



**Coventry Group Ltd**

ABN 37 008 670 102



## 2006 Annual Report



**Coventry Group**



## Five year financial overview

YEAR ENDED 30 JUNE		AIFRS <sup>1</sup>			AGAAP <sup>1</sup>		
		2006	2005	% Change	2004	2003	2002
Revenue from sale of goods	(\$M)	502.0	470.8	6.6 ▲	433.9	415.5	394.5
Profit before tax <sup>2</sup>	(\$M)	14.7	24.1	39.0 ▼	21.9	16.9	10.8
Profit after tax <sup>2</sup>	(\$M)	9.6	17.7	45.8 ▼	15.2	10.9	3.9
Net assets	(\$M)	166.4	168.5	1.2 ▼	169.9	162.8	155.9
Shareholders' equity <sup>3</sup>	(\$M)	163.6	165.5	1.1 ▼	167.0	159.7	151.0
Earnings per share	(cents)	26.1	48.9	46.6 ▼	42.5	31.5	13.4
Dividends per share <sup>4</sup>	(cents)	35	36	2.8 ▼	34	30	20
Net tangible assets per share	(\$)	3.11	3.75	17.1 ▼	4.15	3.98	3.71
Operating cash flow	(\$M)	2.1	12.5	83.2 ▼	20.2	22.4	15.7
Return on equity <sup>5</sup>	(%)	8.1	8.7	6.9 ▼	8.9	6.6	4.7
Net interest bearing debt	(\$M)	76.4	14.0	445.7 ▲	12.5	23.3	35.7
Gearing (net debt to equity)	(%)	45.9	8.3	453.0 ▲	7.3	14.3	22.9
Interest cover	(times)	7.1	14.2	50.0 ▼	21.0	11.1	9.7
Share price (30 June)	(\$)	4.20	5.80	27.6 ▼	5.72	4.95	3.47
Market capitalisation (30 June)	(\$M)	151.0	205.7	26.6 ▼	200.7	170.9	117.2

<sup>1</sup> 2005 and 2006 results have been prepared under AIFRS and the 2002-2004 results have been prepared under AGAAP

<sup>2</sup> before minority interest

<sup>3</sup> excludes minority interest

<sup>4</sup> excludes special dividends

<sup>5</sup> before significant items

## About Coventry Group

Coventry Group Ltd was incorporated in 1936 and has been listed on the Australian Stock Exchange since 1966 (ASX code:CYG). We employ around 2,130 people and operate throughout Australia and New Zealand with a network of 147 branches.

The Group has 4 business units as follows:

- distribution of industrial products;
- distribution of automotive parts and accessories;
- manufacture and application of bitumen products; and
- manufacture of automotive and industrial gaskets.

## Contents

Year in Brief	1
Overview of Business Units	2
Chairman's Report	4
Chief Executive Officer's Operations Review	6
Board of Directors	11
Financial Report - Detailed Index	13
Independent Audit Report	82
Lead Auditor's Independence Declaration	83
Shareholder Information	84
Investor Information	86
Corporate Directory	87
Financial Calendar	88

# Year in brief

## FINANCIAL

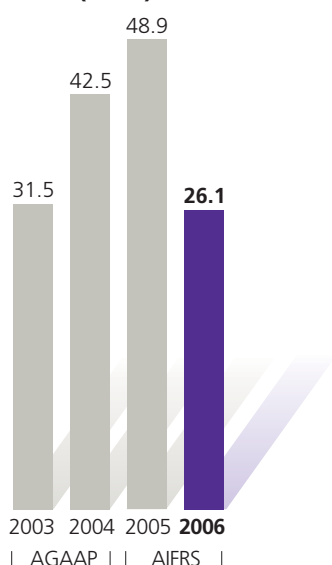
- ▲ Revenue up 7% to \$502 million
- ▲ Profit after tax down 46% to \$9.6 million
- ▲ Earnings per share of 26.1 cents
- ▲ Normalised profit before interest and tax\* steady at \$22.8 million
- ▲ Normalised profit after tax down 8% to \$13.5 million
- ▲ Normalised earnings per share of 36.7 cents
- ▲ Final dividend of 17 cents per share brings total dividend for year to 35 cents per share fully franked.

\* Normalised profit before interest and tax excludes impairment and restructuring costs of \$3.4 million (2005 – nil), non-cash acquisition adjustments of \$1.4 million (2005 - \$0.5 million) and the net gain on sale of property from the prior year of \$3.6 million. Accordingly the net effect on the comparison with the prior year is \$7.9 million.

## OPERATIONS

- ▲ acquisition of Cornall Group and Howard Silvers Hardware to establish a new cabinet and furniture hardware division within the Industrial business unit
- ▲ sale and closure of the Automotive business unit's operations in New South Wales
- ▲ commencement of the roll out of new Oracle IT system across the Group

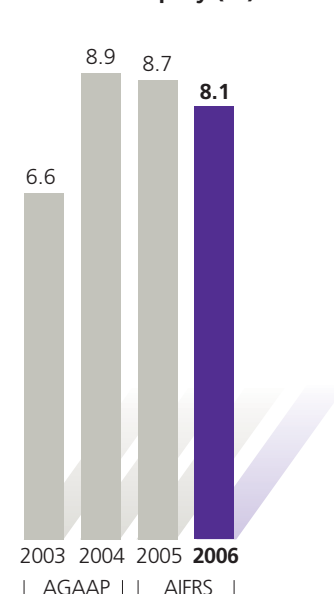
Basic earnings per share (cents)



Revenue (\$ million)



Return on equity (%)





# Overview of Business Units

## Principal Activities

### INDUSTRIAL



- ▲ distribution and marketing:
  - industrial and construction fasteners including bolts, nuts and screws; and
  - general industrial products.
- ▲ distribution, design and installation of lubrication and hydraulics fluid systems, hose and fittings products.
- ▲ importation, distribution and marketing of hardware, components and finished products to the domestic and commercial furniture, cabinet making, joinery and shop fitting industries; office chair components.

### AUTOMOTIVE



- ▲ distribution and marketing:
  - automotive parts and accessories, tools, workshop equipment;
  - mining and general industrial consumables; and
  - specialised transport and heavy haulage products.

### BITUMEN



- ▲ manufacture and application of asphalt.
- ▲ road profiling and maintenance.
- ▲ manufacture and spraying of bituminous products for road construction and environmental protection.
- ▲ treatment of recreational and coloured surfaces.

### GASKETS



- ▲ manufacture and distribution:
  - automotive and industrial gaskets.

## Year In Brief

- ◆ acquisition of Cornall Group (December 2005) and Howard Silvers Hardware (January 2006) to establish a new cabinet and furniture hardware division.
- ◆ strong performances by Coventry Fasteners in Western Australia and Queensland.
- ◆ relocation to new distribution centres for Coventry Fasteners in Queensland and Victoria.
- ◆ roll out of new Oracle IT system to a number of divisions within the business unit.
- ◆ greenfield expansion of fastener division with 4 new branches.

## Financial

	2006	2005	% Change
Sales (\$M)	<b>201.9</b>	178.3	+ 13.2
EBIT – normalised (\$M)	<b>18.8</b>	18.4	+ 2.2
EBIT/Sales Margin (%)	<b>9.3</b>	10.3	- 9.7
Capital Employed (\$M)	<b>100.0</b>	79.6	+ 25.6
Return on Capital Employed (%) <sup>1</sup>	<b>18.8</b>	23.1	- 18.6

<sup>1</sup> EBIT/assets less creditors and provisions

Employees **820** (including 80 in NZ)  
Branches **89** (including 15 in NZ)

- ◆ disappointing profit performance due to difficult trading conditions impacted by higher petrol prices and rising interest rates.
- ◆ significant restructure of the business unit.
- ◆ sale and closure of operations in New South Wales.

	2006	2005	% Change
Sales (\$M)	<b>277.8</b>	272.1	+ 2.1
EBIT – normalised (\$M)	<b>4.2</b>	5.0	- 16.0
EBIT/Sales Margin (%)	<b>1.5</b>	1.8	- 16.7
Capital Employed (\$M)	<b>84.1</b>	82.6	+ 1.8
Return on Capital Employed (%) <sup>1</sup>	<b>5.0</b>	6.0	+ 16.7

<sup>1</sup> EBIT/assets less creditors and provisions

Employees **1021**  
Branches **54**

- ◆ improved sales by Hot Mix activities due to successful tenders for local council contracts.
- ◆ disappointing results from spray and cover operations arising from lower demand for emulsion.
- ◆ overall profitability adversely impacted by higher oil prices, transport and labour costs.
- ◆ Hot Mix celebrates 50 years in the Perth asphalt contracting market.

	2006	2005	% Change
Sales (\$M)	<b>16.9</b>	15.0	+ 12.7
EBIT (\$M)	<b>1.2</b>	1.2	-
EBIT/Sales Margin (%)	<b>7.1</b>	8.0	- 11.3
Capital Employed (\$M)	<b>5.7</b>	5.0	+ 14.0
Return on Capital Employed (%) <sup>1</sup>	<b>21.1</b>	24.0	- 12.1

<sup>1</sup> EBIT/assets less creditors and provisions

Employees **50**  
Branches **2**

- ◆ difficult trading conditions due to a soft automotive parts market.
- ◆ continued improvements in production processes and warehouse planning resulting in better efficiencies and reduced operating costs.
- ◆ product range expansion.
- ◆ release of industry leading electronic catalogue.

	2006	2005	% Change
Sales (\$M)	<b>11.4</b>	12.4	- 8.1
EBIT (\$M)	<b>1.5</b>	1.9	- 21.1
EBIT/Sales Margin (%)	<b>13.2</b>	15.3	- 13.7
Capital Employed (\$M)	<b>9.4</b>	8.4	+ 11.9
Return on Capital Employed (%) <sup>1</sup>	<b>16.0</b>	22.6	- 29.2

<sup>1</sup> EBIT/assets less creditors and provisions

Employees **66** (including 11 in NZ)  
Branches **2** (including 1 in NZ)





Warwick Kent AO

## Chairman's Report

Dear Shareholder,

On behalf of your directors I present Coventry Group's 2006 Annual Report.

### Financial Performance

Group profit after tax was \$9.6 million, a fall of \$8.1 million or 46% compared with last year. However, the results in both years were affected by significant (or unusual) items: the 2004/05 year results were boosted by profits of \$3.6 million from property sales, whereas in 2005/06 non-trading losses of \$3.3 million detracted from results. A better understanding of underlying performance can be gained from comparing consolidated net profit before interest, tax and significant items - \$22.8 million in 2005/06 and \$22.7 million in the previous year.

Nevertheless, the overall result was very disappointing. While the Automotive business unit produced a steady sales result compared to 2004/05, profitability was affected by cost pressures. Sales for the divisions within the Industrial business unit also were in excess of the previous year, largely on the strength of the resources and building sectors in Western Australia and Queensland, but higher expenses led to an under budget performance. The contribution of Hylton Parker Fasteners to the Group result was impacted by the weakness of the New Zealand dollar. The profit result for the Gaskets business unit was below last year largely due to a soft automotive market while the Bitumen business recorded a steady profit.

The progressive roll-out of a new information technology platform across the Group has had a temporary adverse

effect on sales in the Fasteners divisions as they were converted to the new system. Implementation costs of the system, together with major upgrades of IT systems have added to head office costs during the year.

Full details of the business units performance are covered in the Chief Executive Officer's review of operations.

### Dividend

The directors have declared a fully franked final dividend of 17 cents per share (18 cents last year) to be paid on 12 October, 2006. The Dividend Reinvestment Plan will be available for this dividend, with a discount of 5%, and will be fully underwritten so that the dividend will flow back to the Company as fully paid shares.

Together with the fully franked interim dividend of 18 cents per share the total for the year is 35 cents. While this represents a payout ratio of 134% of the Group's after tax profit, your directors on this occasion have decided to base the dividends on after tax profits before significant items, taking advantage of undistributed profits and the Company's surplus franking credits.

### Strategy

As announced in November 2005, the Company has acquired Cornall Group and Howard Silvers Hardware for a combined purchase price of \$16.2 million. These businesses are principally engaged in importing and distributing hardware, components and finished products for the domestic and commercial furniture, cabinet making, joinery and shop fitting industries. They operate in the 5 mainland states and New Zealand and will form a new specialised division within the Industrial

business unit. Further growth and acquisition opportunities will be pursued in this sector.

We were disappointed to have to announce the exit of our automotive business in New South Wales – the bulk has been sold to Burson Automotive effective 1 September and the remainder closed down. Net cost after tax of the closure was \$1.4 million in 2005/06. Strenuous efforts have been made to make Coventry Auto Parts (CAP) in New South Wales profitable, but it was apparent that a further large investment would be required to develop a much larger branch network and the Company does not believe adequate returns would be available. CAP (Queensland) which has a larger branch network and better prospects will not be affected by this closure.

Introduction of the new IT system is progressing but as mentioned earlier there have been some short term issues with implementation which have adversely affected sales and customer service. Once fully implemented the new system will provide significant efficiencies in stock control and customer service.

Construction of the new distribution centre for Coventrys and Group offices at Redcliffe is proceeding well and we expect occupation in April, 2007. While the move to the new premises could lead to short term disruption of some business in Western Australia, efficiency in warehousing and distribution should be greatly enhanced.

## Corporate Governance

A Board evaluation process was conducted during the year. Some areas for improvement and change were

identified and have been implemented, but the functioning of the board has shown consistent improvement.

As required by the Company's constitution, one third of the non-executive directors must retire by rotation each year. As the longest serving director since last being re-elected, I retire and will not seek re-election. Mr Joe Boros will also retire but is eligible for re-election at the forthcoming Annual General Meeting (AGM). He has put himself forward and is recommended by the remaining Board members for re-election.

In accordance with agreed arrangements for phased retirement of directors, Cliff Kyle retires at the 2006 AGM after serving 16 years as an executive/non-executive director. As already announced I will be retiring after the AGM and will be succeeded as Chairman by Roger Flynn. The board has decided to operate with a reduced number of directors in future – 5, including the Managing Director.

## Acknowledgements

This has been a challenging year, with the Company committed to major systems changes but also facing a difficult and competitive market place in all of our areas of business. These changes were unavoidable and will underpin stronger performance in the future. On behalf of the directors I acknowledge the outstanding efforts of Chris Glenn and his executives and all of our management and employees.

I also acknowledge and thank Cliff Kyle for his long service and contribution to the Company as an executive, an executive director and as a non-executive director over the past 27 years. Cliff's

grandfather, Mr Ron Kyle, was a founder of the Company and his family are still significant shareholders.

As this is my last "Chairman's Report" I record my great appreciation of the support I have received from the Chief Executive Officer and senior executives and in particular my fellow directors. I also thank the shareholders for the confidence they have shown in allowing me to serve as a director of Coventry Group Ltd. There have been many changes in my 5 years as Chairman, and some are still in train. These changes are critical to the future success of the Company and I hope that the patience of shareholders will be well rewarded in the future.



Warwick Kent AO  
Chairman



Chris Glenn

## Chief Executive Officer's Operations Review

### Business Performance

Sales revenue of \$502 million was up 6.6% on the previous year with most of this growth coming from the Industrial business unit. The profit before interest, tax and significant items was steady at \$22.8 million.

The 2 one-off significant items were the sale and closure costs of \$1.4 million after tax for Coventry Auto Parts (CAP) New South Wales and a \$1.5million write down of goodwill for CAP Queensland following a review of the carrying value as required under the new Australian Equivalents to International Financial Reporting Standards (AIFRS). Additionally there were non-cash expenses adjustments of \$1 million for fair value inventory adjustments for the acquisitions of Cornall Group, Howard Silvers Hardware and Am-Tech Fastenings and Components.

The 2005/06 financial year has been one of transition for the Company with the Automotive business unit undergoing further restructuring, the commencement of the implementation of the new Oracle IT system and the acquisition of the Cornall Group and Howard Silvers Hardware businesses. The restructuring along with a softer automotive market have contributed to the lower profit.

Trading conditions throughout the year have been challenging especially outside the resource states of Western Australia and Queensland. New Zealand, South Australia and New South Wales have been particularly soft.

Earnings per share (basic) for the year was 26.1 cents compared to 48.9 cents for the prior year.

The Group's operating expenses increased 9.4% to \$163.3 million. This increase was mainly attributable to higher IT costs associated with the introduction of a new Oracle system across the Group, the impact of acquired businesses and a rise in occupancy costs relating to the lease back of the Morley site in Western Australia that was sold in the prior year. Operating expenses as a percentage of revenue increased slightly to 32.5%.

The key factors which impacted the Group's results from a business unit perspective were:

- an improvement in revenue from the Industrial products business unit due to acquisitions during the 2005/06 financial year and strong performances by the fastener divisions in Western Australia and Queensland. The fluid systems division also achieved strong trading results. However, overall profitability was down on the prior year due to the competitive environments in New South Wales, South Australia and a weaker New Zealand economy.
- the Automotive business unit recorded a fall in profit due to losses incurred with disposal of the New South Wales operations and adjustments required to the carrying value of goodwill under the new accounting requirements. The flat revenue result was attributable to the soft trading environment for the automotive sector which was adversely impacted by rising petrol prices and increasing interest rates.
- The Bitumen and Gaskets businesses had difficult trading conditions with Bitumen having to manage higher input costs and Gaskets operating in a soft automotive market where its major customers were reducing inventory.

### Gearing and Cash Flow

The following table shows that the Group's gearing increased significantly during the 2005/06 financial year.

	Year Ended 30.06.06	Year Ended 30.06.05
Operating Cash Flow (\$M)	2.1	12.5
Closing Net Interest Bearing Debt (\$M)	76.4	14.0
Net Debt/Equity (%)	45.9	8.3
Interest Cover (times)	7.1	14.2

The increased debt levels were due to the funding of 3 acquisitions and commencement of the roll-out of the new IT system and the payment of a special dividend in July 2005. The fall in operating cash flow from the prior year was mainly due to the initial working capital requirements for the businesses acquired during the 2005/06 financial year.



## Strategic Direction

The Coventry Group's objective is to provide a strong return on capital by operating as a diversified distribution and service company to industrial, automotive and other technical based markets. To achieve this goal we need to be a strong player with a strong brand in each of our chosen market sectors.

Our focus is on customer and product sectors where we are able to provide a differential product and service that our customers value and demand.

The specific short-term strategies are to significantly improve the Automotive business unit performance, to grow the divisions within the Industrial business unit by both organic sales and acquisition and to leverage the core competencies of the Company across all business units.

The leveraging of the Group's new Oracle IT system will enable an improvement in business processes with the cost of the system to be spread across the Company.

## Acquisitions and Divestments

The New South Wales automotive business, which had sales of \$13 million, closed 1 branch and the distribution centre with 5 branches being sold to Burson Automotive. The cost of the sale and closure of this business was \$1.4 million after tax and should release \$4 million in capital. The sale of this business was completed in September 2006.

During the 2005/06 financial year Coventry Group entered the cabinet hardware market with the purchase of 2 businesses in this sector, Cornall Group and Howard Silvers Hardware. The strategy behind these acquisitions is that the market is similar to our Fastener divisions, there is some product and customer overlap and it is a specialist distribution business.

In December 2005 the Cornall Group business was acquired. Cornall distributes a range of cabinet hardware, office chair and café furniture products to the cabinet and furniture market. Cornall has revenue of \$25 million.

In January 2006 the Howard Silvers Hardware business was purchased from ITW, a US multinational corporation.

Howard Silvers Hardware is a specialist distributor of cabinet hardware to the kitchen and furniture manufacturing market and has revenue of \$13 million.

The Group will continue to selectively review business operations and to actively pursue acquisitions where our return on capital hurdles can be exceeded and where there is a fit with the overall Company strategy.

## Information Systems

The major project of implementing the Oracle IT system across the Company is well advanced with the key pilot sites complete and the roll-out program underway. By the end of the 2006 calendar year, over 50% of the Company's revenue will be on Oracle and by July 2007, the roll-out is planned to be complete. This project is the number one initiative in the Company at present and has challenged the organisation in both technical terms and our ability to adapt to change. There have been issues with the implementation which have slowed the project down and interrupted the business. We are now at a point in the project where the system will roll-out in the same configuration.

On the completion of the Oracle roll-out program there will be significant opportunities to leverage the system for process improvement especially in the area of inventory management.

## People

There is a continuing focus on the Coventry Group team with the key areas being occupational health and safety, recruitment, retention and training and development.

Significant attention to occupational health issues across the Group over the last few years has delivered some outstanding results. The Company's lost time injury frequency ratio (LTIIR) has dropped 46% over the last 3 years to an LTIIR of 1.6% which is better than industry best practice benchmarks. We will continue to focus in his area.

Staff turnover has again been a challenge over the last 12 months with a buoyant labour market especially in Western Australia and Queensland. To address this issue we have had to continue to

provide competitive salaries along with opportunities for development. The recruitment process has also continued to focus on people who have the required skills and capability to stay and grow with the business.

Training and development of staff has been ongoing especially with the Oracle implementation requiring significant training time. Additionally front line leadership and change management has been a key focus area for the Company.

There have been a number of management changes during the year with Don Beisley appointed as Group General Manager to lead the Automotive business unit. In addition a new management structure has been put in place for fluid systems, cabinet and furniture hardware and fastener divisions of the Industrial products business unit. The Group's management team has strengthened significantly over the past 12 months.

## Outlook

General market conditions over the next year are expected to be similar to the previous twelve months however a better performance is expected in the year ahead.

