – Trade receivables | 1,233 |

| | |
|---|---|
| – Other assets | 509 |
| – Trade and other creditors | (87) |
| – Provisions | (571) |
| Net identifiable assets acquired | 1,971 |
| Goodwill | 9,455 |

The goodwill on acquisition arises as a result of the being above the value of assets acquired. This consideration was determined to be fair and reasonable by an independent expert as outlined within the Explanatory Memorandum provided to shareholders prior to the Company's Annual General Meeting and was approved by shareholders at that meeting on 20 November 2013.

Goodwill is not deductible for tax purposes.

| **Purchase consideration – cash outflow** | **Half-year** | |
|---|---|---|
| | **31 Dec 2013 $'000** | **31 Dec 2012 $'000** |
| Consideration paid, net of cash acquired | 5,430 | - |
| Less: Cash balances acquired | | |
| Cash | 935 | - |
| Net cash balance acquired | 935 | - |
| Outflow of cash – investing activities | 4,495 | - |

**Contribution since acquisition**

Since the acquisition date Contango Group Pty Ltd has contributed revenue of $428,559 and a loss after tax of $98,347 which is included within the consolidated profit. Had the combination occurred from the beginning of the year, operating profit for the consolidated entity would have been $85,684 and revenue would have been $2,684,553.

**Prior period**

On 28 March 2013, the parent entity acquired 100% of the share capital of Contango Capital Partners Limited. Details of this business combination were disclosed in note 11 of the consolidated entity's annual financial statements for the year ended 30 June 2013.

## 8. Contingent liabilities

As at 31 December 2013, the consolidated entity had the following contingent liabilities.

**(a)** Sub-underwriting – a commitment of $1.7m to sub-underwrite a capital raising of 370,686 shares in Cardno Limited (ASX code: "CTD") was in place at 31 December 2013. This commitment concluded on 23 January 2014, with the payment of an amount of $40,756 to discharge this commitment.

**(b)** Lease commitments – under the terms of its lease agreement, a liability to "make-good" the premises occupied by Bellwether Partners Limited is payable at the end of its lease. This amount is due to be paid before 31 March 2014 and is not expected to exceed $40,000

**(c)** Acquisition earn-outs

i. Under the terms of the sale agreement between Contango MicroCap Limited and the vendors of Bellwether Partners Limited that was acquired on 30 October 2013, an amount equal to 3 basis points per annum (0.03%) of the value of funds managed by Bellwether Partners Limited is payable to the vendors. Based on current valuations, this amounts to approximately $17,000 per calendar quarter, before any indemnified expenses.

ii. Under the terms of the sale agreement between Contango MicroCap Limited and the vendors of the 50.004% of Contango Group Pty Ltd that was acquired on 30 November 2013, an amount equal to 75% of the net fee revenue from growth in new funds managed by Contango Asset Management Limited between 1 December 2013 and 30 November 2016 is payable to those vendors. As at 31 December 2013, there had been no new growth that gave rise to any liability under this arrangement. An accurate value of this liability is not possible at this early stage of the arrangement.

## 9. Leasing Commitments

Operating lease commitments for premises occupied by Contango Asset Management Limited exist until 31 October 2019. This disclosure arises from the acquisition by Contango MicroCap Limited of 50.004% of Contango Group Pty Ltd on 30 November 2013. Contango Asset Management Limited is a wholly owned subsidiary of Contango Group Pty Ltd. Contango MicroCap Limited had no corresponding commitment at 30 June 2013.

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable

| | |
|---|---|
| - not later than one year | 157,481 |
| - later than one year and not later than five years | 746,575 |
| - later than five years | 116,653 |
| Total | 1,020,709 |

# DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 4 to 10 in accordance with the *Corporations Act 2001*:

(a) Comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and

(b) Give a true and fair view of the financial position of the company as at 31 December 2013 and of its performance for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Contango MicroCap Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Director
February 2014

**INDEPENDENT AUDIT REPORT – TO BE PROVIDED BY AUDIT AT COMPLETION**