

COVENTRY GROUP LTD

ABN 37 008 670 102



CONCISE ANNUAL REPORT

2012

## Five Year Financial Overview

YEAR ENDED 30 JUNE		2008	2009	2010	2011	2012	% Change
Revenue from sale of goods <sup>1</sup>	(\$M)	448.8	419.1	393.1	395.6	243.4	(38.5)
Profit before tax <sup>2</sup>	(\$M)	6.8	16.2	11.9	7.4	13.0	75.7
Profit/(loss) before tax <sup>3</sup>	(\$M)	4.3	1.0	9.9	(17.9)	24.3	235.8
Profit/(loss) after tax <sup>3</sup>	(\$M)	6.9	(1.0)	7.0	(16.8)	19.0	213.1
Earnings/(loss) per share <sup>4</sup>	(cents)	16.6	(3.6)	16.3	(43.4)	47.8	210.1
Dividends per share	(cents)	0.0	5.0	14.0	22.0	22.0	-
Net tangible assets per share	(\$)	3.24	3.30	3.39	3.38	3.71	9.8
Operating cash flow	(\$M)	11.8	18.5	23.2	7.6	18.2	139.5
Return on equity <sup>5</sup>	%	4.4	1.0	3.9	4.5	4.9	8.9
Net cash/(interest bearing debt)	(\$M)	(45.8)	(15.1)	4.9	7.1	55.0	674.6
Share price (30 June)	(\$)	1.91	0.91	1.85	2.30	2.65	15.2
Market capitalisation (30 June)	(\$M)	75.3	35.9	73.8	92.0	100.3	9.0

1 from continued and discontinued operations

2 before minority interests are removed and excluding material items

3 before minority interests are removed and including material items

4 basic

5 after minority interests are removed and excluding material items

### About Coventry Group

Coventry Group Ltd is an Australian public company which was incorporated in 1936 and has been listed on the ASX since 1966 (ASX code: CYG).

We are principally a distributor of industrial products and operate throughout Australia and New Zealand with 5 distinctive businesses which trade as:

- Coventry Fasteners (in New Zealand as Hylton Parker Fasteners)
- Cooper Fluid Systems
- Artia
- AA Gaskets (in New Zealand as NZ Gaskets)
- Managed System Services

We employ around 860 people with a network of 67 branches/distribution centres.

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## 2012 Year in Brief

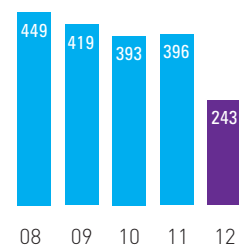
### Financial

- revenue from continuing operations up 6% to \$242.9 million
- profit before tax from continuing operations (excluding property sales) of \$10.2 million
- profit before tax of \$24.3 million after including property and plant sales and disposal of automotive businesses
- net profit/(loss) after tax of \$19.0 million (2011: \$(16.8) million)
- final dividend of 11 cents per share fully franked resulting in total dividends for the year of 22 cents per share fully franked (2011 – 22 cents)
- earnings/(loss) per share of 47.8 cents (2011: (43.4) cents)

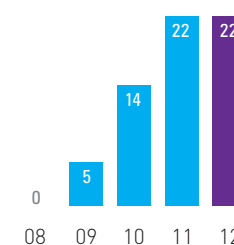
### Operations

- successfully completed the sale of the WA automotive business
- sold all freehold properties used in the automotive businesses
- established a subsidiary, Managed System Services Pty Ltd, to market the Group's IT service capabilities to third parties
- acquired and successfully integrated a hydraulic services company in Queensland to expand the Cooper Fluid Systems business
- management changes made to underperforming businesses – fasteners and hardware – which were impacted by tough market conditions

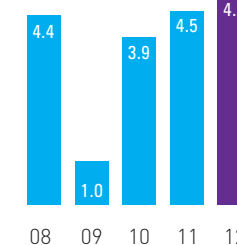
Revenue  
\$ million



Dividends per share  
cents

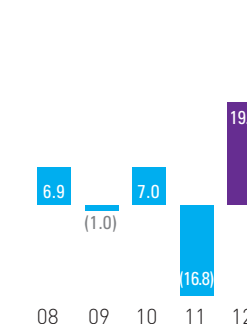


Return on equity (a)  
%



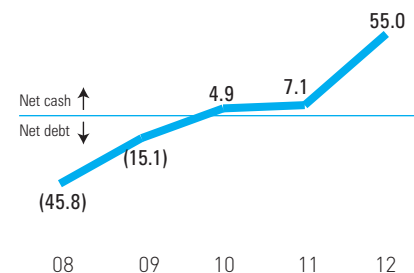
(a) after minority interests are removed and excluding material items