The Group expects business growth in the industrial market. The industrial products business unit should benefit from stronger management depth and the new initiatives to improve business efficiency introduced in the past year.

Soft market conditions for the automotive market are expected to continue due to the impact of high fuel prices and rising interest rates on household disposable income. The automotive parts business unit is anticipated to perform significantly better with the closure and sale of the New South Wales operations and improvements in the other operating regions following restructuring efforts in the past year. The Group expects the bitumen and gaskets business units to achieve steady results.

The two biggest initiatives over the next year are completing the roll-out of the new Oracle IT system and the move of the Western Australian automotive warehouse and Group headquarters to a new site at Redcliffe.



## Industrial Products Distribution

Revenue for the industrial products business unit increased 13.2% to \$202 million. The business unit's profit before interest and tax was up 2.2% on the prior year, before deducting non-cash acquisition adjustments of \$1.4 million in the current year. During the period in review the business unit acquired the Am-Tech Fastenings and Components business in New Zealand (July 2005). Cornall Group (December 2005) and Howard Silvers Hardware (January 2006) were also acquired to establish a new cabinet and furniture hardware division and presents a substantial opportunity for profitable growth in the future.

The acquisitions and strong performance by the fastener divisions in Western Australia and Queensland contributed to the improved sales results. The fluid

systems division also achieved a significantly improved trading result compared to the prior year as a consequence of a buoyant mining sector.

The overall profitability of the fastener division was down on the prior year due to more competitive market conditions, particularly in New South Wales, Victoria and South Australia. The weaker New Zealand economy and exchange rate also resulted in a lower



contribution from Hylton Parker Fasteners.

During the year the fastener divisions in Victoria and Queensland relocated to new distribution centres. This should provide improved business efficiencies. In addition, greenfield expansion was undertaken with 4 new branches established – Mandurah (WA), Parafield (SA), Moonah (Tas) and New Plymouth (NZ).

As mentioned previously, roll out of the new Oracle IT system has commenced and a number of fastener divisions were the first to be converted. While the new system is expected to provide significant improvements in business processes, revenue for the fastener division was adversely impacted during the “phasing in” stage.

It is anticipated that strong economic conditions in Western Australia and Queensland will continue to provide impetus for major resource project activity. The revised business and management structures will drive various business improvements and further benefits from supply chain initiatives should place all divisions in a strong position in their respective markets and are expected to grow over the next few years.







During the year in review the automotive business unit has undergone significant restructuring following the appointment of a new General Manager. A number of key strategic initiatives aimed at improving the revenue and overall performance of the business unit have been identified. Implementation of some of the initiatives have already commenced and they address critical operational issues such as inventory management, product sourcing, sales management, branding and operational costs. The restructure also resulted in the sale and closure of the New South Wales automotive operations. The automotive business now has a solid base for the future.

## Automotive Parts Distribution

Revenue for the automotive parts business unit increased 2% to \$278 million. Profit before interest and tax decreased by 16% before deducting significant items and non-cash acquisition adjustments for the prior comparative period. The lower profit this year was a result of difficult trading conditions for the automotive sector due to rising petrol prices and interest rates having a negative impact. In addition, the significant items before tax included exit costs totalling \$1.9 million on the sale and closure of the New South Wales automotive operations announced in June and an impairment loss on the carrying value of goodwill of \$1.5 million.

The business unit's divisions in South Australia (Motor Traders) and Northern Territory (Independent Motor Mart)

recorded improved profit results on the prior year. Operations in New South Wales and Queensland (Coventry Auto Parts) recorded losses totalling \$5.2 million (2005 - \$5.9 million) before the significant items described above. The WA division (Coventrys) achieved a steady result in a soft market.





## Gasket Manufacturing

The Group's controlled entity, AA Gaskets Pty Ltd, recorded a consolidated profit before interest and tax of \$1.5 million compared to \$1.9 million in the prior year. Revenue decreased by 8% to \$11.4 million due to the reduction of inventory levels by a number of key customers. This was a direct consequence of softer trading conditions in the automotive parts market.

Continued improvements in production processes and warehouse planning resulted in better efficiencies and reduced operating costs for the year. An expansion of the product range and the release of an industry leading electronic catalogue are some of the initiatives that the gaskets business unit undertook during the year.

It is anticipated that the gasket activities will achieve similar operating results in the coming year while continuing to operate in a soft trading environment.



## Bitumen Products

The Group's bitumen business unit recorded a steady profit before interest and tax of \$1.2 million. Revenue increased 12.7% to \$16.9 million. Hot Mix's asphalt operations achieved improved sales following the successful tenders for local council contracts. Bitumen Emulsion's spray and cover activities experienced below budget results due to a lower demand for emulsions. While overall sales improved during the period in review, the business unit's profit result was adversely impacted by the continuing increases in oil prices, transport and labour costs.

During the year Hot Mix achieved the milestone of conducting business for 50 years in the Perth asphalt contracting market.

It is expected that for the coming year revenue will continue to grow though production costs, particularly oil prices, will keep the business unit's profitability relatively steady.



## Board of Directors

### Warwick Gordon Kent AO

Cit. WA, B.Ec, FCPA, FCIS, FAICD  
Independent non-executive Chairman  
Chairman of nomination committee  
age 70

Mr. Kent was appointed a director in July 2001 and became Chairman of the Company in November 2001. He is a former senior executive of Westpac Banking Corporation and was Managing Director and Deputy Chairman of Bank of Western Australia Limited (BankWest) for 8 years until his retirement in 1997. He is Chairman of West Australian Newspapers Holdings Limited and is a director of Commonwealth Bank of Australia. He is a former director of Perpetual Trustees Australia Limited, SGIO Insurance Ltd and Colonial Limited. Mr. Kent is a past President of WA Division of the Australian Institute of Company Directors.

Other listed company directorships held during the past 3 financial years:

	<u>From</u>	<u>To</u>
Commonwealth Bank of Australia	13.06.2000	current
West Australian Newspapers Holdings Limited	06.02.1998	current
Perpetual Trustees Australia Limited	01.05.1998	31.07.2005



### Christopher James Glenn

Dip. App. Sc, Grad. Dip. Mkting,  
MBA, GAICD  
Chief Executive Officer and Managing Director  
age 48

Mr. Glenn was appointed as chief executive officer and managing director of the Company in February 2003. He had held a number of senior executive positions with large international organisations and brings a wealth of experience to the Group in marketing and distribution as well as strong operational skills. His previous position was that of General Manager Fire and Safety at Tyco International in Sydney. Other positions have included General Manager Security Services at Tyco International.

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



### Joseph Boros

FCPA, FAICD  
Independent non-executive director  
Member of the audit and risk committee  
age 61

Mr. Boros was appointed a director of the Company in March 2004. He has had 40 years experience in the hardware and building industry in financial and general management roles.

Mr. Boros was Managing Director of the Alco Group when it was acquired by Bunnings in 1990 and was then appointed Managing Director of Bunnings Building Supplies to merge the two businesses. He was also appointed a Director of the parent company, Bunnings Ltd, a listed public company at that time up until its acquisition by Wesfarmers.

During his 13 year term as head of Bunnings, the business grew from a WA, state based enterprise to a national operation with a turnover exceeding \$3 billion and employing 20,000 staff.

Mr. Boros is a former director of the Chamber of Commerce and Industry of Western Australia and was a representative of the Retail Shops Advisory Committee.

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



### Roger Baden Flynn

B.Eng (Hons), MBA, FIE (Aust)  
Independent non-executive  
director  
Member of remuneration committee  
Member of nomination committee  
age 56



Mr. Flynn was appointed a director of the Company in October 2001. Mr. Flynn has had broad senior management experience in primarily metal based industries in the US, Australia and Asia and has worked for BHP and Alcoa. He was General Manager of Pacific Dunlop's Olex Australia cable division and Managing Director of Siddons Ramset Limited for 7 years until 1999. He is also a director of Hills Industries Limited. He is a former director of Wattyl Limited, Longreach Group Ltd (formerly Hartec Ltd) and Ion Limited (Administrator Appointed) and has had board experience on 6 listed companies. Mr. Flynn resides in Melbourne.

Other listed company directorships held during the past 3 financial years:

	<u>From</u>	<u>To</u>
Hills Industries Limited	23.11.1999	current
Longreach Group Ltd (formerly Hartec Ltd)	28.06.2000	02.09.2004
Wattyl Limited	06.02.1997	31.12.2004
Ion Limited (Administrator Appointed)	16.08.2004	03.08.2005

### Clifford Maxwell Kyle

B.Com, DIPCM, FCIS, FAICD  
Non-executive director  
Member of audit and risk committee  
age 50



Mr. Kyle joined the Company in 1979 and was appointed a director in 1990. Whilst an employee of the Company he was a senior executive with responsibilities in accounting, corporate services and administration until his resignation in December 1998.

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

### Ross Malcolm McLean AM

B.Ec (Hons)  
Independent non-executive director  
Chairman of remuneration  
committee  
Member of nomination committee  
age 62



Mr. McLean was appointed a director in 1995. He is currently Deputy Chief Executive of the Chamber of Commerce and Industry of Western Australia.

He is also a director of Westscheme Pty Ltd, CCI Training Services Pty Ltd and a board member of the West Australian Cricket Association. Mr. McLean's past experience includes as a director of the Australian Broadcasting Corporation, Chairman of the WA Government's Trade Advisory Council, a Member of the State Government Economic Strategies Council and the Senate of Murdoch University.

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

### Barry Frederick Nazer

BBus, FCPA, FFin, ANZIIF (Fellow),  
FAICD  
Independent non-executive director  
Chairman of audit and risk  
committee  
age 58



Mr. Nazer was appointed as a director of the Company in September 2003. He is currently Chief Financial Officer of Wesbeam Holdings Limited, an unlisted public company which operates a laminated veneer lumber manufacturing facility.

He was Chief Financial Officer and Company Secretary of WESFI Limited, a major engineered wood products manufacturer and distributor, from August 1999 until its sale in 2001. He previously spent over 10 years at the executive level of Western Australia's largest financial institution, Bank of Western Australia Limited (BankWest), including almost 9 years as Chief Financial Officer.

Mr. Nazer's past experience includes as a director of a public company involved in the development of treasury and risk management software for financial institutions and corporate treasuries and as a member of Curtin University's Business School Advisory Council.

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

# Financial Report for the year ended 30 June 2006

## Contents

	Page		Page
Directors' Report (including Remuneration Report on pages 16 to 23)	14	12. Current tax assets and liabilities	51
Statement of Corporate Governance Practices	26	13. Investments	51
Income Statements	34	14. Deferred tax assets and liabilities	52
Statements of Changes in Equity	35	15. Property, plant and equipment	54
Balance Sheets	36	16. Intangible assets	56
Statements of Cash Flows	37	17. Trade and other payables	59
Notes to the consolidated financial statements		18. Interest-bearing loans and borrowings	59
1. Significant accounting policies	38	19. Share based payments	60
2. Segment reporting	45	20. Provisions	61
3. Other income	48	21. Capital and reserves	62
4. Individually material items included in profit before tax	48	22. Financial instruments	65
5. Auditors' remuneration	48	23. Operating leases	67
6. Net financing costs	49	24. Capital and other commitments	68
7. Income tax expense	49	25. Contingent liabilities not considered remote	68
8. Earnings per share	50	26. Deed of cross guarantee	68
9. Cash and cash equivalents	50	27. Controlled entities	70
10. Trade and other receivables	51	28. Acquisitions of operations	70
11. Inventories	51	29. Reconciliation of cash flows from operating activities	71
		30. Key management personnel disclosures	72
		31. Related parties	74
		32. Subsequent events	74
		33. Explanation of transition to AIFRSs	74
		34. Change in accounting policy	80
		Directors' declaration	81



# Directors' Report

## 1. DIRECTORS

The directors present their report together with the financial statements of Coventry Group Ltd (the Company) and its controlled entities for the year ended 30 June 2006.

### Information on Directors

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

#### *Independent, non-executive directors*

Warwick Gordon Kent, AO – Chairman

Joseph Boros

Roger Baden Flynn

Peter Arthur Kyle, AM (resigned 8 November 2005)

Ross Malcolm McLean, AM

Barry Frederick Nazer

#### *Non-executive director*

Clifford Maxwell Kyle

#### *Executive director*

Christopher James Glenn – Managing Director and Chief Executive Officer

Particulars of their qualifications, experience and special responsibilities are set out on pages 11 and 12 of the Annual Report.

### Directors' Interests

As at the date of this report particulars of the relevant interest of each director in the shares and rights over shares of the Company are as follows:

	Number of Ordinary Shares	Number of Rights Over Ordinary Shares
W G Kent	37,438	-
J Boros	12,000	-
C J Glenn	9,174	124,666
R B Flynn	15,201	-
C M Kyle	1,563,020	-
R M McLean	28,465	-
B F Nazer	25,000	-

During the 2005/06 financial year and as at the date of this report no director has declared any interest in a contract or proposed contract with the Company, the nature of which would be required to be reported in accordance with subsection 300(11)(d) of the Corporations Act 2001, except as follows:

Mr C J Glenn has a service contract with the Company dated 26 November 2002 and amended on 22 December 2003 which entitles him to benefits and the right to shares in the Company as disclosed in item 10.7 of this report (Remuneration Report) and in Notes 19 and 30 to the financial statements.

### Directors' Meetings

The following table sets out the number of meetings of the Company's board of directors and each board committee, held during the year ended 30 June 2006, and the number of meetings attended by each director.

	Board of Directors		Audit & Risk Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W G Kent	12	12	2	2	4	4	1	1
J Boros	12	11	4	4	-	-	-	-
C J Glenn	12	12	-	-	-	-	-	-
R B Flynn	12	12	-	-	5	5	1	1
C M Kyle	12	12	4	4	1	1	-	-
P A Kyle	5	5	2	2	-	-	-	-
R M McLean	12	12	-	-	5	5	1	1
B F Nazer	12	12	4	4	-	-	-	-

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



# Directors' Report (continued)

## 2. PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were:

### Automotive Parts

- distribution and marketing of automotive parts and accessories, tools and workshop equipment; mining and general industrial consumables; specialised transport and heavy haulage products.

### Industrial Products

- distribution and marketing of industrial and construction fasteners including bolts, nuts and screws; general industrial products.
- distribution, design and installation of lubrication and hydraulic fluid systems, hose and fittings products.
- importation, distribution and marketing of hardware, components and finished products to the domestic and commercial furniture, cabinet making, joinery and shop fitting industries; office chair components.

### Bitumen Products

- manufacture and application of asphalt.
- road profiling and maintenance.
- manufacture and spraying of bituminous products for road construction and environmental protection.
- treatment of recreational and coloured surfaces.

### Gasket Manufacturing

- manufacturing and distribution of automotive and industrial gaskets.

## 3. CONSOLIDATED RESULTS

Results of the consolidated entity for the year ended 30 June 2006 were as follows:

<i>In thousands of AUD</i>	2006	2005
Revenue from sale of goods	501,974	470,788
Profit before tax	14,687	24,103
Income tax expense	5,046	6,402
Profit for the year	9,641	17,701
Profit for the year attributable to members of Coventry Group Ltd	9,337	17,310
Profit for the year attributable to minority interest	304	391

## 4. DIVIDENDS

The directors have declared a final dividend of 17 cents, fully franked, for each ordinary share for the year ended 30 June 2006. The record date for the dividend is 19 September 2006 and it will be paid on 12 October 2006.

An interim dividend of 18 cents, fully franked, for each ordinary share was declared by the directors on 28 February 2006 and paid on 23 March 2006.

The payment of the final dividend will bring the total dividend on ordinary shares to 35 cents for each share for the year ended 30 June 2006.

For the year ended 30 June 2005 the final dividend of 18 cents for each ordinary share referred to in the Directors' Report dated 22 August 2005 was paid on 23 September 2005.

## 5. REVIEW OF OPERATIONS AND RESULTS

A review of the consolidated entity's operations for the financial year and the results of those operations are contained in pages 1 to 10 of the Annual Report and in particular in the Chief Executive's review section.

## 6. EARNINGS PER SHARE

Earnings per share (basic) for the year ended 30 June 2006 was 26.1 cents. This compares to 48.9 cents for the previous year.

## 7. SIGNIFICANT CHANGE IN THE COMPANY'S AFFAIRS

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

## Directors' Report (continued)

### 8. EVENTS SUBSEQUENT TO REPORTING DATE

The directors are not aware of any matter or circumstance having arisen since the end of the financial year and the date of this report that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations;
- (b) the results of those operations; or
- (c) the consolidated entity's state of affairs

in future years.

### 9. LIKELY DEVELOPMENTS

The consolidated entity will continue to evaluate and look for opportunities to grow its business. It will actively pursue strategic acquisitions if they fit with the core business of the consolidated entity and have the potential to increase and maximise shareholder wealth.

In the opinion of directors it would be prejudicial to the consolidated entity's interests if any further information on likely developments and expected results of operations was included in this report.

### 10. REMUNERATION REPORT

Remuneration is referred to as compensation throughout this remuneration report.

#### 10.1 Key Management Personnel (KMP) - audited

KMP have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity. The KMP include the directors and the 5 highest paid executive officers (as referred to in Section 300A of the Corporations Act 2001) for the Company and the consolidated entity.

The following were KMP of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

#### *Non-executive directors*

W G Kent, AO (Chairman)  
J Boros  
R B Flynn  
C M Kyle  
P A Kyle, AM (resigned 8 November 2005)  
R M McLean, AM  
B F Nazer

#### *Executives*

V Scidone, Group General Manager - Industrial  
D J Beisley, Group General Manager – Automotive (appointed 31 August 2005)  
S A Cooper, Chief Financial Officer  
J S Furness, Chief Information Officer  
J Colli, Company Secretary

#### *Executive director*

C J Glenn (Chief Executive Officer and Managing Director)

#### 10.2 Principles used to determine the nature and amount of compensation - audited

##### *Non-executive directors*

Fees paid to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Remuneration Committee. The Remuneration Committee also seeks the advice of independent remuneration consultants to ensure non-executive directors' fees are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparable roles in the external market. Non-executive directors do not receive any equity-based compensation.

##### *Directors' fees*

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

## Directors' Report (continued)

### 10. REMUNERATION REPORT (continued)

#### 10.2 Principles used to determine the nature and amount of compensation - audited (continued)

For the year ended 30 June 2006 the Board determined that non-executive directors fees be allocated as follows (does not include statutory superannuation contributions):

Chairman (base fee)	\$110,250
Non-executive Directors (base fee)	\$54,600
Interstate Non-executive Director (base fee)	\$65,625
Chairman of Audit & Risk Committee (in addition to base fee)	\$10,500
Chairman of Remuneration Committee (in addition to base fee)	\$7,875

#### *Executive pay*

The objective of the Company's executive reward framework is to ensure that rewards properly reflect duties and responsibilities, are competitive in retaining and motivating people of high calibre, and are appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The framework provides a mix of fixed and variable pay, and has 3 components as follows:

- Base pay and benefits, including superannuation ("fixed annual compensation");
- Short-term performance incentives; and
- Long-term performance incentives.

The combination of these comprises the executive's total compensation.

#### *Fixed annual compensation*

Fixed annual compensation is structured as a total employment cost package which is delivered as a mix of cash and prescribed non-cash benefits partly at the executive's discretion. Fixed annual compensation for senior executives is reviewed annually by the Remuneration Committee to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion. There are no guaranteed fixed annual compensation increases set in any senior executive's contract.

The non-cash benefits received as part of fixed annual compensation include the provision of a fully maintained motor vehicle and contributions to accumulation based superannuation funds.

#### *Performance linked compensation*

##### Short-term incentives

Short-term cash incentives of up to 25% of fixed annual compensation (for the Managing Director, 35% of base salary) are payable to the senior executives upon the achievement of various annual performance targets, which currently include net profit after tax, return on equity, budget earnings before interest and tax, return on capital employed (for certain executives on a consolidated basis and for others on a business unit basis) and personal goals. Such targets ensure that incentives are principally paid when value has been created for shareholders and when profit is consistent with the budget.

Each year the Remuneration Committee considers the appropriate targets and maximum payouts under the short-term incentive plan for recommendation to the Board. Incentive payments may be adjusted up or down by the Board in line with the degree of achievement against target performance levels.

##### Long-term incentives

Long-term incentives are provided through the Company's executive long-term incentive plan ("ELTIP"), which was approved at the annual general meeting on 5 November 2003. It provides for eligible executives (currently 8, including the Managing Director) to receive fully paid ordinary shares in the Company, upon achieving performance criteria set by the Board. Under the plan, eligible executives are offered ordinary shares worth up to 25% of fixed annual compensation as at the start of the performance period, which will only vest upon the achievement of certain performance criteria.

During the period under review, the Board determined to amend the Managing Director's long term incentive arrangements, whereby offers of ordinary shares for performance periods commencing on 1 July 2006 would be determined by reference to 35% of his fixed annual compensation. The Board considered the revised arrangement to be within acceptable market expectations. The revised arrangements for the Managing Director are subject to shareholder approval which will be sought at the 2006 Annual General Meeting to be held in November 2006.

Offers have been made in respect of the 3 year performance period commencing on 1 July 2003 ("the 2003 Offer"), on 1 July 2004 ("the 2004 Offer") and on 1 July 2005 ("the 2005 Offer").