Profit/(loss) after tax (b)  
\$ million



(b) before minority interests are removed and including material items

Net cash/(net debt)  
\$ million



## Overview of Businesses

### Business Name

### Principal Activities

### Year in Brief

#### Coventry Fasteners and

#### Hylton Parker Fasteners (NZ)

distribution and marketing of:

- industrial fasteners
- stainless steel fasteners and hardware
- construction fasteners
- specialised fastener products and systems
- associated industrial tools and consumables

- business continues to operate in difficult trading conditions
- focus on increased efficiencies and cost management
- launch of new sales management plan
- online product catalogue "The Bolt Shop" continues to grow

#### Cooper Fluid Systems

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

- significant improvement in profitability
- demand from resources sector and focus on quality customer relationships contributed to strong growth
- acquisition of Gladstone based hydraulics equipment distributor



# Overview of Businesses

(continued)

## Business Name

## Principal Activities

## Year in Brief

### Artia

- 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

- change of management
- tough and competitive trading environment
- significant progress on reducing costs, inventory and improving internal efficiencies

### AA Gaskets

- manufacture and distribution of automotive and industrial gaskets

- business achieved a good trading performance
- quality and breadth of product range delivered a competitive advantage

### Managed System Services

- cloud computing
- managed solutions
- Oracle applications
- enterprise networks
- unified communications

- business established in October 2011
- established new customers in the finance, education, construction and logistics sectors



# Executive Chairman's Report

Dear Shareholder

On behalf of your directors I present Coventry Group's 2012 concise annual report.

## Financial Performance

The Group recorded a profit before tax from continuing operations of \$21.2 million compared to a loss of \$16.1 million for the previous comparative period after the impairment of goodwill. The profit after tax derived from continuing operations was \$16.9 million compared to a loss of \$17.4 million for the prior period. The profit after tax of \$19.0 million (loss of \$16.8 million – 30 June 2011) represents the results of all the Group's operations.

The profit result from continuing operations was achieved through a number of factors, as follows :

- out of the 19 properties associated with the disposed auto businesses, 18 were sold by 30 June 2012 and all had settled by the date of this release. The sales generated a profit of \$11.0 million and cash inflows of \$20.9 million.
- strong performances were achieved in the Fluids and Gaskets businesses delivering a profit before tax and financing of \$14.7 million (\$10.3 million – 30 June 2011), up 43.2% compared to the prior comparative period.

The table opposite shows a number of key financial indicators for the 2011/12 year.

During the period trading conditions in the Fasteners and the Hardware businesses remained difficult with intense competitive pressure. The reportable loss before finance costs, income tax and material non-cash items improved to \$1.3 million (loss of \$2.5 million – 30 June 2011).

Management remains focused on improvements in these businesses through cost reduction and customer service developments.

Earnings per share (basic) for the period was 47.8 cents compared to a loss of 43.4 cents for the previous comparative period. For the continuing businesses earnings per share were 43.8 cents compared to a loss of 44.7 cents for the

previous comparative period. Net tangible assets per share increased by 33 cents in the period to \$3.71 (\$3.38 – 30 June 2011).

## Cash Position

The Group's net cash position improved significantly to \$55.0 million (\$7.1 million – 30 June 2011). This was due to :

- the disposal of the WA auto business to AHG generating \$28.9 million;
- the proceeds from the sale of 18 properties generating \$20.9 million; and
- operating activities generating \$18.2 million (\$7.6 million – 30 June 2011).

These strong cash inflows allowed \$15.8 million of cash to be returned to shareholders through dividends and share buy backs in the year (\$5.8 million – 30 June 2011).

## Dividend

The directors have declared a dividend of 11 cents per ordinary share, fully franked, payable on 21 September 2012 to shareholders registered as at 7 September 2012 (the record date). The dividend reinvestment plan will continue to be suspended for this dividend. For the prior comparative period an 11 cents, fully franked, final dividend was declared.

## Review of Businesses

### Fasteners

Sales for the Fasteners business declined by 1.6% to \$124.7 million compared to the previous comparative period. The loss before interest and tax was \$0.6 million compared with a loss of \$2.0 million in the previous comparative period, excluding the charge for impairment of goodwill. In the prior period a charge against goodwill of \$21.1 million was recorded due to poor trading conditions and outlook for the business.

Management focus and initiatives have led to an increase in margins at a gross profit level and a reduction in the cost base of the business. This has been achieved by focusing on increased efficiency, the streamlining of processes and cost management within the business. The launch of a new sales management plan and the introduction of technology continues to be rolled out across the branch network. The 'Bolt Shop', an online product catalogue and purchasing site, continues to grow and is one of a series of initiatives to further improve customer relationships.