# Directors' Report (continued)

## 10. REMUNERATION REPORT (continued)

### 10.2 Principles used to determine the nature and amount of compensation - audited (continued)

The performance criteria for the 2003, 2004 and 2005 Offers under the ELTIP are as follows:

- One half of the offered shares will vest to the participant upon the achievement of a threshold earnings per share ("EPS") growth hurdle over the relevant 3 year performance period. The offered shares will be vested in differing amounts depending on the percentage growth in EPS in excess of the threshold level over the 3 year period being cumulative \$1.269 EPS for the 2003 Offer, cumulative \$1.548 EPS for the 2004 Offer and cumulative \$1.675 for the 2005 Offer, with all of the offered shares under these hurdles vested once an additional 10% growth in EPS over and above the threshold levels has been achieved; and
- One half of the offered shares for the 2003 and 2004 Offers will vest to the participant upon the achievement of a relative total shareholder return ("TSR") hurdle over the relevant 3 year performance period. The offered shares will be vested in differing amounts depending on the Company's TSR performance over the relevant 3 year performance period compared to the TSR performance of the companies comprising the S&P/ASX Small Industrials Index at the start of the relevant performance period ("Comparator Group"). No offered shares, under this hurdle, will vest under the 2003 and 2004 Offers unless the Company's TSR performance is at least equal to the TSR performance of the company which is at the 50th percentile of the Comparator Group ranked by TSR. All offered shares under this hurdle in the 2003 Offer will vest if the Company's TSR over the three years is equal to or greater than the TSR performance of the company which is at the 60th percentile of the Comparator Group ranked by TSR. All offered shares under this hurdle in the 2004 Offer will be vested if the Company's TSR over the three years is equal to or greater than the TSR performance of the company which is at the 75th percentile of the Comparator Group ranked by TSR.

Offered shares under the 2005 Offer are subject to the achievement of a return on equity ("ROE") hurdle over the relevant 3 year performance period. Under the ROE hurdle all offered shares in the 2005 Offer will be vested if a ROE target of at least 12% is attained as at the end of the 2007/08 financial year.

Shares vested under the ELTIP will rank equally with all other existing ordinary shares in all respects, including having full dividend and voting rights.

The EPS, TSR and ROE performance hurdles were chosen to ensure that key management personnel are only rewarded when shareholder wealth is increased.

The Remuneration Committee considers the audited financial results of the consolidated entity and seeks external advice from human resources consultants in assessing the extent to which the performance hurdles have been satisfied.

#### *Consequences of performance on shareholders wealth*

In considering the consolidated entity's performance and benefits for shareholders wealth, the Remuneration Committee have regard to the following measures in respect of the current financial year and the previous four financial years.

	2006	2005	2004	2003	2002
	\$	\$	\$	\$	\$
Net profit attributable to equity holders of the parent	9,337,000	16,556,000	14,800,000	10,767,000	4,536,000
Dividends paid	23,510,000	12,704,000	11,091,000	8,844,000	21,099,000
Change in share price	(1.60)	0.08	0.77	1.48	(0.28)

Net profit is considered as one of the financial performance targets in setting the short term incentives. Net profit amounts for years 2002 to 2005 were calculated in accordance with previous Australian GAAP. Net profit amount for 2006 has been calculated in accordance with Australian equivalents to IFRS (AIFRS). For impact on net profit of transition to AIFRS see Note 33 to financial statements. Dividends and changes in share price are included in the TSR calculation which is one of the performance criteria assessed for the long term incentives. For the 2005 Offer for the long term incentives, return on equity has been used as one of the performance criteria as it is considered to be consistent with growth in shareholder wealth. The other performance criteria assessed for the LTI is growth in earnings per share, which again takes into account the consolidated entity's profit.



## Directors' Report (continued)

### 10. REMUNERATION REPORT (continued)

#### 10.3 Details of compensation - audited

The following table provides the details of the nature and amount of elements of compensation for the directors and the key management personnel of the Company and the consolidated entity for the year ended 30 June 2006.

*Key management personnel of Coventry Group Ltd*

	Short-term Benefits			Post Employment Benefits	Other Long-term Benefits	Share-based Payment		
	Cash Salary and Fees \$	STI Cash Bonus \$	Non-monetary Benefits \$	Super-annuation <sup>(i)</sup> \$	Long Service Leave Provision \$	Value of ELTIP shares \$	Total \$	Proportion of compensation performance related %
Name								
<i>Non-executive Directors</i>								
WG Kent (Chairman)	110,250	-	-	4,961	-	-	115,211	-
J Boros	54,600	-	-	4,914	-	-	59,514	-
RB Flynn	53,648	-	-	17,883	-	-	71,531	-
CM Kyle	54,600	-	-	4,914	-	-	59,514	-
P Kyle <sup>(ii)</sup>	19,484	-	-	1,754	-	-	21,238	-
RM McLean	15,619	-	-	52,479	-	-	68,098	-
BF Nazer	48,825	-	-	22,134	-	-	70,959	-
Total	357,026	-	-	109,039	-	-	466,065	
<i>Executive Director</i>								
CJ Glenn	458,018	12,100	31,528	43,013	1,844	71,091	617,594	13.5
<i>Other key management personnel of the consolidated entity</i>								
V Scidone	322,193	14,191	28,569	28,275	14,038	43,113	450,379	12.7
SA Cooper	204,789	8,704	17,667	19,799	7,626	30,130	288,715	13.5
JS Furness	180,110	13,877	38,100	17,497	154	27,748	277,486	15.0
DJ Beisley <sup>(iii)</sup>	232,450	-	4,362	19,921	194	-	256,927	-
J Colli	152,971	2,204	12,087	14,365	5,519	23,622	210,768	12.3
Total	1,092,513	38,976	100,785	99,857	27,531	124,613	1,484,275	
<i>Total compensation key management personnel (Company and consolidated entity)</i>								
	1,907,557	51,076	132,313	251,909	29,375	195,704	2,567,934	

Premiums in respect of the Directors' and Officers' insurance policy are not included above, as the policy does not specify the premium paid in respect of individual directors and officers.

<sup>(i)</sup> includes statutory superannuation contributions and additional voluntary contributions in some cases.

<sup>(ii)</sup> resigned 8 November 2005.

<sup>(iii)</sup> appointed 31 August 2005.

## Directors' Report (continued)

### 10. REMUNERATION REPORT (continued)

#### 10.3 Details of compensation - audited (continued)

The following table provides the details of the nature and amount of elements of compensation for the directors and the key management personnel of the Company and the consolidated entity for the year ended 30 June 2005.

*Key management personnel of Coventry Group Ltd*

Name	Short-term Benefits			Post Employment Benefits	Other Long-term Benefits	Share-based Payment	Total	Proportion of compensation performance related %
	Cash Salary and Fees \$	STI Cash Bonus \$	Non-monetary Benefits \$	Super-annuation <sup>(i)</sup> \$	Long Service Leave Provision \$	Value of ELTIP shares \$		
<i>Non-executive Directors</i>								
WG Kent (Chairman)	105,000	-	-	9,450	-	-	114,450	-
J Boros	52,000	-	-	4,680	-	-	56,680	-
RB Flynn	66,719	-	-	1,125	-	-	67,844	-
CM Kyle	52,000	-	-	4,680	-	-	56,680	-
P Kyle	56,167	-	-	5,055	-	-	61,222	-
RM McLean	59,500	-	-	5,355	-	-	64,855	-
BF Nazer	57,833	-	-	5,205	-	-	63,038	-
<b>Total</b>	<b>449,219</b>	<b>-</b>	<b>-</b>	<b>35,550</b>	<b>-</b>	<b>-</b>	<b>484,769</b>	
<i>Executive Director</i>								
CJ Glenn	434,395	90,590 <sup>(ii)</sup>	24,252	44,695	368	94,936	689,236	26.9
<i>Other key management personnel of the consolidated entity</i>								
V Scidone	274,294	16,733	21,963	30,422	10,918	57,819	412,149	18.1
DJ Fraser <sup>(iii)</sup>	487,544	2,285	33,127	14,282	-	46,212	583,450	8.3
SA Cooper	192,359	36,215	17,667	11,598	4,554	40,225	302,618	25.3
JS Furness	173,131	25,910	32,762	17,469	135	37,160	286,567	22.0
J Colli	146,448	28,844	20,383	11,585	3,415	31,659	242,334	25.0
<b>Total</b>	<b>1,273,776</b>	<b>109,987</b>	<b>125,902</b>	<b>85,356</b>	<b>19,022</b>	<b>213,075</b>	<b>1,827,118</b>	
<i>Total compensation key management personnel (Company and consolidated entity)</i>								
	<b>2,157,390</b>	<b>200,577</b>	<b>150,154</b>	<b>165,601</b>	<b>19,390</b>	<b>308,011</b>	<b>3,001,123</b>	

Premiums in respect of the Directors' and Officers' insurance policy are not included above, as the policy does not specify the premium paid in respect of individual directors and officers.

(i) includes statutory superannuation contributions and additional voluntary contributions in some cases.

(ii) includes \$42,690 in relation to the year ended 30 June 2004.

(iii) Mr Fraser ceased employment with the company on 27 May 2005 and received a payment in lieu of notice, pursuant to the terms of his employment contract, of \$278,585. This amount is included above under cash salary and fees.

## Directors' Report (continued)

### 10. REMUNERATION REPORT (continued)

#### 10.4 Value of Shares - audited

The fair value of services received in return for the offers of the ELTIP shares have been calculated at the date of grant using a Black-Scholes model incorporating the factors and assumptions detailed below. The fair value of the services is remeasured, having regard to non-market conditions only, at each balance sheet date and at settlement date.

Grant date	Expiry date	Fair value per share	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
1 July 2003	30 June 2006	\$3.96	\$0.01	\$4.95	24%	5.7%	7.4%
1 July 2004	30 June 2007	\$4.71	\$0.01	\$5.72	24%	5.4%	6.4%
26 June 2006	30 June 2008	\$3.52	\$0.01	\$4.20	25%	5.1%	8.6%

#### 10.5 Analysis of bonuses included in compensation - unaudited

Details of the vesting profile of the short term incentive cash bonuses awarded as compensation to each director and the key management personnel of the Company and consolidated entity are detailed below:

	Short Term Incentive Cash Bonus		
	included in compensation <sup>(i)</sup>	% vested in year	% forfeited in year
<i>Executive Director</i>			
CJ Glenn	12,100	7	93
<i>Other key management personnel of the consolidated entity</i>			
V Scidone	14,191	16	84
SA Cooper	8,704	14	86
JS Furness	13,877	25	75
DJ Beisley	-	-	-
J Colli	2,204	5	95

<sup>(i)</sup> these amounts have been accrued for the year ended 30 June 2006. The actual short term incentive bonus paid may differ as determined by the Remuneration Committee.

#### 10.6 Employment contracts - audited

Compensation and other terms of employment for the Managing Director and other key management personnel are formalised in employment contracts. Each contract deals with the provision of fixed annual compensation, short-term incentives, and long-term incentives. Other major provisions of the contracts relating to compensation are set out below:

CJ Glenn, Managing Director

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Board. The Company also pays for home telephone expenses.
- Subject to the achievement of agreed key performance indicators, an annual short-term incentive of up to 35% of base salary will be paid by the Company.
- For each financial year up to and including the year ended 30 June 2006, subject to the achievement of certain performance criteria over a 3 year period, a long-term incentive of a minimum of 25% of fixed annual compensation will be paid by the Company in the form of shares. From 1 July 2006, and subject to approval of shareholders at the 2006 Annual General Meeting, the long-term incentive will be 35% of fixed annual compensation.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- Other than for an act that may have a serious detrimental effect on the Company, such as wilful disobedience, fraud or misconduct, termination of employment requires 12 months notice by the Company.

V Scidone, Group General Manager – Industrial

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Remuneration Committee.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- Participation in short-term and long-term incentive plans is at the discretion of the Company.
- Other than for serious misconduct, termination of employment requires 6 months notice by the Company. Upon termination, for each year of service in excess of 5 years continuous service, the Company must pay an additional 2 weeks pay, up to a maximum of 26 weeks pay.

## Directors' Report (continued)

### 10. REMUNERATION REPORT (continued)

#### 10.6 *Employment contracts - audited (continued)*

SA Cooper, Chief Financial Officer

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Remuneration Committee.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- Participation in short-term and long-term incentive plans is at the discretion of the Company.
- Other than for serious misconduct, termination of employment requires 6 months notice by the Company. Upon termination, for each year of service in excess of 5 years continuous service, the Company must pay an additional 2 weeks pay, up to a maximum of 26 weeks pay.

JS Furness, Chief Information Officer

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Remuneration Committee.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- Participation in short-term and long-term incentive plans is at the discretion of the Company.
- Other than for serious misconduct, termination of employment requires 6 months notice by the Company. In the event of redundancy, the Company must pay an additional 4 weeks pay after 1 year of continuous service, with the redundancy payment obligation increasing progressively for each year of service up to a maximum of 52 weeks pay.

DJ Beisley, Group General Manager – Automotive

- Initial contract for a fixed term commenced 31 August 2005 to 31 December 2005 (subsequently extended to 31 July 2006) for the position of Business Consultant to the Company's Automotive Business Unit.
- New contract commenced 1 August 2006 for the position of Group General Manager – Automotive with the following key provisions:
  - Long service leave is payable by the Company in accordance with relevant state legislation.
  - Participation in short-term incentive plan is at the discretion of the Company.
  - Other than for serious misconduct, termination of employment requires 4 weeks notice by the Company.
  - The contract will be reviewed on 30 June 2007.

J Colli, Company Secretary

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Remuneration Committee.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- Participation in short-term and long-term incentive plans is at the discretion of the Company.
- Other than for serious misconduct, termination of employment requires 6 months notice by the Company. Upon termination, for each year of service in excess of 5 years continuous service, the Company must pay an additional 2 weeks pay, up to a maximum of 26 weeks pay.



## Directors' Report (continued)

### 10. REMUNERATION REPORT (continued)

#### 10.7 Rights over shares granted as compensation - audited

The movement during the reporting period in the number of rights over ordinary shares in the Company offered as compensation under the ELTIP to directors and other key management personnel of the Company and consolidated entity is as follows:

	Held at 1 July 2005	Granted as compensation	Vested during the year	Held at 30 June 2006
<i>Executive Director</i>				
CJ Glenn	102,113	22,553	-	124,666
<i>Other key management personnel of the consolidated entity</i>				
V Scidone	60,899	14,974	-	75,873
SA Cooper	42,629	10,456	-	53,085
JS Furness	39,406	9,380	-	48,786
DJ Beisley	-	-	-	-
J Colli	33,559	7,960	-	41,519

	Held at 1 July 2004	Granted as compensation	Vested during the year	Held at 30 June 2005
<i>Executive Director</i>				
CJ Glenn	32,719	69,394 <sup>(i)</sup>	-	102,113
<i>Other key management personnel of the consolidated entity</i>				
V Scidone	46,084	14,815	-	60,899
SA Cooper	32,605	10,024	-	42,629
JS Furness	30,173	9,233	-	39,406
J Colli	25,678	7,881	-	33,559

(i) includes an offer of 47,362 shares in relation to the 2003 Offer.

There were no rights over equity instruments held by non-executive directors as at 30 June 2006 and 30 June 2005.

#### 10.8 Analysis of rights over shares granted as compensation - unaudited

Details of the vesting profile of the rights over shares granted as compensation to each director and the key management personnel of the Company and consolidated entity during the reporting period are as follows:

	Rights granted as compensation value at grant date <sup>(i)</sup> \$	Value of rights vested \$	Value of rights lapsed \$	Total value of rights granted, exercised and lapsed \$	Value included as compensation <sup>(ii)</sup> \$	% of total compensation that consists of rights \$
<i>Executive Director</i>						
CJ Glenn	79,387	-	-	79,387	71,091	11.5
<i>Other key management personnel of the consolidated entity</i>						
V Scidone	52,708	-	-	52,708	43,113	9.6
SA Cooper	36,805	-	-	36,805	30,130	10.4
JS Furness	33,018	-	-	33,018	7,748	10.0
DJ Beisley	-	-	-	-	-	-
J Colli	28,019	-	-	28,019	23,622	11.2

(i) value of \$3.52 per right calculated in accordance with item 10.4 of the remuneration report.

(ii) for rights subject to internal performance hurdles the value included as compensation takes into account the probability of achieving those hurdles as at balance date.

## Directors' Report (continued)

### 11. ENVIRONMENTAL REGULATION

The consolidated entity is subject to environmental regulation in respect of its bitumen and asphalt manufacturing activities.

The Group's Hot Mix division procures asphalt in accordance with an agreement entered into with Works Emoleum (which is part of the Downer EDI Group). Under the agreement, an asphalt production sharing facility has been established at Rinker Group Ltd's Gosnells quarry. The relevant EPA licence for the Gosnells site is held by Works Emoleum.

The Hot Mix and Bitumen Emulsions divisions also comply with the dangerous goods code. Accordingly, the divisions have an ongoing programme for the licensing and inspection of their transport vehicles for the carriage of dangerous goods. Both divisions hold and comply with a licence issued by the Department of Minerals and Energy in Western Australia in relation to the storage of bituminous products. The two divisions have procedures and systems to ensure compliance with environmental regulations which are regularly reviewed.

The consolidated entity is not subject to any other significant specific environmental regulation.

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

For the financial year ended 30 June 2006 and as at the date of this report, the consolidated entity has not been prosecuted nor incurred any infringement penalty for environmental incidents and the Board is not aware of any significant breaches during the period covered by this report.

### 12. INSURANCE OF OFFICERS

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

### 13. CORPORATE GOVERNANCE

The Statement of Corporate Governance Practices as disclosed on pages 26 to 33 of the Annual Report sets out the Company's main corporate governance practices throughout the financial year and as at the date of this report.

### 14. OPTIONS

The Company has not issued any options over unissued shares.

### 15. NON-AUDIT SERVICES

During the financial year KPMG, the Company's auditor, provided non-audit services to the consolidated entity for fees totalling \$204,429. The non-audit services consisted of providing project assurance services associated with the Company's phased roll-out of a new information technology platform.

In accordance with advice from the Company's Audit & Risk Committee, the directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Also in accordance with advice from the Company's Audit & Risk Committee, the directors are satisfied that the provision of non-audit services during the year did not compromise the auditor independence requirement of the Corporations Act 2001 because:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit & Risk Committee to ensure they do not impact the integrity and objectivity of the auditor;
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out by regulatory bodies; and
- the nature of the non-audit services provided is consistent with the policy adopted by the Company for the provision of non-audit services by the external auditor.

Details of fees paid to the Company's auditor, KPMG, for statutory audit services are set out in Note 5 to the financial statements.

### 16. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration made in accordance with Section 307C of the Corporations Act 2001 is set out on page 83 of the Annual Report and forms part of this report.

### 17. COMPANY SECRETARY

Mr John Colli was appointed to the position of Company Secretary in November 1998. Mr Colli previously held the role of company secretary with the former listed company Challenge Bank Limited for 7 years.

## Directors' Report (continued)

### 18. ROUNDING OFF

The Company is of a kind referred to in ASIC Class Order 98/0100 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.



W G Kent, AO  
Chairman



C J Glenn  
Managing Director and Chief Executive Officer

Perth  
5 September 2006

# Statement of Corporate Governance Practices

## INTRODUCTION

This statement is dated 5 September 2006 and sets out the corporate governance practices of Coventry Group Ltd (CGL) for the 2005/06 financial year and as at the date of this statement. If the practices have not been in place for the entire year, that is stated.

In March 2003 the ASX Corporate Governance Council (ASXCGC) issued a paper which set out 10 core principles together with best practice recommendations underlying the basis of good corporate governance. The paper defined corporate governance as follows:

“The system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised”.

The Board of CGL is committed to a high standard of corporate governance.

The Board recognises that there is no single model of good corporate governance. What constitutes good corporate governance will evolve with changing circumstances facing the company and must be tailored to meet those circumstances.

CGL's corporate governance practices are monitored as changes in its regulatory and operating environment occur and are updated from time to time as required.

This statement should be read in conjunction with CGL's Annual Report.

CGL's website is [www.cgl.com.au](http://www.cgl.com.au). Most policies and documents underlying CGL's corporate governance practices can be found at this site.

## 1. ROLE OF THE BOARD AND MANAGEMENT

### ASXCGC Principle 1

Lay solid foundations for management and oversight.

### ASXCGC Recommendation 1.1:

Formalise and disclose the functions reserved to the Board and those delegated to management.

### CGL Practice

The Board has ultimate responsibility for oversight of the management and actions of CGL. It is responsible to shareholders for the Group's overall corporate governance.

In August 2003, the Board adopted a charter which formalised certain matters relating to the Board. The charter addresses the purpose and role of the Board, its powers, board membership, independence criteria, meeting formalities, board sub-committee requirements, self assessment and appointment procedures as well as a policy on directors' terms of office.

The Board Charter can be viewed on the Group's website under the tab – 'Investor Relations, Corporate Governance Summary'.

Formal letters of engagement for non-executive directors, setting out the key terms and conditions of their appointment, were established in September 2003.

The Chief Executive Officer, Mr C J Glenn is engaged in accordance with a service contract and has a formal position description which was approved by the Board in February 2004.

All senior executives of the Company are employed pursuant to formal service contracts and have formal position descriptions. The Chief Financial Officer, Mr S A Cooper, has had his position description endorsed by the Board.

The Company has a formal Delegated Authority Policy which sets out parameters and limits for entering into contractual relationship with customers and suppliers, capital expenditure, foreign currency transactions and other operational matters. The policy is amended and updated as circumstances arise.

## 2. COMPOSITION OF THE BOARD

### ASXCGC Principle 2

Structure the Board to add value.