### Fluids

Sales for the Fluids business increased by 27.6% to \$80.6 million compared to the previous comparative period. Profit

	Year ended 30.6.12	Year ended 30.6.11	% Change
Revenue (\$M)	242.9	229.4	+5.9
Profit/(loss) before income tax (\$M) <sup>1</sup>	21.2	(16.1)	-
Profit/(loss) after tax (\$M)	19.0	(16.8)	-
NTA per share (\$)	3.71	3.38	+9.8
Net cash (\$M)	55.0	7.1	+774.6
Earnings/(loss) per share - basic (cents)	47.8	(43.4)	-
<sup>1</sup> from continuing operations			

# Executive Chairman's Report

(continued)

before interest and tax was \$12.2 million - up 60% on the previous comparative period. The result was driven by strong demand from the resources sector in the three states the business operates in - Queensland, Western Australia and South Australia.

The Fluids business has achieved significant levels of organic growth, with continued strong demand from the resources sector. The focus on quality and customer relationships that was driven into the business three years ago has been a strong positive factor in this growth. In this past year product and market extension has been a key focus of the business, which has been well supported by the major customers.

In March the Group bought Fluidrive Pty Ltd, a Gladstone based distributor of hydraulic equipment. The business has been successfully integrated into the Fluids business and is performing strongly. The Group continues to explore other opportunities to purchase companies operating in the Fluids space. Additionally, after a review of its geographic footprint the Group decided to open a branch in the key Mt. Isa region, resulting in a network of 8 branches for the business.

## Hardware

Sales for the Hardware business declined by 8.6% to \$24.6 million compared to the previous comparative period. The

business recorded a loss before interest and tax of \$2.8 million (loss \$1.2 million - 30 June 2011) which included a material write down of inventory by \$1.6 million.

During the year new management was brought in to run the business. The focus brought by this management team has delivered a sizable reduction in inventory and number of product lines, reducing cash tied up in the business and increasing operating and warehouse efficiency. Although the cost base is less, more internal resources are now allocated to 'customer facing' activities. By 30 June 2012 delivery KPI's had been increased and the focus of the business had transitioned from internal improvement to sales growth. The more efficient business will be able to take advantage of emerging opportunities as they appear in the market.

## Gaskets

Sales for the Gaskets business increased by 2.4% to \$12.8 million compared to the previous comparative period. The business recorded a profit before interest and tax of \$2.5 million, down marginally on the result achieved in the previous comparative period of \$2.7 million. The business continues to benefit from the market differentiation they deliver through quality and the breadth of product range.

## Managed System Services

In October 2011, Managed System Services Pty Ltd, a wholly owned subsidiary, was established. The entity is marketing the Group's IT service capability and seeking to take advantage of opportunities in the IT sector. To date the entity has secured customers in the education, financial services and distribution sectors.

## Board Matters

At the 2012 AGM, Mr Ken Perry will retire in accordance with the Company's constitution as the longest serving director since last being re-elected. Being eligible, Mr Perry offers himself for re-election

## People

Throughout the year, our employees have continued to demonstrate a strong commitment to the Company. They have approached their work with flexibility in response to dynamic work circumstances dictated by the economic environment.

The Company has continued its objective to meet its safety KPIs and improve safety performance overall. In 2012 the Senior Management Team approved the roll-out of a new Safety Management Plan to align itself with the Federal Work