### ASXCGC Recommendation 2.1:

A majority of the Board should be independent directors.

### CGL Practice

The Board presently consists of 7 directors. Six directors are non-executive directors and, of these, 5 are considered to be independent. Mr C M Kyle is not independent in terms of the ASXCGC definition as he moved from being an executive director to a non-executive director without at least a 3 year break from the Board. Furthermore, his independence is considered by the definition to be impaired by a significant relevant interest in securities of the Company through related parties.

## Statement of Corporate Governance Practices (continued)

The names of the directors of the Company as at the date of this statement are set out on page 14 of the Annual Report.

The Board has adopted the ASXCGC definition of “independent director” and the independence criteria are set out in the Board Charter. However, in relation to the term served on the Board by a director, the Board considers that a period in excess of 12 years, of itself, is not perceived to interfere with a director’s ability to act in the best interests of the Company and therefore, of itself, does not impair independence.

In relation to the term of office for the directors, the Board adopted the following policy in September 2002:

“Subject to circumstances prevailing at the time and the Company’s ability to find a suitable replacement, a director shall retire from the Board no later than the earlier of:

- the conclusion of the annual general meeting occurring after the twelfth anniversary of the director’s first appointment or election to the Board; or
- the conclusion of the annual general meeting occurring immediately after the director’s seventieth birthday.

For the purpose of calculating the term of a director who is in office at the time of adoption of this policy by the Board, a director who has been in office for a period longer than 7 years will be deemed to have been in office for a period of 7 years only and will agree not to seek re-election to the Board after having served a further 5 years.

The Board may consider variations to this policy in exceptional circumstances.”

In light of the pending retirement of Messrs WG Kent and CM Kyle from the Board, the directors have determined in accordance with the constitution, to set the maximum number of directors of the Company at 5 with effect from the conclusion of the 2006 Annual General Meeting. This number will be reviewed by the Board from time to time.

To ensure independent judgement is achieved and maintained in the decision making process, a number of measures have been implemented which include:

- directors have the right to obtain independent, professional advice on Company related matters, at the Company’s expense, providing the expense is reasonable and the Chairman is notified; and
- non-executive directors meet from time to time without management in attendance.

The Board has a balanced composition with each current director bringing to the Company a range of complementary skills and experience as outlined on pages 11 and 12 of the Annual Report.

To assist the Board in discharging its responsibilities, the Board has established the following Board Committees:

- Audit & Risk Committee;
- Remuneration Committee; and
- Nomination Committee.

### ASXCGC Recommendation 2.2:

The Chairperson should be an independent director.

### CGL Practice

The Company’s Chairman, Mr W G Kent, is considered to be independent in terms of the ASXCGC’s criteria for independent directors.

### ASXCGC Recommendation 2.3:

The roles of the Chairperson and the Chief Executive Officer should not be exercised by the same individual.

### CGL Practice

The Company’s Chairman, Mr W G Kent and Chief Executive Officer, Mr C J Glenn, have separate roles.

### ASXCGC Recommendation 2.4:

The Board should establish a Nomination Committee.

### CGL Practice

In June 2003, the Board established a Nomination Committee.

The members of the Nomination Committee are:

- W G Kent (Chairman), independent non-executive director
- R B Flynn, independent non-executive director
- R M McLean, independent non-executive director



## Statement of Corporate Governance Practices (continued)

The Committee has a formal charter and its role is to ensure that the Board has an effective composition, size and commitment to adequately discharge its responsibilities and duties. Its duties include:

- reviewing and making recommendations to the Board on the operation and performance of the Board;
- reviewing Board composition and recommending appointments to the Board (including the monitoring of director independence);
- reviewing Board succession plans;
- ensuring effective induction programmes are in place; and
- reviewing the composition of Board sub-committees.

The Committee is required to meet at least once a year and at other times as the Chairman of the Committee directs.

The number of Committee meetings held and attended by its members is set out on page 14 of the Annual Report.

The Committee's Charter can be viewed on the Group's website under the tab – 'Investors Relations, Corporate Governance Summary'.

### 3. ETHICAL AND RESPONSIBLE DECISION-MAKING

#### ASXCGC Principle 3:

Promote ethical and responsible decision-making.

#### ASXCGC Recommendation 3.1:

Establish a code of conduct to guide the directors, the Chief Executive Officer (or equivalent), the Chief Financial Officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the Company's integrity.

3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

#### CGL Practice

In February 2004, the Board adopted a formal Code of Conduct. The Code sets out the principles and standards with which all the Group's directors and employees are expected to comply in the performance of their respective duties. The Code requires all directors and employees to act with honesty and integrity, comply with the law and conduct themselves in the best interests of the Company.

The Code of Conduct can be viewed on the Group's website, under the tab – 'Investor Relations, Corporate Governance Summary'.

#### ASXCGC Recommendation 3.2:

Disclose the policy concerning trading in Company securities by directors, officers and employees.

#### CGL Practice

In October 2005, the Board reviewed and amended the share trading policy applicable to directors and senior management. The previous policy stipulated that directors and senior management were restricted to trading in the Company's securities to a 4 week period which commenced 48 hours after the release of the half year results, annual results or the annual general meeting provided they were not in possession of price sensitive information that was not generally available to the market. The Board formed the view that having fixed trading periods as well as a relatively illiquid stock created a difficult scenario to acquire shares in the Company. As a consequence the Board determined:

- that specified trading period for directors and senior management be deleted;
- that directors and senior management be permitted to trade in the Company's shares at any time subject to insider trading legislation and the possession of price sensitive information; and
- that a standing Board agenda item be consideration of whether the directors and senior management are in possession of price sensitive information which would preclude the buying/selling of the Company's shares.

The Company's Code of Conduct requires that all directors and employees observe the insider trading law which prohibits the buying or selling of the Company's securities at any time if they are in possession of price sensitive information that has not been released to the market.

The Company's internal auditor undertakes a periodic review to ensure that the Company's officers comply with the Company's policy on trading in its securities.

Each director has entered into an undertaking with the Company regarding the obligation for the timely disclosure to the ASX of any changes to their interests in securities of the Company.

# Statement of Corporate Governance Practices (continued)

## 4. INTEGRITY OF FINANCIAL REPORTING

### ASXCGC Principle 4:

Safeguard integrity in financial reporting.

### ASXCGC Recommendation 4.1:

Requires the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

### CGL Practice

The Company's Chief Executive Officer and Chief Financial Officer report in writing to the Audit & Risk Committee and the Board that the consolidated financial statements of Coventry Group Ltd and its controlled entities for each half and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with the relevant accounting standards.

### ASXCGC Recommendation 4.2:

The Board should establish an Audit Committee.

### CGL Practice

The Board established an Audit Committee in 1995. In February 2004 the Audit Committee's Charter was reviewed and its name changed to the Audit & Risk Committee.

### ASXCGC Recommendation 4.3:

Structure the Audit Committee so that it consists of:

- only non-executive directors;
- a majority of independent directors;
- an independent chairperson, who is not chairperson of the Board; and
- at least three members.

### CGL Practice

The members of the Audit & Risk Committee are:

- B F Nazer (Chairman), independent non-executive director
- J Boros, independent non-executive director
- W G Kent, independent non-executive director (member until 30.09.05)
- C M Kyle, non-executive director
- P A Kyle, independent non-executive director (member until 08.11.05)

The number of Committee meetings held and attended by its members is set out on page 14 of the Annual Report.

The Chief Executive Officer, internal and external auditors and the Chief Financial Officer attend meetings by invitation.

Details of the experience of the members of the Committee are set out on pages 11 and 12 of the Annual Report and indicate that each is suitably qualified to be a member of the Audit & Risk Committee.

### ASXCGC Recommendation 4.4:

The Audit Committee should have a formal charter.

### CGL Practice

The Company's Audit & Risk Committee has a formal charter which sets out its role, composition and duties and responsibilities.

In February 2004, the Committee's name was changed to the Audit & Risk Committee and its charter revised to encompass an expanded role.

The primary objective of the Committee is to assist the Board in discharging its responsibilities in relation to financial reporting, legal compliance requirements, maintenance of effective and efficient audits (both external and internal) and risk management of the Group.

The Committee's Charter can be viewed on the Group's website, under the tab – 'Investor Relations, Corporate Governance Summary'.

## Statement of Corporate Governance Practices (continued)

### 5. CONTINUOUS DISCLOSURE TO ASX

#### ASXCGC Principle 5:

Make a timely and balanced disclosure.

#### ASXCGC Recommendation 5.1:

Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

#### CGL Practice

The Board observes the continuous disclosure obligations as imposed by the ASX Listing Rules. The matter is continuously monitored by the Group's executive management and regularly reviewed by the Board on a monthly basis as a standing agenda item.

All notifications and announcements to the ASX are posted on the Company's website, under the tab – 'Investor Relations, ASX Announcements'.

The Company has a formal policy for communicating with the investment community and the media which was approved by the Board in August 2003. The Chairman, CEO and CFO are the only persons authorised to communicate on behalf of the Company for these specific groups. The Company Secretary is the responsible person for all communications with the ASX.

### 6. COMMUNICATION WITH SHAREHOLDERS

#### ASXCGC Principle 6:

Respect the rights of shareholders.

#### ASXCGC Recommendation 6.1:

Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

#### CGL Practice

The Company encourages regular and timely communication with its shareholders and other stakeholders. Communication channels used by the Company include:

- regular shareholder communication such as the Half Year Report, Annual Report and, as appropriate, other periodic advices such as director changes;
- shareholder access to communications through the use of information technology such as the Company's website ([www.cgl.com.au](http://www.cgl.com.au)) where all key notices, policies and documents are posted; and
- a direct link from the Company's website to Computershare Investor Services, the Company's share registry service provider.

The Board encourages full participation by shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Group's strategy and goals. Important issues are presented to shareholders as single resolutions. Shareholders are encouraged to submit written questions to the Board prior to the Annual General Meeting. The Chairman's and Chief Executive Officer's addresses at the Annual General Meeting are simultaneously released to the ASX and posted on the website.

The Company does not webcast or make a video of proceedings at an Annual General Meeting as the relative size of the Company's shareholder base does not warrant the cost.

#### ASXCGC Recommendation 6.2:

Request the external auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

#### CGL Practice

The Company's practice is to ensure the Group's external auditor attends the Annual General Meeting and is available to answer questions from shareholders on matters relating to the audit of the Group's accounts. Prior to the Annual General Meeting shareholders are invited to submit written questions to the external auditor.

# Statement of Corporate Governance Practices (continued)

## 7. RISK MANAGEMENT

### ASXCGC Principle 7:

Recognise and manage risk.

### ASXCGC Recommendation 7.1:

The Board or appropriate Board Committee should establish policies on risk oversight and management.

### CGL Practice

During the 2003/04 financial year a number of systems and processes were implemented to ensure effective management of risk across the Group.

The Board has overall responsibility for the oversight of the Group's risk management and control framework. The Audit & Risk Committee assists the Board in fulfilling its responsibilities in this regard. As mentioned earlier under Principle 4, in February 2004 the Audit Committee's Charter was expanded to include oversight of risk management. In August 2003, an Executive Risk Committee (ERC) was established comprising the CFO (Chairman), CEO and Company Secretary, with the internal auditor attending as an observer. The ERC meets as required and reports directly to the Audit & Risk Committee. It has a formal charter and its main function is to ensure areas of Group risk are being monitored and appropriate actions implemented where necessary and that the Board is regularly informed of key risk issues.

During the 2002/03 financial year the Company undertook a whole of business risk review in conjunction with consultants, Marsh Pty Ltd. This was the basis for the Group establishing risk registers covering corporate activities as well as registers for the respective business segments - automotive, industrial, gaskets manufacturing and bitumen. The registers cover risks such as operational, information technology, compliance, financial, occupational health and safety, strategic, business continuity planning, environmental and ethical conduct.

Ratings have been applied to the various identified risks and responsibility for monitoring and amelioration has been designated to senior managers. The risk registers are reviewed annually by the Audit & Risk Committee.

In September 2005 the Company implemented an online trade practices compliance program as part of an initiative to mitigate risks in this area.

### ASXCGC Recommendation 7.2:

The Chief Executive Officer and the Chief Financial Officer should state in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

### CGL Practice

The Company's Chief Executive Officer and Chief Financial Officer have reported in writing to the Audit & Risk Committee and the Board that:

- (i) the statement given in accordance with Council's best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- (ii) the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

## 8. ENHANCEMENT OF PERFORMANCE

### ASXCGC Principle 8:

Encourage enhanced performance.

### ASXCGC Recommendation 8.1:

Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives.

### CGL Practice

The Board's charter stipulates that an annual performance evaluation of the Board be undertaken. The Audit & Risk Committee also has a requirement for regular self assessment. An evaluation of the Board's performance was conducted in conjunction with Egon Zehnder International during the second half of the 2004/05 financial year.

In August 2005, after considering Egon Zehnder International's report and the outcome of the annual review, the Board made a number of decisions which included director re-election, Board tenure, the preferred number of non-executive directors, committee membership and succession planning. External reviews will continue to be undertaken from time to time.



## Statement of Corporate Governance Practices (continued)

The annual review of the Board is carried out through the review and analysis of responses to a confidential questionnaire completed by each director, which poses specific questions on issues surrounding meeting logistics, work programme, interaction with management and any perceived strengths and weaknesses of the Board and its Committees.

Following a review of the content of the questionnaires by the Chairman a summary of the overall result is distributed to and discussed by directors. Significant issues identified or changes recommended are actioned in the Board's ongoing development programme.

During the 2003/04 financial year a formal induction programme for all newly appointed directors was established.

Arrangements also are in place to monitor the performance of senior executives of the Group. The direct reports to the Chief Executive Officer have formal performance reviews at year end and half year.

The Remuneration Committee monitors the performance of the Chief Executive Officer (in consultation with the Chairman) and his direct reports (in consultation with the Chief Executive Officer) to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company. The minutes of Remuneration Committee meetings are circulated to all directors.

### 9. REMUNERATION

#### ASXCGC Principle 9:

Remunerate fairly and responsibly.

#### ASXCGC Recommendation 9.1:

Provide disclosure in relation to the Company's remuneration policies to enable investors to understand:

- (i) the costs and benefits of those policies; and
- (ii) the link between remuneration paid to directors and key executives and corporate performance.

#### CGL Practice

The Company's policies relating to the directors' and senior executives' remuneration and the level of their remuneration are set out in the Remuneration Report on pages 16 to 23 of the Annual Report.

#### ASXCGC Recommendation 9.2:

The Board to establish a Remuneration Committee.

#### CGL Practice

The Board established a Remuneration Committee in 1995.

The members of the Remuneration Committee are:

- R M McLean (Chairman), independent non-executive director
- R B Flynn, independent non-executive director
- W G Kent, independent non-executive director (appointed a member on 30.09.05)
- C M Kyle, non-executive director (member until 30.09.05)

The Committee has a formal charter. The role of the Committee is to assist the Board in ensuring that appropriate and effective remuneration packages and policies are implemented for the Chief Executive Officer, executive directors (if any) and those executives who report directly to the Chief Executive Officer. The Committee also reviews non executive directors' remuneration.

The Committee is required to meet twice a year and at other times as the Chairman of the Committee directs.

The Chief Executive Officer, Mr C J Glenn, who attends by invitation, absents himself from meetings before any discussion by the Committee in relation to his own remuneration.

The number of Committee meetings held and attended by its members is set out on page 14 of the Annual Report.

The Committee's Charter can be viewed on the Group's website, under the tab – 'Investor Relations, Corporate Governance Summary'.

#### ASXCGC Recommendation 9.3:

Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

#### CGL Practice

The remuneration of non-executive directors is reviewed on a periodic basis by the Remuneration Committee having regard to the work load of the directors and the level of fees paid to non-executive directors of other companies of similar size and nature.

## Statement of Corporate Governance Practices (continued)

The aggregate amount payable to non-executive directors must not exceed the maximum annual amount approved by the Company's shareholders at the Annual General Meeting. Further details of non-executive directors' remuneration are contained in the Remuneration Report on pages 16 to 23 of the Annual Report.

All senior Company executives have service contracts which clearly set out the basis for their remuneration. Further details of executive remuneration are set out in the Remuneration Report on pages 16 to 23 of the Annual Report.

### **ASXCGC Recommendation 9.4:**

Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

### **CGL Practice**

The Company ensures that the payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Chief Executive Officer's Long Term Incentive Plan and the Executive Long Term Incentive Plan were both approved by shareholders at the 2003 Annual General Meeting.

A revision of the Chief Executive Officer's long term incentive arrangements is proposed and shareholder approval will be sought at the 2006 Annual General Meeting. The Remuneration Report on pages 16 to 23 of the Annual Report and the Notice of Meeting contain full details of the proposed changes.

## **10. INTERESTS OF STAKEHOLDERS**

### **ASXCGC Principle 10:**

Recognise the legitimate interests of stakeholders.

### **ASXCGC Recommendation 9.1:**

Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

### **CGL Practice**

The Company adopted a formal Code of Conduct in February 2004. The Code must be observed by all directors and employees of the Company.

The Code reinforces the Company's fundamental principle that all officers will undertake all business activities in strict adherence to the Company's values for the benefit of our employees, customers, suppliers and other stakeholders. The Company's values include:

- to act with honesty and integrity;
- act professionally at all times;
- be accountable for respective areas of business to optimize shareholder returns;
- strive for innovation and continuous improvement;
- communicate openly and honestly; and
- attract and retain people of the highest skills and competencies.

The Board has also adopted a formal policy for the Group in compliance with privacy legislation which applies to private sector organisations.

The Code of Conduct and Privacy Policy can be viewed on the Group's website under the tab – 'Investor Relations, Corporate Governance Summary'.

# Income Statements

for the year ended 30 June 2006

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2006	2005	2006	2005
Revenue from sale of goods		501,974	470,788	451,843	400,261
Cost of sales		(313,339)	(296,230)	(284,873)	(253,213)
<b>Gross profit</b>		<b>188,635</b>	<b>174,558</b>	<b>166,970</b>	<b>147,048</b>
Other revenue		2,586	2,422	2,244	1,929
Other income	3	687	1,176	471	689
Net gain on sale of land and buildings		-	3,583	-	3,583
Employee benefits expense		(100,966)	(93,775)	(91,134)	(79,647)
Depreciation and amortisation expenses		(7,240)	(6,796)	(6,309)	(5,387)
Occupancy costs		(12,210)	(10,179)	(10,442)	(6,817)
Communication costs		(3,647)	(3,510)	(3,085)	(2,804)
Impairment and restructuring costs	4	(3,426)	-	(4,546)	(5,823)
Other expenses		(46,487)	(41,748)	(40,192)	(31,615)
<b>Profit before financing costs</b>		<b>17,932</b>	<b>25,731</b>	<b>13,977</b>	<b>21,156</b>
Financial income	6	523	561	2,898	1,641
Financial expenses	6	(3,768)	(2,189)	(3,398)	(1,857)
<b>Net financing costs</b>		<b>(3,245)</b>	<b>(1,628)</b>	<b>(500)</b>	<b>(216)</b>
<b>Profit before tax</b>		<b>14,687</b>	<b>24,103</b>	<b>13,477</b>	<b>20,940</b>
Income tax expense	7	(5,046)	(6,402)	(3,917)	(5,011)
<b>Profit for the year</b>		<b>9,641</b>	<b>17,701</b>	<b>9,560</b>	<b>15,929</b>
<b>Attributable to:</b>					
Equity holders of the Company		9,337	17,310	9,560	15,929
Minority interest		304	391	-	-
<b>Profit for the year</b>		<b>9,641</b>	<b>17,701</b>	<b>9,560</b>	<b>15,929</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company:</b>					
Basic earnings per share from continuing operations	8	26.1 cents	48.9 cents		
Diluted earnings per share from continuing operations	8	25.8 cents	48.4 cents		
<b>Dividends per share</b>					
Ordinary shares	21	36.0 cents	66.0 cents		

The income statements are to be read in conjunction with the accompanying notes to the financial statements.

# Statements of Changes in Equity

for the year ended 30 June 2006

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2006	2005	2006	2005
<b>Total equity at the beginning of the financial year</b>		<b>168,488</b>	169,363	<b>158,916</b>	161,298
Adjustment to reserves, net of tax, on adoption of AASB 132 and AASB 139	34	(188)	-	(188)	-
<b>Restated total equity at the beginning of the financial year</b>		<b>168,300</b>	169,363	<b>158,728</b>	161,298
Reversal of deferred tax liability on disposal of revalued land and buildings		-	2,386	-	2,386
Changes in value of share based payments reserve		127	245	127	245
Deferred tax asset transferred from controlled entity		-	-	-	(61)
Changes in the fair value of cash flow hedges, net of tax	21	325	-	325	-
Exchange differences on translation of foreign operations		(1,401)	(70)	-	-
<b>Net income recognised directly in equity</b>		<b>(949)</b>	2,561	<b>452</b>	2,570
<b>Profit for the year</b>		<b>9,641</b>	17,701	<b>9,560</b>	15,929
<b>Total recognised income and expense for the year</b>		<b>8,692</b>	20,262	<b>10,012</b>	18,499
<b>Transactions with equity holders in their capacity as equity holders</b>					
Contribution of equity		2,724	2,464	2,724	2,464
Dividends provided for or paid		(12,869)	(23,345)	(12,869)	(23,345)
Dividends paid to minority interests in controlled entities		(422)	(256)	-	-
		(10,567)	(21,137)	(10,145)	(20,881)
<b>Total equity at the end of the financial year</b>		<b>166,425</b>	168,488	<b>158,595</b>	158,916
Total recognised income and expense for the year is attributable to:					
Members of Coventry Group Ltd		8,437	19,873	10,012	18,499
Minority interest		255	389	-	-
		<b>8,692</b>	20,262	<b>10,012</b>	18,499

The statements of changes in equity are to be read in conjunction with the accompanying notes to the financial statements.