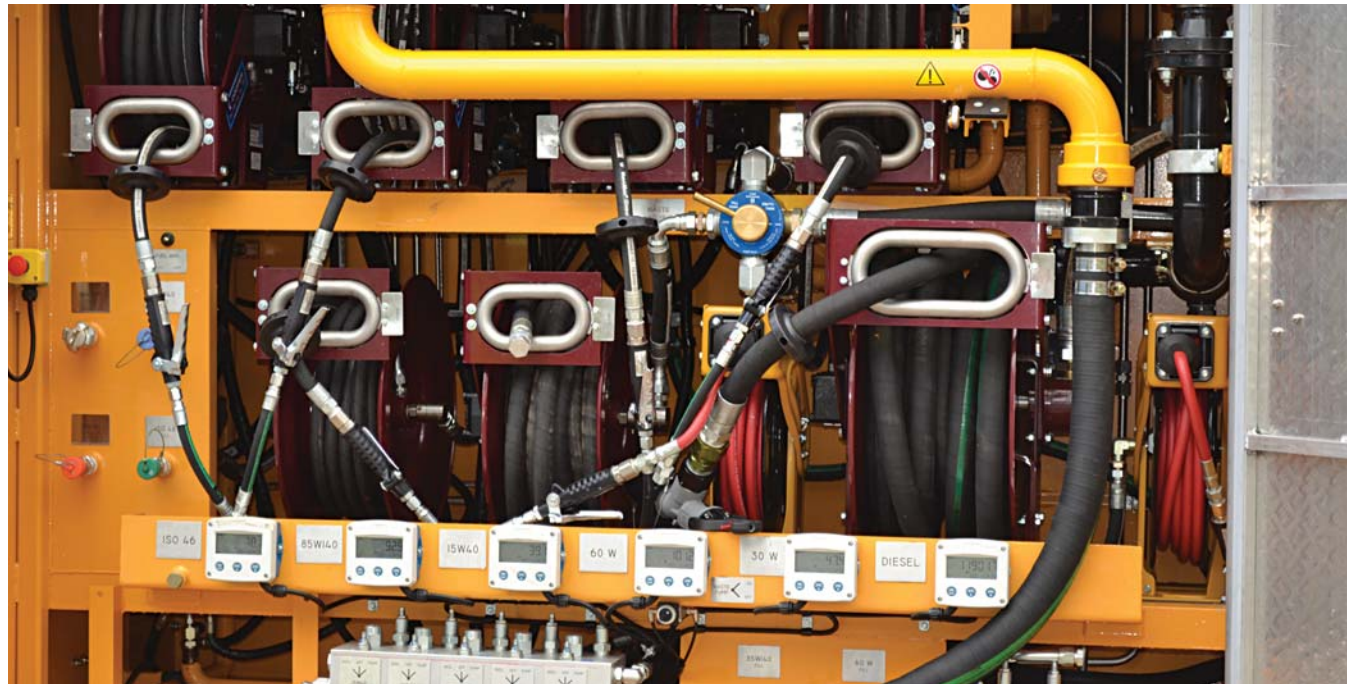


## Executive Chairman's Report (continued)

Health and Safety harmonisation laws. This project is currently being communicated nationally across all of the Company's businesses and its success is attributable to the commitment, enthusiasm and participation of everyone involved at every level of the business.

In February 2012 a further offer of shares to eligible employees (with at least 3 years' service) was made pursuant to the Company's employee share plan. This was the second offer made to employees (the previous one was in September 2010). Almost 90% of eligible employees accepted the offer reflecting a strong interest in being a stakeholder in the Company and contributing to its performance.

Gender diversity has also been a focus area for the Company during the year. A diversity policy was established in November 2011. With a workforce of approximately 860 employees, we are continually looking for ways to increase the representation of women in the workforce, manage our committed aging workforce and attract other talented employees from diverse backgrounds and experiences to the business. A number of objectives have been established to achieve gender diversity as follows:





# Executive Chairman's Report

(continued)

- (i) ensure recruitment and selection practices reflect the principle of diversity and encourage a diverse candidate pool for appointments to senior levels;
- (ii) develop mentoring programs and network opportunities;
- (iii) support promotion of talented women in management positions;
- (iv) achieve a diverse and skilled workforce with a view to increasing representation of women across the Company; and
- (v) creating a work environment that values and utilises contributions of employees with diverse backgrounds, experiences and perspectives.

These objectives have been reviewed by the Board nomination committee to establish what progress has been made towards their achievement. Objectives (i) and (v) have been achieved whilst some progress has been made in achieving objectives (ii) and (iv). In relation to objective (iii) there was some improvement with 29% of women in the Company holding managerial or professional positions. As at June 2012, 18% of the Company's employees were women.

## Outlook

Management is actively engaged in cost control and moving internal resources to sales and to the expanding areas of the business. It also continues to seek acquisitions that would add to existing divisions or create new businesses that would run along side the existing structure. Management will make these acquisitions where it is clear the investment will drive strong long term growth in shareholder wealth.

The "two speed" economy remains pronounced in Australia and RBA rate reductions have had limited stimulus effect on the economy. Even though the future growth of the economy is hard to predict the changes made mean the Group is better placed to add to shareholder wealth in the future. Management remain committed to further cost control and delivering greater customer focus across the Group.

The Group continues to encounter tough trading conditions in some of its markets. Given the changes in place and those planned for the year ahead a gradual increase in the Group's operating profit, excluding profits on the sale of properties, is likely.

In conclusion I record my thanks to all our employees across the Group for their efforts over the past financial year and support I have received from my fellow directors.

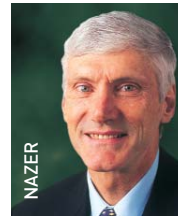
I would also like to acknowledge the support of the Company's customers and suppliers in what is still a difficult economic environment.