# Balance Sheets

as at 30 June 2006

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2006	2005	2006	2005
<b>Assets</b>					
Cash and cash equivalents	9	2,493	25,853	184	14,971
Trade and other receivables	10	86,713	71,654	89,830	87,504
Inventories	11	100,706	88,441	90,863	68,850
Income tax receivable	12	151	215	-	1,304
<b>Total current assets</b>		<b>190,063</b>	<b>186,163</b>	<b>180,877</b>	<b>172,629</b>
Investments	13	-	-	9,542	9,542
Deferred tax assets	14	10,096	8,531	9,286	7,768
Property, plant and equipment	15	49,662	45,776	45,602	38,214
Intangible assets	16	51,847	32,615	41,425	23,955
Derivatives asset		210	-	210	-
<b>Total non-current assets</b>		<b>111,815</b>	<b>86,922</b>	<b>106,065</b>	<b>79,479</b>
<b>Total assets</b>		<b>301,878</b>	<b>273,085</b>	<b>286,942</b>	<b>252,108</b>
<b>Liabilities</b>					
Trade and other payables	17	39,726	41,392	37,253	36,305
Interest-bearing loans and borrowings	18	1,938	1,951	1,938	1,951
Employee benefits		10,917	9,529	10,494	8,296
Income tax payable	12	405	270	398	-
Provisions	20	2,069	11,050	2,069	10,905
<b>Total current liabilities</b>		<b>55,055</b>	<b>64,192</b>	<b>52,152</b>	<b>57,457</b>
Interest-bearing loans and borrowings	18	76,977	37,839	73,195	33,300
Employee benefits		3,406	2,566	2,985	2,435
Derivatives liability		15	-	15	-
<b>Total non-current liabilities</b>		<b>80,398</b>	<b>40,405</b>	<b>76,195</b>	<b>35,735</b>
<b>Total liabilities</b>		<b>135,453</b>	<b>104,597</b>	<b>128,347</b>	<b>93,192</b>
<b>Net assets</b>		<b>166,425</b>	<b>168,488</b>	<b>158,595</b>	<b>158,916</b>
<b>Equity</b>					
Issued capital	21	98,873	96,149	98,873	96,149
Reserves	21	22,738	23,792	23,599	23,301
Retained earnings	21	41,978	45,544	36,123	39,466
<b>Total equity attributable to equity holders of the parent</b>		<b>163,589</b>	<b>165,485</b>	<b>158,595</b>	<b>158,916</b>
Minority interest		2,836	3,003	-	-
<b>Total equity</b>		<b>166,425</b>	<b>168,488</b>	<b>158,595</b>	<b>158,916</b>

The balance sheets are to be read in conjunction with the accompanying notes to the financial statements.

# Statements of Cash Flows

for the year ended 30 June 2006

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2006	2005	2006	2005
<b>Cash flows from operating activities</b>					
Cash receipts from customers		555,465	519,046	500,547	438,347
Cash paid to suppliers and employees		(543,029)	(497,305)	(490,321)	(417,432)
Cash generated from operations		12,436	21,741	10,226	20,915
Interest paid		(4,372)	(1,716)	(4,003)	(1,383)
Income taxes paid		(6,004)	(7,555)	(4,543)	(6,017)
<b>Net cash from operating activities</b>	29	<b>2,060</b>	<b>12,470</b>	<b>1,680</b>	<b>13,515</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		1,190	18,119	1,122	18,056
Proceeds from sale of business		-	3,470	-	3,470
Interest received		523	561	933	288
Dividends received		-	-	1,965	1,353
Acquisition of business, net of cash acquired	28	(24,692)	(16,406)	(16,419)	(9,345)
Acquisition of property, plant and equipment		(7,919)	(7,819)	(7,173)	(6,397)
Acquisition of intangible assets	16	(12,101)	(1,365)	(12,089)	(1,311)
Loans to controlled entities		-	-	(4,042)	(12,200)
Repayment of loans to controlled entities		-	-	906	-
<b>Net cash from investing activities</b>		<b>(42,999)</b>	<b>(3,440)</b>	<b>(34,797)</b>	<b>(6,086)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		39,500	15,300	39,500	15,300
Repayment of borrowings		(329)	-	-	-
Dividends paid	21	(20,785)	(10,241)	(20,785)	(10,241)
Dividends paid to outside equity interests	21	(422)	(256)	-	-
<b>Net cash from financing activities</b>		<b>17,964</b>	<b>4,803</b>	<b>18,715</b>	<b>5,059</b>
Net (decrease)/increase in cash and cash equivalents		(22,975)	13,833	(14,402)	12,488
Cash and cash equivalents at 1 July		23,902	10,069	13,020	532
<b>Cash and cash equivalents at 30 June</b>	9	<b>927</b>	<b>23,902</b>	<b>(1,382)</b>	<b>13,020</b>

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

# Notes to the Consolidated Financial Statements

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES

Coventry Group Ltd (the “Company”) is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprises the Company and its controlled entities (together referred to as the “consolidated entity”).

The financial report was authorised for issue by the directors on 5 September 2006.

### (a) Statement of compliance

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. International Financial Reporting Standards (“IFRSs”) form the basis of AASBs adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS (“AIFRS”) to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity’s first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 33.

### (b) Basis of preparation

The financial report is presented in Australian dollars. The entity has elected not to early adopt the following accounting standards and amendments:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)
- UIG 4 *Determining Whether an Arrangement Contains a Lease*
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*
- UIG 8 *Scope of AASB 2*
- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007

The initial application of the above standards, except AASB 2005-9, is not expected to have an impact on the financial results of the Company and the consolidated entity as the standards and the amendments are either not applicable or are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Basis of preparation (continued)

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 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) 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.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Except as disclosed in Note 34, the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to AIFRS.

### (c) Basis of consolidation

#### Controlled Entities

Controlled entities are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. Investments in controlled entities are carried at their cost of acquisition in the Company's financial statements, net of impairment writedowns.

#### Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

### (d) Foreign currency

#### Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the translation reserve.

#### Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken to the translation reserve. They are released into the income statement upon disposal.

### (e) Derivative financial instruments

#### *Current accounting policy*

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. In accordance with its treasury policy, the consolidated entity does not hold or use derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy 1(f)).



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Derivative financial instruments (continued)

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

#### *Comparative period policy*

The consolidated entity is exposed to changes in interest rates and foreign exchange rates. The consolidated entity uses interest rate swaps and forward rate agreements to hedge these risks. Derivative financial instruments are not held for speculative purposes.

The quantitative effect of the change in accounting policy is set out in Note 34.

### (f) Hedging

#### *Current accounting policy*

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

#### Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss eg. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two paragraphs, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

#### Hedge of monetary assets and liabilities

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

#### *Comparative period policy*

Transactions are designated as a hedge of an anticipated specific purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred, and it is probable the anticipated transaction will occur as designated.

Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the income statement.

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

When an anticipated transaction is no longer expected to occur as designated, the deferred gains or losses relating to the hedge transaction are recognised immediately in the income statement.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the income statement for the period.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. An impairment allowance is made for obsolete, damaged and slow moving inventories.

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

### (i) Trade and other receivables

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

### (j) Property, plant and equipment

#### Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of acquired assets includes (i) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (ii) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to AIFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of an item of property plant and equipment have different useful lives they are accounted for as separate items of property, plant and equipment.

#### Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. The consolidated entity does not have any finance leases. Other leases are classified as operating leases.

#### Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

#### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The depreciation rates used for each class of depreciable assets for the current and comparative periods are:

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

Where appropriate, the residual value is reassessed at least annually.

#### Disposal

The gain or loss on the disposal of property, plant and equipment is recognised on a net basis and is included in other income or other expenses.

### (k) Intangible assets

#### Goodwill

##### *Business combinations prior to 1 July 2004*

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Intangible assets (continued)

#### *Business combinations since 1 July 2004*

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is no longer amortised but is tested annually for impairment.

Negative goodwill arising on acquisition is recognised directly in profit or loss.

#### Computer software

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

#### Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

#### Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### Amortisation of intangibles

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. In the current and comparative periods, goodwill was estimated to have an indefinite useful life, distribution rights was estimated to have a useful life of 10 years and computer software was estimated to have a useful life of 3 to 7 years.

### (l) Impairment

The carrying amounts of the consolidated entity's assets, other than inventories (refer note 1(h)) and deferred tax assets (refer note 1(u)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite life, and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis. Goodwill was tested for impairment at 1 July 2004, the date of transition to AIFRSs.

#### Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Receivables that are not assessed as impaired are placed into portfolios of assets with similar risk profiles and a collective assessment of impairment is performed. Non-significant receivables are not individually assessed. Instead impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Interest bearing loans and borrowings

#### Current accounting policy

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

#### Comparative period policy

Debentures, bills of exchange and notes payable are recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest expense is recognised on an effective yield basis.

### (n) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. These benefits include wages and salaries, annual leave and long service leave. Sick leave is non-vesting and has not been provided for. Employee benefits expected to be settled within one year have been measured at the undiscounted amounts expected to be paid when the liabilities are settled including related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits including related on-costs.

The consolidated entity makes contributions to accumulation style superannuation funds for its employees. These contributions are charged against profits when due.

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

The long term incentive plan allows specified employees to acquire shares of the Company subject to the achievement of internal and external performance hurdles. The fair value of shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest, and for those shares subject to internal performance hurdles, the probability of achieving those hurdles as at the reporting date. The value of shares that are yet to vest are recorded in a share based payments reserve and transferred to share capital once vested. The fair value of the shares granted is measured based on the Black-Scholes formula, taking into account the terms and conditions upon which the shares were granted.

### (o) Provisions

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

#### Warranties

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

#### Surplus lease space

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals do not recover the full rental costs.

The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

#### Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

#### Restructuring

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

#### Make-good

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

### (p) Trade and other payables

Trade and other payables are stated at amortised cost.

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Revenue

Revenues are recognised at the fair value of the consideration receivable net of the amount of goods and services tax payable to the taxation authority.

Revenue from the sale of goods is recognised upon delivery of the goods to customers.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

### (r) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

### (s) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy 1(f)). Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

### (t) Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### (u) Income tax

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

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

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

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

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

#### Tax consolidation

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

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

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

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

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



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Goods and services tax

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

### (w) Accounting estimates and judgements

Management discussed with the Audit and Risk Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Key sources of estimation uncertainty

Note 16 contains information about the assumptions and their risk factors relating to goodwill impairment.

#### Impairment of goodwill

The consolidated entity assesses whether goodwill is impaired at least annually in accordance with the accounting policy in Note 1(l). These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

## 2. SEGMENT REPORTING

Segment information is presented in respect of the consolidated entity's business segments. The format is based on the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

#### Business segments

The consolidated entity comprises the following main business segments:

- Automotive Parts Distribution
- Industrial Products Distribution
- Bitumen Products
- Gasket Manufacturing

The consolidated entity operates primarily in one geographical segment, being Australia.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 2. SEGMENT REPORTING (continued)

Industry Segments	Automotive parts distribution		Industrial products distribution	
<i>In thousands of AUD</i>	2006	2005	2006	2005
Sales to customers outside the consolidated entity	275,884	270,248	200,327	175,412
Intersegment sales	597	659	703	2,033
Other revenue	1,310	1,231	883	822
Total segment revenue	277,791	272,138	201,913	178,267
Segment net profit before interest and tax	771	4,473	17,371	18,440
Unallocated net corporate (expense)/revenue				
Profit before financing costs				
Net financing costs				
Profit before tax				
Income tax expense				
Profit for the year				
Segment assets	111,855	110,668	125,202	97,249
Unallocated corporate assets				
Total assets				
Segment liabilities	27,722	28,022	25,156	17,677
Unallocated corporate liabilities				
Total liabilities				
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	3,247	14,770	16,352	2,190
Unallocated corporate acquisition of non-current assets				
Total acquisition of property, plant and equipment, intangibles and other non-current assets				
Segment depreciation and amortisation expense	2,117	2,308	1,946	1,837
Unallocated net corporate depreciation and amortisation expense				
Total depreciation and amortisation expense				
Segment other non-cash expenses	4,626	695	802	(761)
Unallocated corporate non-cash expenses				
Total other non-cash expenses				
Individually material items included in net profit before interest and tax:				
Impairment loss on goodwill of Queensland automotive parts distribution business	1,486	-	-	-
Loss on exiting NSW automotive parts distribution business	1,940	-	-	-
Net gain on sale of land and buildings	-	-	-	-
	3,426	-	-	-

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

Bitumen products		Gasket manufacturing		Eliminations		Consolidated	
2006	2005	2006	2005	2006	2005	2006	2005
16,574	14,711	9,189	10,417	-	-	501,974	470,788
-	-	2,073	1,837	(3,373)	(4,529)	-	-
275	260	118	109	-	-	2,586	2,422
16,849	14,971	11,380	12,363	(3,373)	(4,529)	504,560	473,210
1,172	1,244	1,488	1,944	-	-	20,802	26,101
						(2,870)	(370)
						17,932	25,731
						(3,245)	(1,628)
						14,687	24,103
						(5,046)	(6,402)
						9,641	17,701
7,534	6,501	10,430	9,518	(783)	(620)	254,238	223,316
						47,640	49,769
						301,878	273,085
1,808	1,550	1,063	1,111	(783)	(620)	54,966	47,740
						80,487	56,857
						135,453	104,597
513	446	242	420	-	-	20,354	17,826
						13,232	3,362
						33,586	21,188
488	436	419	435	-	-	4,970	5,016
						2,270	1,780
						7,240	6,796
(20)	84	(79)	112	-	-	5,329	130
						52	170
						5,381	300
-	-	-	-	-	-	1,486	-
-	-	-	-	-	-	1,940	-
-	-	-	-	-	-	-	(3,583)
-	-	-	-	-	-	3,426	(3,583)

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>3. OTHER INCOME</b>				
Net gain on disposal of property, plant and equipment	313	204	294	228
Net gain on disposal of business	-	390	-	390
Other income	374	582	177	71
	<b>687</b>	<b>1,176</b>	<b>471</b>	<b>689</b>

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2006	2005	2006	2005
<b>4. INDIVIDUALLY MATERIAL ITEMS INCLUDED IN PROFIT BEFORE TAX</b>					
Net gain on sale of land and buildings (nil tax effect)		-	3,583	-	3,583
Impairment loss on goodwill of Queensland automotive parts distribution business (nil tax effect)	16	(1,486)	-	(1,486)	-
Loss from exiting New South Wales automotive parts distribution business (tax effect of \$582,000 for the Company and consolidated entity) comprising a restructuring provision of \$1,235,000 and an impairment loss of \$705,000 <sup>1</sup>		(1,940)	-	(1,940)	-
Impairment loss on advance to controlled entity (nil tax effect) <sup>2</sup>		-	-	(1,120)	(283)
Impairment loss on investment in controlled entity (nil tax effect) <sup>2</sup>		-	-	-	(5,540)
		<b>(3,426)</b>	<b>3,583</b>	<b>(4,546)</b>	<b>2,240</b>

<sup>1</sup> On 20 June 2006 the Company agreed to sell the majority of the New South Wales automotive parts distribution network to a third party, and to close down the remaining branches. As a result the Company reassessed the recoverable amount of the assets employed in the business and wrote down those assets to their recoverable amount.

<sup>2</sup> An impairment loss was recognised after assessing the recoverable amount of the net assets employed by the wholly owned controlled entity at balance date.

<i>In AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>5. AUDITORS' REMUNERATION</b>				
<b>Audit services</b>				
Auditors of the Company				
KPMG:				
Audit and review of financial reports	298,940	250,574	244,940	197,600
<b>Other services</b>				
Auditors of the Company				
KPMG:				
Project assurance services	204,429	7,000	204,429	7,000

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>6. NET FINANCING COSTS</b>				
Interest income from controlled entities	-	-	603	-
Interest income from other entities	523	561	330	288
Dividends from controlled entities	-	-	1,965	1,353
Financial income	523	561	2,898	1,641
Interest expense	3,768	2,189	3,398	1,857
Financial expenses	3,768	2,189	3,398	1,857
Net financing costs	3,245	1,628	500	216

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>7. INCOME TAX EXPENSE</b>				
Recognised in the income statement				
Current tax expense				
Current year	6,264	6,528	5,033	4,923
Adjustments for prior years	(10)	-	(10)	-
	6,254	6,528	5,023	4,923
Deferred tax expense				
Origination and reversal of temporary differences	(1,185)	(126)	(1,106)	88
Exchange rate movements on temporary differences brought forward	(23)	-	-	-
Total income tax expense in income statement	5,046	6,402	3,917	5,011
Numerical reconciliation between tax expense and pre-tax net profit				
Operating profit before tax	14,687	24,103	13,477	20,940
Income tax calculated at 30%	4,406	7,231	4,043	6,282
Increase in income tax expense due to:				
Non-deductible expenditure	152	353	131	232
Assessable profit on sale of property	13	207	13	207
Non-deductible provision for loss on advance to controlled entity	-	-	336	85
Non-deductible provision for loss on investment in controlled entity	-	-	-	1,662
Non-deductible impairment loss	445	-	445	-
Over provision from prior year	(10)	-	(10)	-
Adjustment for higher tax rate applicable to foreign controlled entity	74	87	-	-
Decrease in income tax expense due to:				
Rebatable dividends	-	-	(334)	(203)
Non-assessable dividends	-	-	(256)	(204)
Capital losses utilised	(34)	(1,476)	(34)	(1,476)
Tax benefit on losses transferred from controlled entity	-	-	(417)	(1,574)
Income tax expense	5,046	6,402	3,917	5,011



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 8. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of \$9,337,000 (2005: \$17,310,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 35,805,000 (2005: 35,381,000), calculated as follows:

		CONSOLIDATED	
	Note	2006	2005
<i>In thousands of AUD</i>			
<b>Profit attributable to ordinary shareholders</b>			
Profit for the period		9,337	17,310
Profit attributable to ordinary shareholders		9,337	17,310
<i>In thousands of shares</i>			
<b>Weighted average number of ordinary shares</b>			
Issued ordinary shares at 1 July	21	35,469	35,092
Effect of shares issued in July 2005	21	189	-
Effect of shares issued in September 2005/2004	21	106	289
Effect of shares issued in March 2006	21	41	-
Weighted average number of ordinary shares at 30 June		35,805	35,381

### Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2006 was based on profit attributable to ordinary shareholders of \$9,337,000 (2005: \$17,310,000) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 36,238,000 (2005: 35,729,000), calculated as follows:

	CONSOLIDATED	
	2006	2005
<i>In thousands of shares</i>		
<b>Weighted average number of ordinary shares (diluted)</b>		
Weighted average number of ordinary shares at 30 June	35,805	35,381
Effect of share rights on issue related to long term incentive plan	433	348
Weighted average number of ordinary shares (diluted) at 30 June	36,238	35,729
<b>Earnings per share</b>		
Basic earnings per share (cents)	26.1	48.9
Diluted earnings per share (cents)	25.8	48.4

	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<i>In thousands of AUD</i>				
<b>9. CASH AND CASH EQUIVALENTS</b>				
Cash on hand	144	119	137	94
Bank balances	1,247	8,756	-	-
Call deposits	1,102	16,978	47	14,877
Cash and cash equivalents	2,493	25,853	184	14,971
Bank overdrafts repayable on demand	(1,566)	(1,951)	(1,566)	(1,951)
Cash and cash equivalents in the statement of cash flows	927	23,902	(1,382)	13,020

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>10. TRADE AND OTHER RECEIVABLES</b>				
Other trade receivables and prepayments	89,154	74,464	83,197	62,497
Allowance for impairment losses	(2,441)	(2,810)	(2,235)	(2,196)
	86,713	71,654	80,962	60,301
Receivables due from controlled entities	-	-	9,988	27,486
Allowance for impairment losses	-	-	(1,120)	(283)
	-	-	8,868	27,203
	86,713	71,654	89,830	87,504

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>11. INVENTORIES</b>				
Raw materials and consumables	524	767	-	-
Finished goods	106,163	92,227	96,387	72,404
Allowance for impairment losses	(5,981)	(4,553)	(5,524)	(3,554)
	100,182	87,674	90,863	68,850
	100,706	88,441	90,863	68,850

Normal purchasing terms for finished goods include retention of title clauses.

## 12. CURRENT TAX ASSETS AND LIABILITIES

The current tax asset for the consolidated entity of \$151,000 (2005: \$215,000) and for the Company of \$nil (2005: \$1,304,000) represent the amount of income taxes recoverable in respect of the current and prior financial periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority. The current tax liability for the consolidated entity of \$405,000 (2005: \$270,000) and for the Company of \$398,000 (2005: \$nil) represent the amount of income taxes payable in respect of current and prior financial periods.

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>13. INVESTMENTS</b>				
Investments in controlled entities – at cost	-	-	44,769	44,769
Allowance for impairment losses	-	-	(35,227)	(35,227)
	-	-	9,542	9,542

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 14. DEFERRED TAX ASSETS AND LIABILITIES

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
<i>In thousands of AUD</i>	2006	2005	2006	2005	2006	2005
Trade and other receivables	(708)	(847)	62	5	(646)	(842)
Inventories	(2,446)	(1,380)	677	-	(1,769)	(1,380)
Property, plant and equipment	(119)	-	2,202	2,308	2,083	2,308
Employee benefits	(4,302)	(3,639)	-	-	(4,302)	(3,639)
Trade and other payables	(137)	(341)	-	-	(137)	(341)
Provisions	(653)	(123)	-	-	(653)	(123)
Other items	(4)	(4)	-	-	(4)	(4)
Translation reserve	(369)	-	-	208	(369)	208
Tax value of loss carry forwards recognised	(4,299)	(4,718)	-	-	(4,299)	(4,718)
Tax (assets) / liabilities	(13,037)	(11,052)	2,941	2,521	(10,096)	(8,531)
Set off of deferred tax liability	2,941	2,521	(2,941)	(2,521)	-	-
Net deferred tax asset	(10,096)	(8,531)	-	-	(10,096)	(8,531)

The Company	Assets		Liabilities		Net	
<i>In thousands of AUD</i>	2006	2005	2006	2005	2006	2005
Trade and other receivables	(655)	(659)	62	-	(593)	(659)
Inventories	(2,302)	(1,066)	653	-	(1,649)	(1,066)
Property, plant and equipment	(120)	-	2,182	2,279	2,062	2,279
Employee benefits	(4,043)	(3,219)	-	-	(4,043)	(3,219)
Trade and other payables	(107)	(302)	-	-	(107)	(302)
Provisions	(653)	(79)	-	-	(653)	(79)
Other items	(4)	(4)	-	-	(4)	(4)
Tax value of loss carry forwards recognised	(4,299)	(4,718)	-	-	(4,299)	(4,718)
Tax (assets) / liabilities	(12,183)	(10,047)	2,897	2,279	(9,286)	(7,768)
Set off of deferred tax liability	2,897	2,279	(2,897)	(2,279)	-	-
Net deferred tax asset	(9,286)	(7,768)	-	-	(9,286)	(7,768)



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 14. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year

Consolidated

	Balance 1 July 04	Recognised through business combination	Recognised in income	Recognised in equity	Balance 30 June 05	Recognised through business combination	Recognised in income	Recognised in equity	Balance 30 June 06
<i>In thousands of AUD</i>									
Trade and other receivables	(701)	-	(141)	-	(842)	-	134	62	(646)
Inventories	(1,622)	-	242	-	(1,380)	432	(821)	-	(1,769)
Property, plant and equipment	4,934	-	(240)	(2,386)	2,308	-	(225)	-	2,083
Employee benefits	(3,399)	(95)	(145)	-	(3,639)	(299)	(364)	-	(4,302)
Trade and other payables	(70)	-	(271)	-	(341)	-	208	(4)	(137)
Provisions	(86)	-	(37)	-	(123)	(17)	(513)	-	(653)
Other items	(4)	-	-	-	(4)	23	(23)	-	(4)
Translation reserve	237	-	-	(29)	208	-	-	(577)	(369)
Tax value of loss carry forwards recognised	(5,184)	-	466	-	(4,718)	-	419	-	(4,299)
	(5,895)	(95)	(126)	(2,415)	(8,531)	139	(1,185)	(519)	(10,096)

The Company

	Balance 1 July 04	Recognised through business combination	Recognised in income	Recognised in equity	Balance 30 June 05	Recognised through business combination	Recognised in income	Recognised in equity	Balance 30 June 06
<i>In thousands of AUD</i>									
Trade and other receivables	(508)	-	(151)	-	(659)	(97)	101	62	(593)
Inventories	(1,424)	-	358	-	(1,066)	180	(763)	-	(1,649)
Property, plant and equipment	4,896	-	(231)	(2,386)	2,279	-	(217)	-	2,062
Employee benefits	(3,106)	(34)	(79)	-	(3,219)	(466)	(358)	-	(4,043)
Trade and other payables	(58)	-	(244)	-	(302)	(37)	236	(4)	(107)
Provisions	(50)	-	(29)	-	(79)	(50)	(524)	-	(653)
Other items	(4)	-	-	-	(4)	-	-	-	(4)
Tax value of loss carry forwards recognised	(5,184)	-	466	-	(4,718)	-	419	-	(4,299)
	(5,438)	(34)	90	(2,386)	(7,768)	(470)	(1,106)	58	(9,286)

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 15. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of AUD</i>	Consolidated			The Company		
	Land and buildings	Plant and equipment	Under construction	Total	Land and buildings	Plant and equipment
<b>Cost</b>						
Balance at 1 July 2004	36,246	58,984	18	95,248	33,946	49,073
Acquisitions through business combinations	-	1,582	-	1,582	-	501
Other acquisitions	588	7,227	1	7,816	587	5,808
Disposals	(13,774)	(5,288)	-	(19,062)	(13,773)	(5,234)
Effect of movements in foreign exchange	-	3	-	3	-	-
Balance at 30 June 2005	23,060	62,508	19	85,587	20,760	50,148
Balance at 1 July 2005	23,060	62,508	19	85,587	20,760	50,148
Acquisitions through business combinations	400	1,649	-	2,049	400	1,373
Acquisitions of net assets of controlled entity	-	-	-	-	-	3,602
Other acquisitions	79	8,612	-	8,691	79	7,860
Transfer from capital works in progress	-	19	(19)	-	-	-
Disposals	(115)	(14,988)	-	(15,103)	(115)	(12,357)
Effect of movements in foreign exchange	-	(53)	-	(53)	-	-
Balance at 30 June 2006	23,424	57,747	-	81,171	21,124	50,626
						71,750





# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

<i>In thousands of AUD</i>	Consolidated			The Company	
	Land and buildings	Plant and equipment	Under construction	Land and buildings	Plant and equipment
<b>Depreciation and impairment losses</b>					
Balance at 1 July 2004	2,200	35,793	-	2,045	30,237
Depreciation charge for the year	362	6,029	-	332	4,682
Disposals	(938)	(3,635)	-	(937)	(3,665)
Balance at 30 June 2005	1,624	38,187	-	1,440	31,254
					32,694
Balance at 1 July 2005	1,624	38,187	-	1,440	31,254
Depreciation charge for the year	285	5,634	-	255	4,843
Disposals	(7)	(14,214)	-	(7)	(11,637)
Balance at 30 June 2006	1,902	29,607	-	1,688	24,460
					26,148
<b>Carrying amounts</b>					
At 1 July 2004	34,046	23,191	18	31,901	18,836
At 30 June 2005	21,436	24,321	19	19,320	18,894
					38,214
At 1 July 2005	21,436	24,321	19	19,320	18,894
At 30 June 2006	21,522	28,140	-	19,436	26,166
					45,602

### Security

As at 30 June 2006, property, plant and equipment with a carrying amount of \$46,428,000 (2005: \$42,359,000) was subject to various security charges in relation to the consolidated entity's finance facilities.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 16. INTANGIBLE ASSETS

In thousands of AUD	Note	Consolidated			The Company					
		Goodwill	Distribution rights	Customer contracts	Computer software	Total	Goodwill	Distribution rights	Computer software	Total
<b>Cost</b>										
Balance at 1 July 2004		20,095	641	-	1,544	22,280	15,107	641	1,410	17,158
Acquisitions through business combinations		10,330	-	-	-	10,330	6,736	-	-	6,736
Additions		-	-	-	1,365	1,365	-	-	1,311	1,311
Effect of movements in foreign exchange		9	-	-	-	9	-	-	-	-
Balance at 30 June 2005		30,434	641	-	2,909	33,984	21,843	641	2,721	25,205
<b>Amortisation and impairment losses</b>										
Balance at 1 July 2005		30,434	641	-	2,909	33,984	21,843	641	2,721	25,205
Acquisitions through business combinations	28	10,360	-	69	-	10,429	8,078	-	-	8,078
Additions		-	-	-	12,101	12,101	-	-	12,089	12,089
Effect of movements in foreign exchange		(496)	-	-	(1)	(497)	-	-	-	-
Balance at 30 June 2006		40,298	641	69	15,009	56,017	29,921	641	14,810	45,372
<b>Amortisation and impairment losses</b>										
Balance at 1 July 2004		-	127	-	837	964	-	127	750	877
Amortisation for the year		-	73	-	332	405	-	73	300	373
Balance at 30 June 2005		-	200	-	1,169	1,369	-	200	1,050	1,250
<b>Carrying amounts</b>										
Balance at 1 July 2005		-	200	-	1,169	1,369	-	200	1,050	1,250
Amortisation for the year		-	72	69	1,174	1,315	-	72	1,139	1,211
Impairment charge		1,486	-	-	-	1,486	1,486	-	-	1,486
Balance at 30 June 2006		1,486	272	69	2,343	4,170	1,486	272	2,189	3,947
<b>Carrying amounts</b>										
At 1 July 2004		20,095	514	-	707	21,316	15,107	514	660	16,281
At 30 June 2005		30,434	441	-	1,740	32,615	21,843	441	1,671	23,955
<b>Carrying amounts</b>										
At 1 July 2005		30,434	441	-	1,740	32,615	21,843	441	1,671	23,955
At 30 June 2006		38,812	369	-	12,666	51,847	28,435	369	12,621	41,425

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 16. INTANGIBLE ASSETS (continued)

### Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line items in the income statement:

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
Cost of sales	69	-	-	-
Depreciation and amortisation expenses	1,246	405	1,211	373
Impairment losses	1,486	-	1,486	-
	<b>2,801</b>	<b>405</b>	<b>2,697</b>	<b>373</b>

Due to lower than expected sales, an impairment loss of \$1,486,000 has been recognised during the period to reduce the carrying amount of the Queensland automotive parts distribution goodwill to recoverable amount. Further impairment may arise should planned marketing initiatives fail to achieve the projected cash flows in the short term.

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
The following units have significant carrying amounts of goodwill:				
Queensland fastener distribution	3,714	3,714	3,714	3,714
Western Australia and Northern Territory fastener distribution	4,192	4,192	4,450	4,450
New Zealand fastener distribution	9,930	5,256	-	-
Australia and New Zealand cabinet and furniture hardware distribution	5,190	-	4,485	-
Northern Territory automotive parts distribution	6,727	6,727	6,727	6,727
Queensland automotive parts distribution	2,107	3,593	2,107	-
Multiple units without significant goodwill	6,952	6,952	6,952	6,952
	<b>38,812</b>	<b>30,434</b>	<b>28,435</b>	<b>21,843</b>

Apart from the Australia and New Zealand cabinet and furniture hardware distribution business, the impairment tests for the cash generating units separately identified above are based on value in use calculations, in which projected pre-tax cash flows for the next five years, together with a terminal value based on year five cash flows, have been discounted at a pre-tax discount rate of 11.3% (2005: 10.5%). The projected cash flows are based on detailed operating budgets for the year ending 30 June 2007 approved by the Board, and higher level forecasts for the following four years approved by management.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 16. INTANGIBLE ASSETS (continued)

The key assumptions used in the value in use calculations are as follows:

Cash Generating Units	Key Assumptions	Basis For Determining Values Assigned to Each Key Assumption
Queensland fastener distribution	Projected gross margins	Based on average gross margins achieved in the period immediately before the budget period, adjusted for known changes in purchasing terms and the expected level of competition.
Western Australia and Northern Territory fastener distribution	Projected sales growth	Based on regional economic growth forecast and maintaining existing market share, except where new competition is expected.
New Zealand fastener distribution	Projected expenses/sales ratio	Based on expenses/sales ratio experienced in period immediately before the budget period, adjusted for known changes in expenses and expected impact of sales volume growth.
Northern Territory automotive parts distribution	Projected gross margins	Based on average gross margins achieved in the period immediately before the budget period, adjusted for known changes in purchasing terms, expected level of competition, and expected changes to sales mix.
	Projected sales growth	Based on impact of planned marketing initiatives to increase market share in the short-term, and thereafter based on regional economic growth.
	Projected expenses/sales ratio	Based on expenses/sales ratio experienced in period immediately before the budget period, adjusted for known changes in expenses and expected impact of sales volume growth.
Queensland automotive parts distribution	Projected gross margins	Based on average gross margins achieved in the period immediately before the budget period, adjusted for known changes in purchasing terms, expected level of competition, and expected changes to sales mix.
	Projected sales growth	Based on impact of planned marketing initiatives to increase market share in the medium term, and thereafter based on regional economic growth.
	Projected expenses/sales ratio	Based on expenses/sales ratio experienced in period immediately before the budget period, adjusted for known changes in expenses and expected impact of sales volume growth.

In respect to the Northern Territory automotive parts distribution business, a reasonably possible reduction in sales growth projections could cause the carrying amount of its goodwill to exceed recoverable amount. Sales growth is projected to be 12% for the year ending 30 June 2007, and 5% per annum thereafter. The recoverable amount of the Northern Territory automotive parts distribution business exceeded its carrying amount by \$132,000 as at 30 June 2006. A reduction in the rate of sales growth to 11% for the year ended 30 June 2007 would cause recoverable amount to equal its carrying amount.

The impairment test for the Australia and New Zealand cabinet and furniture hardware distribution business is based on fair value less costs to sell. As the businesses that comprise this cash generating unit were acquired in the current year, their fair value has been based on the acquisition price. There has been no significant change to market conditions affecting these businesses since acquisition.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>17. TRADE AND OTHER PAYABLES</b>				
Trade payables	32,380	34,779	30,585	30,492
Non trade payables and accrued expenses	7,346	6,613	6,668	5,813
	<b>39,726</b>	<b>41,392</b>	<b>37,253</b>	<b>36,305</b>

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>18. INTEREST-BEARING LOANS AND BORROWINGS</b>				
<b>Current</b>				
Bank overdraft – secured	1,566	1,951	1,566	1,951
Unsecured loan	372	-	372	-
	<b>1,938</b>	<b>1,951</b>	<b>1,938</b>	<b>1,951</b>
<b>Non-current</b>				
Bill acceptance facility – secured	76,583	37,839	72,801	33,300
Unsecured loan	394	-	394	-
	<b>76,977</b>	<b>37,839</b>	<b>73,195</b>	<b>33,300</b>
<b>Financing facilities</b>				
<b>Total facilities available at balance date</b>				
Bank overdraft	5,000	5,000	5,000	5,000
Bill acceptance facility	82,000	60,000	74,800	46,953
Guarantee facility	882	882	882	882
Corporate credit card facility	350	280	350	280
	<b>88,232</b>	<b>66,162</b>	<b>81,032</b>	<b>53,115</b>
<b>Facilities utilised at balance date</b>				
Bank overdraft	1,566	1,951	1,566	1,951
Bill acceptance facility	76,583	37,839	72,801	33,300
Guarantee facility	730	635	730	635
Corporate credit card facility	-	-	-	-
	<b>78,879</b>	<b>40,425</b>	<b>75,097</b>	<b>35,886</b>
<b>Facilities not utilised at balance date</b>				
Bank overdraft	3,434	3,049	3,434	3,049
Bill acceptance facility	5,417	22,161	1,999	13,653
Guarantee facility	152	247	152	247
Corporate credit card facility	350	280	350	280
	<b>9,353</b>	<b>25,737</b>	<b>5,935</b>	<b>17,229</b>



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 18. INTEREST-BEARING LOANS AND BORROWINGS (continued)

### Financing arrangements

#### Bank overdraft facility

The bank overdraft facility may be drawn at any time and is repayable on demand. Interest is charged at prevailing market rates.

#### Bill acceptance facility

The bill acceptance facility is subject to annual review. Each bill drawn on the facility is discounted at the prevailing market rate at the time of draw-down, with the rate applying for the term of the bill, generally 90 days.

#### Guarantee facility

Bank guarantees may be arranged from time to time under this facility, whereby the bank guarantees the performance of the consolidated entity in relation to certain contractual commitments, up to the limit specified in each individual guarantee.

#### Corporate credit card facility

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

### Securities

All of the above facilities are secured by fixed and floating charges over the assets and undertakings of the parent entity and ACN 086 567 713 Pty Ltd (formerly Coventry Auto Parts Pty Ltd), a general security agreement from Coventry Group (NZ) Limited (formerly Hylton Parker Fasteners Limited), and by a deed of cross guarantee between those companies.

## 19. SHARE BASED PAYMENTS

Long term incentives are provided to senior management, including key management personnel, through the Executive Long Term Incentive Plan ("ELTIP") which was approved by shareholders at the annual general meeting on 5 November 2003. The ELTIP provides for eligible executives (currently 8, including the Managing Director) to receive fully paid ordinary shares in the Company up to a value of 25% of fixed annual remuneration at the start of the performance period, upon achieving certain performance criteria set by the Board.

Details of the offers made under the ELTIP are as follows:

Description	Number of shares offered	Number of shares forfeited	Vesting conditions
2003 Offer	302,392	41,114	Earnings per share in excess of \$1.27 cumulative over 3 years. Total shareholder return over 3 years at least equal to that of the company at the 50th percentile of the Comparator Group, being the companies comprising the S&P/ASX Small Industrials Index at 1 July 2003. Continuous service for 3 years.
2004 Offer	90,640	14,815	Earnings per share in excess of \$1.55 cumulative over 3 years. Total shareholder return over 3 years at least equal to that of the company at the 50th percentile of the Comparator Group, being the companies comprising the S&P/ASX Small Industrials Index at 1 July 2004. Continuous service for 3 years.
2005 Offer	85,203	-	Earnings per share in excess of \$1.68 cumulative over 3 years. Return on equity of at least 12% for the year ending 30 June 2008. Continuous service for 3 years.

During the year ended 30 June 2005, 41,114 shares under the 2003 Offer and 14,815 shares under the 2004 Offer were forfeited. No shares were forfeited in the year ended 30 June 2006.

The fair value of services received in return for the offers of the ELTIP shares has been calculated at the date of grant using a Black-Scholes model incorporating the factors and assumptions detailed below. Non-market performance conditions are not taken into account in the measurement of fair value at grant date of the services received. The fair value of the services is remeasured, having regard to non-market conditions only, at each balance sheet date and at settlement date.

Grant date	Expiry date	Fair value per share	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
1 July 2003	30 June 2006	\$3.96	\$0.01	\$4.95	24%	5.7%	7.4%
1 July 2004	30 June 2007	\$4.71	\$0.01	\$5.72	24%	5.4%	6.4%
26 June 2006	30 June 2008	\$3.52	\$0.01	\$4.20	25%	5.1%	8.6%

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 19. SHARE BASED PAYMENTS (continued)

The total employee benefits expense recognised for the reporting period under each ELTIP offer is as follows:

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
2003 Offer – equity settled	61	172	61	172
2004 Offer – equity settled	37	73	37	73
2005 Offer – equity settled	29	-	29	-
	127	245	127	245

## 20. PROVISIONS

<i>In thousands of AUD</i>	Dividend	Lease makegood	Warranty	Restructuring	Loss on sublease	Total
<b>Consolidated</b>						
Balance at 1 July 2005	10,641	323	54	-	32	11,050
Provisions made during the year	-	-	59	1,235	305	1,599
Provisions used during the year	(10,641)	-	(8)	-	(15)	(10,664)
Provisions acquired through business combinations	-	58	26	-	-	84
Balance at 30 June 2006	-	381	131	1,235	322	2,069
<b>The Company</b>						
Balance at 1 July 2005	10,641	216	48	-	-	10,905
Provisions made during the year	-	-	56	1,235	305	1,596
Provisions used during the year	(10,641)	-	(7)	-	(10)	(10,658)
Provisions acquired through business combinations	-	165	34	-	27	226
Balance at 30 June 2006	-	381	131	1,235	322	2,069

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 21. CAPITAL AND RESERVES

### Reconciliation of movement in capital and reserves

#### Consolidated

<i>In thousands of AUD</i>	Share capital	Translation reserve	Realisation reserve	Hedging reserve	Share-based payments reserve	Retained earnings	Total for members of the Company	Minority interest	Total equity
Balance at 1 July 2004	93,685	559	17,255	-	234	54,760	166,493	2,870	169,363
Total recognised income and expense	-	(68)	-	-	245	19,696	19,873	389	20,262
Transfer to reserve	-	-	5,567	-	-	(5,567)	-	-	-
Dividends to shareholders	2,464	-	-	-	-	(23,345)	(20,881)	(256)	(21,137)
Balance at 30 June 2005	96,149	491	22,822	-	479	45,544	165,485	3,003	168,488
Balance at 1 July 2005	96,149	491	22,822	-	479	45,544	165,485	3,003	168,488
Effect of change in accounting policy	-	-	-	(188)	-	-	(188)	-	(188)
Balance at 1 July 2005 restated	96,149	491	22,822	(188)	479	45,544	165,297	3,003	168,300
Total recognised income and expense	-	(1,352)	-	325	127	9,337	8,437	255	8,692
Transfer to reserve	-	-	34	-	-	(34)	-	-	-
Dividends to shareholders	2,724	-	-	-	-	(12,869)	(10,145)	(422)	(10,567)
Balance at 30 June 2006	98,873	(861)	22,856	137	606	41,978	163,589	2,836	166,425

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 21. CAPITAL AND RESERVES (continued)

### Reconciliation of movement in capital and reserves

#### Company

	Share capital	Realisation reserve	Hedging reserve reserve	Share-based payments	Retained earnings	Total equity
<i>In thousands of AUD</i>						
Balance at 1 July 2004	93,685	17,255	-	234	50,124	161,298
Total recognised income and expense	-	-	-	245	18,254	18,499
Transfer to reserve	-	5,567	-	-	(5,567)	-
Dividends to shareholders	2,464	-	-	-	(23,345)	(20,881)
Balance at 30 June 2005	96,149	22,822	-	479	39,466	158,916
Balance at 1 July 2005	96,149	22,822	-	479	39,466	158,916
Effect of change in accounting policy	-	-	(188)	-	-	(188)
Balance at 1 July 2005 restated	96,149	22,822	(188)	479	39,466	158,728
Total recognised income and expense	-	-	325	127	9,560	10,012
Transfer to reserve	-	34	-	-	(34)	-
Dividends to shareholders	2,724	-	-	-	(12,869)	(10,145)
Balance at 30 June 2006	98,873	22,856	137	606	36,123	158,595

#### Share capital

	The Company Ordinary shares	
<i>In thousands of shares</i>	2006	2005
On issue at 1 July	35,469	35,092
Issued under dividend reinvestment plan	481	377
On issue at 30 June – fully paid	35,950	35,469

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

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

#### Translation reserve

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

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

#### Realisation reserve

The asset realisation reserve includes revaluation increments and decrements previously included in retained earnings, which have been realised upon the disposal of previously revalued non-current assets.