**Roger B Flynn**  
Executive Chairman



## Board of Directors



### Roger Baden Flynn

B.Eng (Hons), MBA, FIE (Aust), FAICD  
Executive Chairman  
Chairman of nomination committee

Mr Flynn was appointed a director of the Company in October 2001 and he became Chairman in November 2006. In April 2007 he was appointed Executive Chairman. 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 a former director of Hills Holdings Limited, Wattyl Limited, and Longreach Group Ltd and has had 44 board years experience on 6 listed companies, including 14 years as managing director of 4 separate ASX listed companies.

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

Hills Holdings Limited  
From 1999 to 04.11.2011

### Barry Frederick Nazer

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

Mr Nazer was appointed as a director of the Company in September 2003. He is a non-executive director of VDM Group Limited and M G Kailis Group.

Mr Nazer had 13 years of experience in engineered wood products manufacturing and distribution which included the positions of Chief Financial Officer (CFO) of Wesbeam Holdings Limited and CFO of WESFI Limited. He had 20 years of experience in the banking industry which included almost 9 years as CFO of Bank of Western Australia Limited (BankWest). Other prior experience includes 10 years in the insurance industry.

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

VDM Group Limited  
From 01.10.2008 to current

### John Harold Nickson

B.Ec, CPA, FAICD  
Independent non-executive director  
Chairman of remuneration committee;  
member of audit and risk committee

Mr Nickson was appointed a director of the Company in November 2007. He has over 43 years experience in the finance industry, including 35 years at Goldman Sachs JBWere (formerly J B Were and Son) until retiring in 2004. He was a Director/Partner for over 20 years.

For 28 years Mr Nickson specialised in corporate advice and finance, working closely with a wide range of listed and to be listed corporations, both public and private, many in Western Australia. He is a director of a number of private companies and a committee member of a medical research institute.

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

### Kenneth Royce Perry

B.Sc (Hons), MBA, MAICD, AusIMM  
Independent non-executive director  
Member of audit and risk, remuneration and nomination committees

Mr Perry was appointed a director of the Company in September 2009. He was Chief Executive Officer of VDM Group Limited, a publicly listed Australian engineering, construction and contracting business until March 2011. Prior to this appointment in February 2010, Mr Perry was the Managing Director of Brandrill Limited from 2002 to 2009 when the company merged with Ausdrill Limited. Mr Perry has over 15 years' experience in senior management roles including serving as President of Rio Tinto Group's Taiwanese steel mill and as the Director General of the Department of Minerals and Energy (WA) between 1994 and 1997. Subsequently he worked for Resource Finance Corporation, a private merchant and investment bank specialising in the natural resources sector. Mr Perry is also a member of various private boards.

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

Brandrill Limited  
From 16.08.2002 to 16.12.2009

### Vince Scidone

BBus, AFAIM, AAICD  
Executive director

Mr Scidone was appointed an executive director of the Company in February 2008. He joined the Company in 1996 as Group Marketing Manager and was appointed the Group General Manager, Industrial in 1997. He has led the Company's fastener business for a number of years.

Mr Scidone has a strong background in the steel, fastener and industrial industries having worked for BHP Steel, Email Limited and Ajax Fasteners.

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

# Concise Financial Report

## Coventry Group Ltd and its controlled entities Concise Financial Report

The concise financial report has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports. The financial statements and specific disclosures required by AASB 1039 have been derived from the Group's full financial report for the financial year. Other information included in the concise financial report is consistent with the Group's full financial report. The concise financial report does not, and can not be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group, as the full financial report.

The full financial report can be viewed on or downloaded from Coventry Group Ltd's website – [www.cgl.com.au](http://www.cgl.com.au)

A hard copy of the full financial report can be requested by contacting the Company Secretary on (08) 9436 5404.

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# Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	Consolidated	
		2012	2011
<i>In thousands of AUD</i>			
<b>Continuing operations</b>			
Revenue from sale of goods		242,864	229,365
Cost of sales		(144,114)	(136,460)
<b>Gross profit</b>		<b>98,750</b>	92,905
Other revenue		4,052	1,765
Other income		10,997	13
Employee benefits expense		(51,390)	(54,324)
Depreciation and amortisation expenses		(2,990)	(3,240)
Occupancy costs		(9,395)	(6,825)
Communication costs		(2,538)	(2,231)
Freight		(6,943)	(7,216)
Impairment of goodwill		-	(21,089)
Other expenses		(21,957)	(16,026)
<b>Profit/(loss) before financial income and tax</b>		<b>18,586</b>	(16,268)
Financial income		2,662	382
Financial expenses		(2)	(179)
<b>Net financial income</b>		<b>2,660</b>	203
<b>Profit/(loss) before income tax</b>		<b>21,246</b>	(16,065)
Income tax expense		(4,377)	(1,298)
<b>Profit/(loss) from continuing operations for the year</b>		<b>16,869</b>	(17,363)
<b>Discontinued operations</b>			
Profit from discontinued operations (net of income tax)	6	2,139	544
<b>Profit/(loss) for the year</b>		<b>19,008</b>	(16,819)
<b>Other comprehensive income/(loss)</b>			
Foreign currency translation differences		463	(1,455)
<b>Other comprehensive income/(loss) for the year, net of income tax</b>		<b>463</b>	(1,455)
<b>Total comprehensive income/(loss) for the year</b>		<b>19,471</b>	(18,274)

# Statement of Comprehensive Income

For the year ended 30 June 2012 (continued)

<i>In thousands of AUD</i>	Note	Consolidated	
		2012	2011
<b>Profit/(loss) attributable to:</b>			
Equity holders of the Company		18,524	(17,341)
Non-controlling interests		484	522
<b>Profit/(loss) for the year</b>		<b>19,008</b>	<b>(16,819)</b>
<b>Total comprehensive income/(loss) attributable to:</b>			
Equity holders of the Company	5	18,982	(18,774)
Non-controlling interests		489	500
<b>Total comprehensive income/(loss) for the year</b>		<b>19,471</b>	<b>(18,274)</b>
<b>Earnings per share:</b>			
Basic earnings/(loss) per share:		47.8 cents	(43.4) cents
Diluted earnings/(loss) per share:		47.8 cents	(43.4) cents
<b>Continuing operations</b>			
Basic earnings/(loss) per share:		42.3 cents	(44.7) cents
Diluted earnings/(loss) per share:		42.3 cents	(44.7) cents

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

# Statement of Financial Position

As at 30 June 2012

<i>In thousands of AUD</i>	Note	Consolidated	
		2012	2011
<b>Assets</b>			
Cash and cash equivalents		55,035	7,066
Trade and other receivables		44,097	59,097
Inventories		53,729	53,173
Assets classified as held for sale		209	37,784
Income tax receivable		350	-
<b>Total current assets</b>		<b>153,420</b>	157,120
Deferred tax assets		9,128	13,545
Property, plant and equipment		17,144	17,033
Intangible assets		10,362	10,009
<b>Total non current assets</b>		<b>36,634</b>	40,587
<b>Total assets</b>		<b>190,054</b>	197,707
<b>Liabilities</b>			
Trade and other payables		27,511	37,593
Employee benefits		6,962	7,067
Liabilities classified as held for sale		-	3,235
Income tax payable		238	327
Provisions		470	299
<b>Total current liabilities</b>		<b>35,181</b>	48,521
Employee benefits		1,073	841
Provisions		231	339
<b>Total non current liabilities</b>		<b>1,304</b>	1,180
<b>Total liabilities</b>		<b>36,485</b>	49,701
<b>Net assets</b>		<b>153,569</b>	148,006

# Statement of Financial Position

As at 30 June 2012 (continued)

<i>In thousands of AUD</i>	<b>Note</b>	<b>Consolidated</b>	
		<b>2012</b>	<b>2011</b>
<b>Equity</b>			
Issued capital	5	<b>108,653</b>	113,659
Reserves	5	<b>26,040</b>	23,057
Retained earnings	5	<b>16,166</b>	8,560
<b>Total equity attributable to equity holders of the Company</b>	5	<b>150,859</b>	145,276
<b>Non controlling interests</b>	5	<b>2,710</b>	2,730
<b>Total equity</b>	5	<b>153,569</b>	148,006

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

## Statement of Changes in Equity

For the year ended 30 June 2012

<i>In thousands of AUD</i>	Note	Consolidated	
		2012	2011
<b>Total equity at the beginning of the financial year</b>		<b>148,006</b>	174,041
<b>Total comprehensive income for the year</b>			
Profit/(loss) for the year		<b>19,008</b>	(16,819)
<b>Other comprehensive income</b>			
Foreign currency translation differences, net of tax		<b>463</b>	(1,455)
<b>Total other comprehensive income, net of tax</b>		<b>463</b>	(1,455)
<b>Total comprehensive income for the year</b>	5	<b>19,471</b>	(18,274)
<b>Transactions with owners, recorded directly in equity</b>			
Own shares acquired		<b>(5,180)</b>	(184)
Share based payment transactions		<b>198</b>	113
Employee share issue		<b>174</b>	401
Dividends to equity holders		<b>(8,591)</b>	(7,596)
Dividends paid to non controlling interests		<b>(509)</b>	(495)
<b>Total transactions with owners</b>		<b>(13,908)</b>	(7,761)
<b>Total equity at the end of the financial year</b>	5	<b>153,569</b>	148,006