#### Share based payments reserve

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 21. CAPITAL AND RESERVES (continued)

### Dividends

Dividends recognised in the current year by the Company are:

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / Unfranked	Date of payment
<b>2006</b>				
Interim 2006 ordinary	18	6,447	Franked <sup>1</sup>	23 March 2006
Final 2005 ordinary	18	6,422	Franked <sup>2</sup>	23 September 2005
Total amount		<u>12,869</u>		
<b>2005</b>				
Special 2005 ordinary	30	10,641	Franked <sup>2</sup>	5 July 2005
Interim 2005 ordinary	18	6,384	Franked <sup>2</sup>	18 March 2005
Final 2004 ordinary	18	6,320	Franked <sup>2</sup>	24 September 2004
Total amount		<u>23,345</u>		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.

After the balance sheet date the following dividend was declared by the directors. The dividend has not been provided. The declaration and subsequent payment of the dividend has no income tax consequences.

<i>In thousands of AUD</i>	Cents per share	Total amount	Franked / Unfranked	Date of payment
Final ordinary	17	<u>6,112</u>	Franked <sup>1</sup>	12 October 2006

The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2006 and will be recognised in subsequent financial reports.

<sup>1</sup> Paid out of AIFRS profits      <sup>2</sup> Paid out of old AGAAP profits

### Dividend franking account

<i>In thousands of AUD</i>	THE COMPANY	
	2006	2005
30 per cent franking credits available to shareholders of Coventry Group Ltd for subsequent financial years	<u>23,085</u>	21,417

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for franking credits that will arise from the payment of the current tax liabilities.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$2,619,000 (2005: \$2,752,000).

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 22. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The consolidated entity does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

### Interest rate risk

#### Hedging

The consolidated entity adopts a policy of ensuring that a large proportion of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate swaps, denominated in Australian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the consolidated entity's policy. The swaps mature over the next 5 years and have fixed swap rates ranging from 5.86 per cent to 6.28 per cent. At 30 June 2006, the consolidated entity had interest rate swaps with a notional contract amount of \$35 million (2005: \$15 million).

The consolidated entity classifies interest rate swaps as cash flow hedges and states them at fair value. The fair value of swaps at 1 July 2005 was adjusted against the opening balance of the hedging reserve at that date.

The net fair value of swaps at 30 June 2006 was \$195,000 (2005: (\$268,000)) comprising assets of \$210,000 (2005: \$nil) and liabilities of \$15,000 (2005: \$268,000). These amounts were recognised as fair value derivatives with effect from 1 July 2005.



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 22. FINANCIAL INSTRUMENTS (continued)

### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated		2006					2005							
		Effective interest rate	1 year or less	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Effective interest rate	Total	1 year or less	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years
<i>In thousands of AUD</i>	Note													
Cash and cash equivalents	9	4.01%	2,493	-	-	-	-	5.31%	25,853	25,853	-	-	-	-
Bill acceptance facility	18	6.19%	(76,583)	-	-	-	-	5.92%	(37,839)	(37,839)	-	-	-	-
Effect of interest rate swaps		(0.15%)	-	35,000	(15,000)	-	(10,000)	(0.27%)	-	15,000	-	(15,000)	-	-
Unsecured loan	18	5.75%	(766)	-	(766)	-	-	-	-	-	-	-	-	-
Bank overdrafts	18	9.00%	(1,566)	-	-	-	-	8.75%	(1,951)	(1,951)	-	-	-	-
			(76,422)	(40,656)	(15,766)	-	(10,000)		(13,937)	1,063	-	(15,000)	-	-
The Company		2006					2005							
		Effective interest rate	1 year or less	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	Effective interest rate	Total	1 year or less	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years
<i>In thousands of AUD</i>	Note													
Cash and cash equivalents	9	1.40%	184	-	-	-	-	5.26%	14,971	14,971	-	-	-	-
Loans to controlled entities	10	7.55%	8,868	-	-	-	-	1.87%	27,486	27,486	-	-	-	-
Bill acceptance facility	18	6.10%	(72,801)	-	-	-	-	5.70%	(33,300)	(33,300)	-	-	-	-
Effect of interest rate swaps		(0.05%)	-	35,000	(15,000)	-	(10,000)	(0.05%)	-	15,000	-	(15,000)	-	-
Unsecured loan	18	5.75%	(766)	-	(766)	-	-	-	-	-	-	-	-	-
Bank overdrafts	18	9.00%	(1,566)	-	-	-	-	8.75%	(1,951)	(1,951)	-	-	-	-
			(66,081)	(30,315)	(15,766)	-	(10,000)		7,206	22,206	-	(15,000)	-	-

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 22. FINANCIAL INSTRUMENTS (continued)

### Foreign currency risk

The consolidated entity is exposed to foreign currency risk on purchases that are denominated in a currency other than the Australian dollar. The currencies giving rise to this risk are primarily US dollars, Euros and Japanese yen. The consolidated entity selectively uses forward exchange contracts to hedge its foreign currency risk. The forward exchange contracts have maturities of less than one year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

### Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of 'net financing costs'. The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 30 June 2006 was nil (2005: nil) for the consolidated entity and nil (2005: nil) for the Company recognised in fair value derivatives.

### Fair values

The fair values of financial assets and financial liabilities approximate their carrying amounts in the balance sheet. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

### Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, market quotes are used. Those quotes are back tested using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

### Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

## 23. OPERATING LEASES

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
Less than one year	11,581	9,203	8,632	6,725
Between one and five years	19,456	14,393	16,791	10,823
More than five years	23,019	2,535	22,991	2,535
	54,056	26,131	48,414	20,083

The consolidated entity leases various premises, plant and equipment under operating leases. The leases typically run for varying periods and in some cases provide for an option to renew the lease after expiry. Lease payments are reviewed periodically to reflect market rentals. None of the leases include contingent rentals.

During the financial year ended 30 June 2006, the consolidated entity recognised \$10,142,000 (2005: \$8,304,000) as an expense in the income statement in respect of operating leases (the Company: \$8,647,000; 2005: \$5,244,000).

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

<i>In thousands of AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
<b>24. CAPITAL AND OTHER COMMITMENTS</b>				
Capital expenditure commitments				
Plant and equipment				
<i>Contracted but not provided for and payable:</i>				
Not later than one year	5,046	2,250	5,046	2,250
Later than one year but not later than five years	-	2,250	-	2,250
Later than five years	-	373	-	373
	<b>5,046</b>	<b>4,873</b>	<b>5,046</b>	<b>4,873</b>
Contractual commitments				
Information technology managed services				
<i>Contracted but not provided for and payable:</i>				
Not later than one year	1,411	1,305	1,411	1,305
Later than one year but not later than five years	4,112	4,017	4,112	4,017
	<b>5,523</b>	<b>5,322</b>	<b>5,523</b>	<b>5,322</b>

Information regarding commitments under employment contracts is provided in the Remuneration Report section of the Directors' report.

## 25. CONTINGENT LIABILITIES NOT CONSIDERED REMOTE

The Company has a contingent obligation to pay further purchase consideration for the following business acquisition as follows:

### Cornall Merchandise

An amount of up to \$1,000,000 is payable to the vendors contingent upon agreed profit targets being achieved for the year ending 31 December 2006. Any such payment is due to be paid on 31 March 2007. No accrual has been raised for this contingent purchase consideration on the basis that management do not believe that it is probable that this amount will become payable.

## 26. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned controlled entity detailed below is relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the Class Order that the Company and the controlled entity enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of the controlled entity under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The controlled entity has also given a similar guarantee in the event that the Company is wound up.

The controlled entity subject to the Deed is ACN 086 567 713 Pty Ltd (formerly Coventry Auto Parts Pty Ltd).

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entity which is a party to the Deed, after eliminating all transactions between those two companies, at 30 June 2006 is set out below.

### **Summarised income statement and retained profits**

<i>In thousands of AUD</i>	CONSOLIDATED	
	2006	2005
<i>Profit before tax</i>	13,477	20,940
Income tax expense	(3,917)	(5,011)
<i>Profit after tax</i>	<b>9,560</b>	15,929
Retained profits at beginning of year	<b>39,466</b>	36,147
Adjustment to retained profits on transition to IFRS, net of tax	-	16,302
Transfer to reserves	(34)	(5,567)
Dividends recognised during the year	(12,869)	(23,345)
<i>Retained profits at end of year</i>	<b>36,123</b>	<b>39,466</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 26. DEED OF CROSS GUARANTEE (continued)

### Balance Sheet

<i>In thousands of AUD</i>	CONSOLIDATED	
	2006	2005
<b>Assets</b>		
Cash and cash equivalents	184	15,137
Trade and other receivables	89,830	74,610
Inventories	90,863	80,129
<b>Total current assets</b>	<b>180,877</b>	<b>169,876</b>
Investments	9,542	9,542
Deferred tax assets	9,286	7,801
Property, plant and equipment	45,602	42,721
Intangible assets	41,425	26,374
Derivatives asset	210	-
<b>Total non-current assets</b>	<b>106,065</b>	<b>86,438</b>
<b>Total assets</b>	<b>286,942</b>	<b>256,314</b>
<b>Liabilities</b>		
Trade and other payables	37,253	39,772
Interest-bearing loans and borrowings	1,938	1,951
Employee benefits	10,494	8,869
Income tax payable	398	-
Provisions	2,069	11,018
<b>Total current liabilities</b>	<b>52,152</b>	<b>61,610</b>
Interest-bearing loans and borrowings	73,195	33,300
Derivatives liability	15	-
Employee benefits	2,985	2,488
<b>Total non-current liabilities</b>	<b>76,195</b>	<b>35,788</b>
<b>Total liabilities</b>	<b>128,347</b>	<b>97,398</b>
<b>Net assets</b>	<b>158,595</b>	<b>158,916</b>
<b>Equity</b>		
Issued capital	98,873	96,149
Reserves	23,599	23,301
Retained earnings	36,123	39,466
<b>Total equity</b>	<b>158,595</b>	<b>158,916</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 27. CONTROLLED ENTITIES

	Country of Incorporation	Ownership interest	
		2006 %	2005 %
AA Gaskets Pty Ltd	Australia	73	73
ACN 086 567 713 Pty Ltd (formerly Coventry Auto Parts Pty Ltd)	Australia	100	100
Coventry Group (NZ) Limited (formerly Hylton Parker Fasteners Limited)	New Zealand	100	100
NZ Gaskets Limited*	New Zealand	73	73

The ultimate parent entity is Coventry Group Ltd.

\* The company is a controlled entity of AA Gaskets Pty Ltd and operates in New Zealand.

## 28. ACQUISITIONS OF OPERATIONS

On 1 July 2005, the consolidated entity acquired the business of Am-Tech Fastenings and Components Limited, a New Zealand based fastener distributor.

On 1 December 2005, the consolidated entity acquired the business of Cornall Merchandise, a distributor of cabinet and furniture hardware in Australia and New Zealand.

On 3 January 2006, the Company acquired the business of Howard Silvers Hardware, a distributor of cabinet and furniture hardware in Australia.

These operations contributed \$1,204,000 to the consolidated net profit before interest and tax for the period (the Company: \$152,000). This contribution to the consolidated profit was after charging amortisation of customer contracts of \$75,000 (the Company: \$nil) and increasing cost of sales by \$1,326,000 (the Company: \$972,000) as a result of fair value adjustments to acquired inventories. Cost of sales for the year ending 30 June 2007 for the consolidated entity will also be increased by \$103,000 (the Company: \$28,000) as a result of fair value adjustments to acquired inventories. A deferred tax liability of \$455,000 (the Company: \$300,000) was recognised in relation to these fair value adjustments at time of acquisition.

If the latter two acquisitions had occurred on 1 July 2005, the estimated consolidated entity revenue would have been \$519,484,000 (the Company: \$467,884,000) and the estimated consolidated entity profit before tax would have been \$15,331,000 (the Company: \$14,018,000) for the year ended 30 June 2006. The estimate of consolidated entity profit before tax is after charging amortisation of customer contracts of \$75,000 (the Company: \$nil) and increasing cost of sales by \$1,435,000 (the Company: \$1,000,000) as a result of fair value adjustments to acquired inventories.

On 1st November 2005, the wholly owned controlled entity, ACN 086 567 713 Pty Ltd (formerly Coventry Auto Parts Pty Ltd) transferred all of its assets and liabilities to the Company, in repayment of part of its advance from the Company. This transaction had no impact on actual or estimated profit for the Company for the year ended 30 June 2006. Had this transaction and the business combinations described above occurred on 1 July 2005, estimated revenue for the Company would have been \$482,612,000 for the year ended 30 June 2006.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 28. ACQUISITIONS OF OPERATIONS (continued)

The fair values (and carrying amounts) at acquisition date of the assets and liabilities acquired were as follows:

<i>In thousands of AUD</i>	CONSOLIDATED	THE COMPANY
Property, plant and equipment	2,049	5,375
Trade and other receivables	2,023	8,352
Inventories	11,394	20,799
Deferred tax assets	316	771
Customer contracts	69	-
Goodwill on acquisition	10,360	8,078
Other creditors and accruals	(16)	(4,549)
Provision for employee benefits	(990)	(1,555)
Deferred tax liability	(455)	(300)
Other provisions	(58)	(201)
	24,692	36,770
Cash consideration paid	24,692	16,419
Cash acquired	-	(324)
Net cash outflow	24,692	16,095
Repayment of advance by controlled entity	-	20,675
	24,692	36,770

Goodwill has arisen on these acquisitions as customer relationships (apart from certain customer contracts) and brands did not meet the criteria for recognition as intangible assets at the date of acquisition.

## 29. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

<i>In thousands of AUD</i>	Note	CONSOLIDATED		THE COMPANY	
		2006	2005	2006	2005
<b>Cash flows from operating activities</b>					
Profit for the period		9,641	17,701	9,560	15,929
<i>Adjustments for:</i>					
Depreciation		7,093	6,723	6,237	5,314
Amortisation		147	73	72	73
Impairment losses	4	1,486	-	1,486	-
Investment income	6	(523)	(561)	(933)	(288)
Interest expense	6	3,768	2,189	3,398	1,857
Dividends from controlled entities	6	-	-	(1,965)	(1,353)
Net gain on disposal of property, plant and equipment	3	(313)	(204)	(294)	(228)
Net gain on disposal of business	3	-	(390)	-	(390)
Net gain on sale of land and buildings		-	(3,583)	-	(3,583)
Income tax expense	7	5,046	6,402	3,917	5,011
<b>Operating profit before changes in working capital and provisions</b>		26,345	28,350	21,478	22,342
(Increase)/decrease in trade and other receivables		(12,573)	(6,428)	(10,638)	(5,320)
(Increase)/decrease in inventories		(3,092)	(8,965)	(3,351)	(9,523)
(Decrease)/increase in trade and other payables		(1,685)	4,625	(3,651)	4,850
Increase in provisions and employee benefits		3,441	4,159	6,388	8,566
		12,436	21,741	10,226	20,915
Interest paid		(4,372)	(1,716)	(4,003)	(1,383)
Income taxes paid		(6,004)	(7,555)	(4,543)	(6,017)
<b>Net cash from operating activities</b>		2,060	12,470	1,680	13,515



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 30. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

### *Non-executive directors*

W G Kent, AO (Chairman)  
J Boros  
R B Flynn  
C M Kyle  
P A Kyle, AM <sup>1</sup>  
R M McLean, AM  
B F Nazer

### *Executives*

V Scidone, Group General Manager - Industrial  
D J Beisley, Group General Manager – Automotive <sup>2</sup>  
S A Cooper, Chief Financial Officer  
J S Furness, Chief Information Officer  
J Colli, Company Secretary

### *Executive directors*

C J Glenn (Chief Executive Officer and Managing Director)

<sup>1</sup> resigned 8 November 2005

<sup>2</sup> appointed 31 August 2005

### Key management personnel compensation

The key management personnel compensation included in employee benefits expense is as follows:

<i>In AUD</i>	CONSOLIDATED		THE COMPANY	
	2006	2005	2006	2005
Short-term employee benefits	2,107,986	2,248,926	2,107,986	2,248,926
Post-employment benefits	251,909	165,601	251,909	165,601
Termination benefits	-	278,585	-	278,585
Equity compensation benefits	195,704	308,011	195,704	308,011
	2,555,599	3,001,123	2,555,599	3,001,123

### Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and applicable equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' report.

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 30. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### Movements in shares

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

	Held at 1 July 2005	Purchases	Sales	Held at Resignation	Held at 30 June 2006
<b>Directors</b>					
W J Kent (Chairman)	35,124	2,314	-	-	37,438
J Boros	7,500	4,500	-	-	12,000
R B Flynn	4,738	10,463	-	-	15,201
C J Glenn	13,606	568	-	-	14,174 <sup>(i)</sup>
C M Kyle	2,936,706	61,658	-	-	2,998,364 <sup>(ii)</sup>
P A Kyle	6,122	193	-	6,315	-
R M McLean	16,189	12,276	-	-	28,465
B F Nazer	2,000	23,000	-	-	25,000
<b>Executives</b>					
V Scidone	6,819	2,129	-	-	8,948
D J Beisley	-	-	-	-	-
S A Cooper	3,782	250	-	-	4,032
J S Furness	1,997	1,665	-	-	3,662
J Colli	-	-	-	-	-

No shares were granted to key management personnel during the reporting period as compensation.

(i) Includes 5,000 shares held by personally-related entities in which Mr C J Glenn has no relevant interest.

(ii) Includes 1,435,344 shares held by personally-related entities in which Mr C M Kyle has no relevant interest.

	Held at 1 July 2004	Purchases	Sales	Held at 30 June 2005
<b>Directors</b>				
W J Kent (Chairman)	32,501	2,623	-	35,124
J Boros	7,500	-	-	7,500
R B Flynn	4,402	336	-	4,738
C J Glenn	29,827	4,377	(20,598) <sup>(i)</sup>	13,606 <sup>(ii)</sup>
C M Kyle	2,934,124	2,582	-	2,936,706 <sup>(iii)</sup>
P A Kyle	5,664	458	-	6,122
R M McLean	16,189	-	-	16,189
B F Nazer	-	2,000	-	2,000
<b>Executives</b>				
V Scidone	5,401	1,418	-	6,819
S A Cooper	3,498	284	-	3,782
J S Furness	847	1,150	-	1,997
J Colli	-	-	-	-

(i) These shares were sold by personally-related entities in which Mr C J Glenn has no relevant interest.

(ii) Includes 5,000 shares held by personally-related entities in which Mr C J Glenn has no relevant interest.

(iii) Includes 1,371,104 shares held by personally-related entities in which Mr C M Kyle has no relevant interest.

### Other transactions

From time to time, key management personnel may purchase goods from companies within the consolidated entity on the same terms as apply to other employees of the consolidated entity.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 31. RELATED PARTIES

### Identity of related parties

The consolidated entity has a related party relationship with its controlled entities (see Note 27) and with its key management personnel (see Note 30).

### Controlled entities

All transactions with controlled entities are on normal terms and conditions.

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

<i>In AUD</i>	THE COMPANY	
	2006	2005
Dividend revenue	1,965,345	1,353,271
Revenue from sale of goods	452,125	1,248,341
Purchase of inventories	2,168,387	2,297,567
(Decrease)/increase in intercompany advance accounts:	(17,215,894)	12,139,244
Aggregate amounts receivable from controlled entities:		
Advance accounts – interest free <sup>(i)</sup>	1,403,254	20,675,287
Advance account subject to interest charges	8,868,248	6,810,306
Other	3,196	65,192
	10,274,698	27,550,785

During the year ended 30 June 2006, the Company received interest of \$603,000 (2005: \$nil) in respect of the advance account subject to interest charges. Interest is charged at commercial rates.

(i) This advance was fully provided for as at 30 June 2006.

## 32. SUBSEQUENT EVENTS

### Dividends

A dividend has been declared since the end of the current reporting period as disclosed at Note 21.

## 33. EXPLANATION OF TRANSITION TO AIFRSs

As stated in significant accounting policies Note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRSs.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition), except in respect to the change in accounting policy set out in Note 34.

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

### (a) Property, plant and equipment

Property, plant and equipment has been measured at cost under AIFRS. However, as permitted by the election available under AASB 1, at transition date certain items of property, plant and equipment have been recognised at deemed cost, being a revalued amount prior to transition date that approximates fair value as at the date of valuation.