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



# Statement of Cash Flows

For the year ended 30 June 2012

<i>In thousands of AUD</i>	Note	Consolidated	
		2012	2011
<b>Cash flows from operating activities</b>			
Cash receipts from customers		290,040	442,818
Cash paid to suppliers and employees		(271,177)	(434,088)
Cash generated from operations		18,863	8,730
Interest paid		(2)	(179)
Income taxes paid		(689)	(979)
<b>Net cash from operating activities</b>		<b>18,172</b>	<b>7,572</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		259	772
Proceeds from sale of land and buildings		20,937	-
Interest received		2,611	155
Disposal of discontinued operation, net of cash disposed of	6	28,943	5,389
Acquisition of business, net of cash acquired		(1,554)	-
Acquisition of property, plant and equipment		(4,320)	(5,072)
Acquisition of intangible assets		(797)	(395)
<b>Net cash from investing activities</b>		<b>46,079</b>	<b>849</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		-	(812)
Payments for share buy-back	5	(5,180)	(184)
Dividends paid	5	(10,593)	(5,594)
Dividends paid to non controlling interests	5	(509)	(495)
<b>Net cash used in financing activities</b>		<b>(16,282)</b>	<b>(7,085)</b>
Net increase in cash and cash equivalents		47,969	1,336
Cash and cash equivalents at 1 July		7,066	5,730
<b>Cash and cash equivalents at 30 June</b>		<b>55,035</b>	<b>7,066</b>

The statement 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 2012

## 1. Basis of preparation of concise financial report

The concise financial report has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1039 Concise Financial Reports (AASB 1039). The financial statements and specific disclosures required by AASB 1039 have been derived from the Group's full financial report for the financial year. Other information included in the concise financial report is consistent with the Group's full financial report. The concise financial report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

The financial report is prepared on the historical cost basis except that derivative financial instruments and share based payments are stated at their fair value.

The presentation currency is Australian dollars.

## 2. Accounting policies

A full description of the accounting policies adopted by the Group may be found in the Group's full financial report.

These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by each entity in the Group.

## 3. Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

Management discussed and agreed with the Audit and Risk Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant affect on the amount recognised in the financial statements are described in the following notes of the full financial statements:

- Note 1(h) – significant accounting policies – inventories
- Note 1(v) – significant accounting policies – income tax
- Note 14 – measurement of the recoverable amount of cash generating units containing goodwill
- Note 21 – allowance for trade receivable impairment losses

## 4. Segment reporting

For the 2011 financial year, the Group had 3 reportable segments which comprised its strategic business units. Following the sale of the automotive parts distribution business unit, the Executive Chairman initiated a review of the internal management reports which resulted in the Industrial business unit being separated into 3 segments. The Group now reports on 5 segments as described below. For each of the strategic business segments, the Executive Chairman reviews internal management reports on a monthly basis. The following summary describes the operations of each of the Group's reportable business segments:

- *Automotive (discontinued)*: Includes distribution of automotive parts
- *Fasteners*: Includes distribution and marketing of fastener products
- *Fluids*: Includes the design, manufacture, distribution and installation of lubrication and hydraulic fluid systems and hoses
- *Hardware*: Includes the importation, distribution and marketing of hardware components and finished products
- *Gaskets Manufacturing*: Includes manufacturing and distributing gaskets