Any asset revaluation reserve balance relating to these assets was reclassified to retained earnings at transition date. For the consolidated entity, at 1 July 2004 an amount of \$14,826,000 (the Company: \$14,684,000) was reclassified from the asset revaluation reserve to retained earnings. As carrying amounts, depreciation rates and useful economic lives have not changed there was no effect on the income statements of the consolidated entity and the Company for the financial year ended 30 June 2005.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 33. EXPLANATION OF TRANSITION TO AIFRSs (continued)

### (a) *Property, plant and equipment (continued)*

Under AIFRS the gain or loss on the disposal of property, plant and equipment is recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity for the year ended 30 June 2005, revenue was decreased by \$21,358,000 (the Company: \$21,296,000), book value of assets sold was decreased by \$17,571,000 (the Company: \$17,485,000) and other income of \$204,000 (the Company: \$228,000) and a net gain on sale of land and buildings of \$3,583,000 (the Company: \$3,583,000) were recognised.

### (b) *Business combinations*

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date were not restated in preparing the opening AIFRS balance sheet. The assets and liabilities were then subject to the other requirements of AASB 1.

Business combinations that occurred on or after 1 July 2004 were restated to comply with AIFRS. All business combinations were accounted for by applying the purchase method. As a result of fair value adjustments to acquired inventories, goodwill and retained profits for the consolidated entity were reduced by \$526,000 (the Company: \$232,000) as at 30 June 2005, and cost of sales increased by \$526,000 (the Company: \$232,000) for the year ended 30 June 2005.

### (c) *Intangible assets*

#### Other intangible assets

On transition, other intangible assets were reviewed to ensure they were capable of recognition under AASB 138 *Intangible Assets* and tested for impairment. Capitalised software costs for the consolidated entity at 1 July 2004 of \$707,000 (the Company: \$660,000), and at 30 June 2005 of \$1,740,000 (the Company: \$1,671,000), were reclassified from property, plant and equipment to intangible assets.

#### Amortisation

Under AIFRS, goodwill and intangible assets with an indefinite useful life are not subject to amortisation but tested for impairment annually. Other intangible assets are amortised from the date they are available for use.

The impact on the profit before tax for the year ended 30 June 2005 from the reversal of goodwill amortisation was an increase for the consolidated entity of \$1,949,000 (the Company: \$1,454,000). In addition, profit before tax for the consolidated entity for the year ended 30 June 2005 was increased by \$99,000, representing the reversal of amortisation of distribution rights that were written off on transition to AIFRS (refer Note 33 (d)).

### (d) *Impairment*

Goodwill and other intangible assets were tested for impairment as at transition date. For the consolidated entity, at 1 July 2004 an impairment loss on other intangible assets of \$701,000, relating to distribution rights held by the automotive parts distribution segment, was recognised as a decrease in retained earnings. This arose from the more rigorous impairment test under AIFRS. The recoverable amount of the distribution rights was based on value in use, which was estimated using a pre-tax discount rate of 12.5%. No further adjustments were required at 30 June 2005. For the Company, at 1 July 2004 consequential impairment losses of \$418,000 and \$283,000 in relation to investments in controlled entities and advances to controlled entities respectively, were recognised.

### (e) *Taxation*

On transition to AIFRS the balance sheet method of tax effect accounting was adopted rather than the liability method applied under previous GAAP.

The impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the deferred tax balances and the previously reported tax expense, was an increase in deferred tax assets of \$5,657,000 (the Company: \$5,368,000), an increase in deferred tax liabilities of \$5,283,000 (the Company: \$5,001,000), and an increase in retained earnings of \$374,000 (the Company: \$367,000).

The increase in deferred tax assets for both the consolidated entity and the Company arose primarily from the recognition of accumulated tax losses of \$5,184,000, as a result of different recognition criteria under AIFRS. The increase in deferred tax liabilities arose primarily from the recognition of deferred tax relating to previous property revaluations (consolidated entity: \$4,527,000; the Company: \$4,405,000).

The impact of the change in basis on the tax expense for the financial year ended 30 June 2005 was an increase for the consolidated entity of \$401,000 (the Company: \$508,000). As at 30 June 2005, deferred tax assets and deferred tax liabilities of the consolidated entity were decreased by \$747,000 (the Company: \$905,000) and \$2,763,000 (the Company: \$2,722,000) respectively. Retained profits were also decreased by \$2,386,000 for both the consolidated entity and the Company, due to the reversal of a deferred tax liability that was recognised in equity on transition to AIFRS. As required under AIFRS, where appropriate deferred tax liabilities have been offset against deferred tax assets.

## Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

### 33. EXPLANATION OF TRANSITION TO AIFRSs (continued)

#### *(f) Employee benefits*

##### Share based payments

Under AGAAP no expense was recognised for shares offered under the Company's executive long term incentive plan ("ELTIP").

Under AIFRS, the fair value determined at grant date of shares offered under the ELTIP is expensed on a straight line basis over the vesting period, based on the estimated number of shares that will vest.

For the consolidated entity and the Company at 1 July 2004, this resulted in a decrease to retained earnings of \$234,000 and an increase to other reserves of \$234,000.

For the financial year ended 30 June 2005, employee benefits expense and other reserves were increased by \$245,000 in the consolidated entity and the Company.

#### *(g) Foreign currency*

Under previous GAAP no deferred tax liability was recognised in respect of the foreign currency translation reserve, whereas under AIFRS such a deferred tax liability has been recognised.

For the consolidated entity, this resulted in an increase to deferred tax liability and a decrease to other reserves of \$237,000 at 1 July 2004 and \$206,000 at 30 June 2005. The deferred tax amounts are included at Note 33 (c).

##### *Provision for lease makegood costs*

Under AIFRS an entity is required to provide for the estimated costs of making good damages or other defects to a leased property upon termination of the lease, in accordance with the relevant lease agreement. Under previous GAAP, these costs were expensed upon termination of the lease. At 30 June 2004, for the consolidated entity this resulted in an increase to provisions and a decrease to retained earnings of \$201,000 (the Company: \$138,000). At 30 June 2005, for the consolidated entity provisions were increased and retained earnings decreased by \$122,000 (the Company: \$77,000).



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 33. EXPLANATION OF TRANSITION TO AIFRSs (continued)

### Summary of transitional adjustments

#### Reconciliation of equity

The following table sets out the adjustments to the equity of the Company and consolidated entity at transition to AIFRS as at 1 July 2004 and as at 30 June 2005.

	CONSOLIDATED						THE COMPANY			
	1 July 2004			30 June 2005			1 July 2004			30 June 2005
	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Effect of transition to AIFRSs
<i>In thousands of AUD</i>										
<b>ASSETS</b>										
Cash assets	12,356	-	12,356	25,853	-	25,853	2,819	-	14,971	-
Trade and other receivables	67,196	-	67,196	71,654	-	71,654	71,715	-	87,787	(283)
Inventories	79,632	-	79,632	88,441	-	88,441	62,134	-	68,850	-
Income tax receivable	-	-	-	215	-	215	1,263	-	1,304	-
<b>Total current assets</b>	159,184	-	159,184	186,163	-	186,163	137,931	-	172,912	(283)
<b>Non-current assets</b>										
Other financial assets	-	-	-	-	-	-	15,782	(701)	9,960	(418)
Property, plant and equipment	57,962	(707)	57,255	47,516	(1,740)	45,776	51,397	(660)	39,885	(1,671)
Deferred tax assets	5,521	374	5,895	6,142	2,389	8,531	5,070	367	5,584	2,184
Intangible assets	21,310	6	21,316	30,054	2,561	32,615	15,621	660	21,062	2,893
<b>Total non-current assets</b>	84,793	(327)	84,466	83,712	3,210	86,922	87,870	(334)	76,491	2,988
<b>Total assets</b>	243,977	(327)	243,650	269,875	3,210	273,085	225,801	(334)	249,403	2,705
										252,108



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 33. EXPLANATION OF TRANSITION TO AIFRSs (continued)

Summary of transitional adjustments (continued)

Reconciliation of equity (continued)

	CONSOLIDATED				THE COMPANY			
	1 July 2004	30 June 2005	1 July 2004	30 June 2005	1 July 2004	30 June 2005	1 July 2004	30 June 2005
	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Previous GAAP	Effect of transition to AIFRSs
<i>In thousands of AUD</i>								
<b>LIABILITIES</b>								
<i>Current liabilities</i>								
Payables	36,770	-	36,770	41,392	-	41,392	32,351	36,305
Interest bearing loans and borrowings	2,310	-	2,310	1,951	-	1,951	2,287	1,951
Current tax liabilities	1,089	-	1,089	270	-	270	1,012	-
Employee benefits	8,696	-	8,696	9,529	-	9,529	7,779	8,296
Provisions	31	201	232	10,727	323	11,050	27	216
<b>Total current liabilities</b>	<b>48,896</b>	<b>201</b>	<b>49,097</b>	<b>63,869</b>	<b>323</b>	<b>64,192</b>	<b>43,456</b>	<b>57,241</b>
<i>Non-current liabilities</i>								
Interest bearing loans and borrowings	22,565	-	22,565	37,839	-	37,839	18,000	33,300
Employee benefits	2,625	-	2,625	2,566	-	2,566	2,574	2,435
<b>Total non-current liabilities</b>	<b>25,190</b>	<b>-</b>	<b>25,190</b>	<b>40,405</b>	<b>-</b>	<b>40,405</b>	<b>20,574</b>	<b>35,735</b>
<b>Total liabilities</b>	<b>74,086</b>	<b>201</b>	<b>74,287</b>	<b>104,274</b>	<b>323</b>	<b>104,597</b>	<b>64,030</b>	<b>93,192</b>
<b>Net Assets</b>	<b>169,891</b>	<b>(528)</b>	<b>169,363</b>	<b>165,601</b>	<b>2,887</b>	<b>168,488</b>	<b>161,771</b>	<b>158,916</b>
<b>EQUITY</b>								
Share capital	93,685	-	93,685	96,149	-	96,149	93,685	96,149
Other reserves	32,880	(14,829)	18,051	32,778	(8,986)	23,792	31,939	(8,638)
Retained profits	40,449	14,311	54,760	33,661	11,883	45,544	36,147	28,339
Total parent entity interest	167,014	(518)	166,496	162,588	2,897	165,485	161,771	156,427
Minority interest	2,877	(10)	2,867	3,013	(10)	3,003	-	-
<b>Total Equity</b>	<b>169,891</b>	<b>(528)</b>	<b>169,363</b>	<b>165,601</b>	<b>2,887</b>	<b>168,488</b>	<b>161,771</b>	<b>158,916</b>



# Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

## 33. EXPLANATION OF TRANSITION TO AIFRSs (continued)

### Summary of transitional adjustments (continued)

#### Reconciliation of profit

The following table sets out the adjustments to the income statements of the Company and the consolidated entity for the years ended 30 June 2004 and 2005.

	THE COMPANY					
	CONSOLIDATED		30 June 2005			
	Previous GAAP	Effect of transition to AIFRSs	AIFRS	Previous GAAP	Effect of transition to AIFRSs	AIFRS
<i>In thousands of AUD</i>						
Revenue from sale of goods	492,536	(21,748)	470,788	421,947	(21,686)	400,261
Other income	582	594	1,176	71	618	689
Net gain on sale of land and buildings	-	3,583	3,583	-	3,583	3,583
Other revenue	2,422	-	2,422	1,929	-	1,929
Cost of sales	(295,704)	(526)	(296,230)	(252,981)	(232)	(253,213)
Employee benefits expense	(93,530)	(245)	(93,775)	(79,402)	(245)	(79,647)
Depreciation and amortisation expenses	(8,844)	2,048	(6,796)	(6,841)	1,454	(5,387)
Occupancy costs	(10,179)	-	(10,179)	(6,817)	-	(6,817)
Book value of assets sold	(17,571)	17,571	-	(17,485)	17,485	-
Communication costs	(3,510)	-	(3,510)	(2,804)	-	(2,804)
Impairment and restructuring costs	-	-	-	(5,823)	-	(5,823)
Other expenses	(41,626)	(122)	(41,748)	(31,538)	(77)	(31,615)
Profit before financing costs	24,576	1,155	25,731	20,256	900	21,156
Financial income	561	-	561	1,641	-	1,641
Financial expenses	(2,189)	-	(2,189)	(1,857)	-	(1,857)
Net financing costs	(1,628)	-	(1,628)	(216)	-	(216)
Profit before tax	22,948	1,155	24,103	20,040	900	20,940
Income tax expense	(6,001)	(401)	(6,402)	(4,503)	(508)	(5,011)
Profit for the year	16,947	754	17,701	15,537	392	15,929
Attributed to:						
Equity holders of the parent	16,558	752	17,310	15,537	392	15,929
Minority interests	389	2	391	-	-	-
	16,947	754	17,701	15,537	392	15,929

## Notes to the Consolidated Financial Statements (continued)

for the year ended 30 June 2006

### 34. CHANGE IN ACCOUNTING POLICY

Under previous GAAP, the consolidated entity did not recognise derivatives at fair value on the balance sheet.

In the current financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the Company and consolidated entity recognising all derivative financial instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of equity at 1 July 2005. The effect in the Company and consolidated entity is to increase derivatives liability at fair value by \$268,000, increase deferred tax assets by \$80,000 and decrease the hedging reserve by \$188,000 at 1 July 2005.

The transitional provisions will not have any effect in future reporting periods.

## Directors' declaration

1. In the opinion of the directors of Coventry Group Ltd ('the Company'):
  - (a) the financial statements and notes (including the remuneration disclosures that are contained in sections 10.1, 10.2, 10.3, 10.4, 10.6 and 10.7 of the Remuneration report in the Directors' report), set out on pages 14 to 80, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;
  - (b) the remuneration disclosures that are contained in section 10 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entity identified in Note 26 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and that controlled entity pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth this 5th day of September 2006.

Signed in accordance with a resolution of the directors.



W G Kent, AO  
Chairman



C J Glenn  
Managing Director and Chief Executive Officer

# Independent Audit Report to Members of Coventry Group Ltd



## Scope

### *The financial report, remuneration disclosures and directors' responsibility*

The financial report comprises the income statements, statements of changes in equity, balance sheets, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Coventry Group Ltd (the "Company") and Coventry Group Ltd and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" in sections 10.1, 10.2, 10.3, 10.4, 10.6 and 10.7 of the directors' report and not in the financial report.

The Remuneration report also contains information in 10.5 and 10.8 not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## Audit opinion

In our opinion:

- (1) the financial report of Coventry Group Ltd is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and
    - ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) other mandatory financial reporting requirements in Australia; and
- (2) the remuneration disclosures that are contained in sections 10.1, 10.2, 10.3, 10.4, 10.6 and 10.7 of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.



KPMG

Perth  
5 September 2006



T R Hart  
Partner

## 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 audit for the financial year ended 30 June 2006 there have been:

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



KPMG



T R Hart  
Partner

Perth  
5 September 2006



# Shareholder Information

as at 6 September 2006

## TWENTY LARGEST SHAREHOLDERS

Name	Ordinary Shares	
	Number	% of Total
1. RBC Dexia Investor Services Australia Nominees Pty Limited (BK Cust A/C)	4,976,230	13.84
2. National Nominees Limited	2,329,551	6.48
3. JP Morgan Nominees Australia Limited	2,065,374	5.75
4. Australian Foundation Investment Company Limited	1,650,000	4.59
5. Dorsett Investments Pty Ltd	1,530,762	4.26
6. Swanwall Holdings Pty Ltd	1,343,535	3.74
7. Anne Kyle	866,973	2.41
8. Fortis Clearing Nominees Pty Ltd (Settlement A/C)	836,619	2.33
9. Westpac Custodian Nominees Limited	802,353	2.23
10. Argo Investments Limited	740,703	2.06
11. Malcolm James McCusker	734,511	2.04
12. Citicorp Nominees Pty Limited	696,231	1.94
13. Queensland Investment Corporation	600,549	1.67
14. Milton Corporation Limited	513,377	1.43
15. Geoffrey Michael Kyle	301,708	0.84
16. Joan Merle Smith	234,427	0.65
17. ANZ Nominees Limited (Cash Income A/C)	224,242	0.62
18. Clifford Maxwell Kyle	217,378	0.60
19. Pinemont Plantations Pty Ltd	216,942	0.60
20. Gwynvill Trading Pty Ltd	210,000	0.58
	<b>21,091,465</b>	<b>58.66</b>

## DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Shareholders		Shares	
	Number	%	Number	%
1 to 1,000	1,345	35.69	581,800	1.62
1,001 to 5,000	1,797	47.69	4,603,889	12.81
5,001 to 10,000	362	9.61	2,686,230	7.47
10,001 to 100,000	232	6.16	5,342,704	14.86
100,001 and over	32	0.85	22,735,648	63.24
	<b>3,768</b>	<b>100.00</b>	<b>35,950,271</b>	<b>100.00</b>

There were 345 holders of less than a marketable parcel of shares.

# Shareholder Information (continued)

as at 6 September 2006

## SUBSTANTIAL SHAREHOLDERS

The Company's register of substantial shareholders showed the following particulars as at 6 September 2006.

Name of Substantial Shareholder	Extent of Interest (No. of shares)	Date of Last Notification
Investors Mutual Limited	5,116,233	15.05.2006
Paradice Investment Management Pty Ltd	2,648,232	04.07.2006

## VOTING RIGHTS

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

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

# Investor Information

## Annual General Meeting

The 70th Annual General Meeting of Coventry Group Ltd will be held at the Golden Ballroom North, Sheraton Perth Hotel, 207 Adelaide Terrace, Perth, Western Australia on Monday, 6 November 2006, at 3.00 pm.

## Shareholder Enquiries

Shareholders can obtain information about their shares or dividend payments by contacting the Company's share registry at:

Computershare Investor Services Pty Ltd

Level 2, Reserve Bank Building

45 St. George's Terrace

Perth Western Australia 6000

Telephone: (08) 9323 2000

Facsimile: (08) 9323 2033

Freecall: 1800 033 025

## Electronic Payment of Dividends

The Company encourages shareholders to receive their dividend payments by direct credit. Shareholders may nominate a bank, building society or credit union account for direct payment of the dividend. Payments are electronically credited on the dividend date and confirmed by mailed payment advice. Shareholders wishing to take advantage of payment by direct credit should contact the share registry to obtain an application form.

## Change of Name/Address/Banking Details

Shareholders should notify the share registry in writing immediately there is a change of their name, registered address or change in banking particulars for direct credit of dividends.

## Removal From Annual Report Mailing List

Shareholders who prefer not to receive the annual report or are receiving more than one copy at a household or business should advise the share registry in writing.

## Dividend Reinvestment Plan

The Company operates a dividend reinvestment plan (DRP). The DRP is a convenient method for shareholders to increase their shareholding by investing all or part of their dividend to acquire shares without incurring additional costs such as brokerage fees.

The DRP terms and conditions booklet and application forms are available from the share registry.

The Directors determine from time to time whether the DRP will operate for any particular dividend that may be declared and if a discount to the market price calculated in accordance with the plan will apply for shares issued under the DRP.

On 5 September 2006 the Directors agreed to amend the terms and conditions of the DRP in relation to the method for calculating the subscription price of shares to be issued under the DRP. Under the revised terms, the price of shares to be allotted pursuant to the DRP and the discount to be applied (not exceeding 10%) will be determined by the Directors from time to time.

For the 2005/06 final dividend to be paid on 12 October 2006 the Directors have determined:

- (i) to continue the operation of the DRP;
- (ii) that a discount of 5% be applied (previously 2.5%); and
- (iii) that the subscription price be calculated by reference to the volume weighted average market price per share of all shares sold on the ASX during the period of 10 trading days (previously 5 trading days) commencing on the second trading day following the record date.

## Stock Exchange Listing

The Company's shares are listed on the Australian Stock Exchange Limited and trade under the ASX code CYG.

## Coventry Group Website

Information about Coventry Group Ltd is available on the internet at:

[www.cgl.com.au](http://www.cgl.com.au)

This website also contains the Company's latest annual and half yearly report to shareholders, recent announcements to the Australian Stock Exchange as well as selected corporate information.

The website also has a direct link to the share registry.

# Corporate Directory

**Coventry Group Ltd**  
ABN 37 008 670 102

**Registered and Principal Administrative Office**  
253 Walter Road  
Morley Western Australia 6062  
Telephone: (08) 9276 0222  
Facsimile: (08) 9276 1666

**Postal Address**  
PO Box 63  
Morley Western Australia 6943

**Web Site**  
[www.cgl.com.au](http://www.cgl.com.au)

**Secretary**  
J Colli

**Bankers**  
Westpac Banking Corporation

**Auditors**  
KPMG  
Central Park  
152-158 St. George's Terrace  
Perth Western Australia 6000

**Share Registry**  
Computershare Investor Services Pty Limited  
Level 2, Reserve Bank Building  
45 St. George's Terrace  
Perth Western Australia 6000  
Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

# Financial Calendar

## 2006

13 September	Shares trade ex-dividend
19 September	Record date for final dividend
19 September	Deadline for receipt of DRP election forms
12 October	Final dividend payable
6 November	Annual General Meeting
31 December	End of financial half-year

## 2007 (proposed)

19 February	Half Year results and interim dividend announcement
28 February	Shares trade ex-dividend
6 March	Record date for interim dividend
6 March	Deadline for receipt of DRP election forms
23 March	Interim dividend payable
30 June	End of financial year
20 August	Year End results and final dividend announcement
28 August	Shares trade ex-dividend
3 September	Record date for final dividend
3 September	Deadline for receipt of DRP election forms
20 September	Final dividend payable
5 November	Annual General Meeting