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

## 4. Segment reporting (continued)

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Executive Chairman. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Business Segments	Automotive (discontinued)		Fasteners		Fluids		Hardware		Gaskets		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<i>In thousands of AUD</i>												
		Represented <sup>(i)</sup>		Represented		Represented		Represented				
External sales	<b>355</b>	166,243	<b>124,690</b>	126,766	<b>80,620</b>	63,173	<b>24,576</b>	26,885	<b>12,844</b>	12,540	<b>243,085</b>	395,607
Other revenue	<b>202</b>	596	<b>789</b>	748	<b>204</b>	171	<b>516</b>	564	<b>184</b>	158	<b>1,895</b>	2,237
External revenue	<b>557</b>	166,839	<b>125,479</b>	127,514	<b>80,824</b>	63,344	<b>25,092</b>	27,449	<b>13,028</b>	12,698	<b>244,980</b>	397,844
Inter segment revenue	-	-	-	2	-	37	<b>445</b>	621	-	462	<b>445</b>	1,122
Total revenue for reportable segments	<b>557</b>	166,839	<b>125,479</b>	127,516	<b>80,824</b>	63,381	<b>25,537</b>	28,070	<b>13,028</b>	13,160	<b>245,425</b>	398,966
Depreciation and amortisation	-	977	<b>816</b>	610	<b>419</b>	297	<b>191</b>	152	<b>239</b>	228	<b>1,665</b>	2,264
Reportable segment profit or (loss) before finance costs, income tax and significant items	<b>284</b>	2,199	<b>(257)</b>	(1,355)	<b>12,187</b>	7,614	<b>(1,001)</b>	(1,155)	<b>2,521</b>	2,663	<b>13,734</b>	9,966
Redundancy	-	-	<b>(356)</b>	(204)	-	(6)	<b>(199)</b>	(40)	-	-	<b>(555)</b>	(250)
Restructuring costs	<b>(138)</b>	164	<b>39</b>	(450)	-	-	-	-	-	-	<b>(99)</b>	(286)
Increase in obsolete stock provision	-	-	-	-	-	-	<b>(1,558)</b>	-	-	-	<b>(1,558)</b>	-
Impairment loss on property, plant & equipment	<b>(2,001)</b>	-	-	-	-	-	-	-	-	-	<b>(2,001)</b>	-
Impairment loss on software	-	(3,119)	-	-	-	-	-	-	-	-	-	(3,119)
Impairment loss on goodwill	-	-	-	(21,089)	-	-	-	-	-	-	-	(21,089)
Net gain on sale of business	<b>4,912</b>	(1,095)	-	-	-	-	-	-	-	-	<b>4,912</b>	(1,095)
Reportable segment profit or (loss) before finance costs and income tax	<b>3,057</b>	(1,851)	<b>(574)</b>	(23,098)	<b>12,187</b>	7,608	<b>(2,758)</b>	(1,195)	<b>2,521</b>	2,663	<b>14,433</b>	(15,873)
Reportable segment assets	-	53,266	<b>53,975</b>	56,186	<b>31,006</b>	24,303	<b>13,567</b>	15,743	<b>11,367</b>	11,531	<b>109,915</b>	161,029
Reportable segment liabilities	<b>443</b>	16,022	<b>16,766</b>	15,159	<b>10,154</b>	7,916	<b>2,050</b>	1,997	<b>1,359</b>	1,530	<b>30,772</b>	42,624
Capital Expenditure	-	3,677	<b>1,254</b>	2,022	<b>1,663</b>	846	<b>452</b>	427	<b>147</b>	138	<b>3,516</b>	7,110

<sup>(i)</sup> The Automotive comparatives have been represented to be consistent with the year ended 30 June 2012 analysis.

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

### 4. Segment reporting (continued)

#### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

*In thousands of AUD*

	2012	2011
<b>Revenues</b>		
Total revenue for reportable segments	245,425	398,966
Other revenue	2,494	125
Elimination of inter segment revenue	(446)	(1,122)
Elimination of discontinued operations	(557)	(166,839)
Consolidated revenue and other revenue	<u>246,916</u>	<u>231,130</u>
<b>Profit or loss</b>		
Total profit/(loss) for reportable segments	14,433	(15,873)
Net gain on sale of land & buildings	10,983	-
Unallocated amounts: other corporate expenses and income	(3,773)	(2,246)
Net finance income	2,660	203
Consolidated profit before income tax	<u>24,303</u>	<u>(17,916)</u>
Elimination of discontinued operations	(3,057)	1,851
Consolidated profit before income tax from continuing operations	<u>21,246</u>	<u>(16,065)</u>

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

## 4. Segment reporting (continued)

### Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items (continued)

*In thousands of AUD*

	2012	2011
<b>Assets</b>		
Total assets for reportable segments	109,915	161,029
Other assets	80,139	36,678
Consolidated total assets	<u>190,054</u>	<u>197,707</u>
<b>Liabilities</b>		
Total liabilities for reportable segments	30,772	42,624
Other liabilities	5,713	7,077
Consolidated total liabilities	<u>36,485</u>	<u>49,701</u>

### Other significant items 2012

*In thousands of AUD*

	Reportable segment totals	Adjustments	Consolidated totals
Employee share issue	-	(174)	(174)
Share based payments	-	(198)	(198)
Net gain on sale of land & buildings	-	10,983	10,983
Net gain on sale of business	4,912	-	4,912
Impairment loss on property, plant & equipment	(2,001)	-	(2,001)
Redundancy	(555)	-	(555)
Restructuring costs	(99)	-	(99)
Increase in obsolete stock provision	(1,558)	-	(1,558)
	<u>699</u>	<u>10,611</u>	<u>11,310</u>

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

### 4. Segment reporting (continued)

#### Other significant items 2011 - Restated <sup>(i)</sup>

*In thousands of AUD*

	Reportable segment totals	Adjustments	Consolidated totals
Employee share issue	-	(401)	(401)
Share based payments	-	(113)	(113)
Redundancy	(250)	-	(250)
Restructuring costs	(286)	-	(286)
Net gain on sale of business	(1,095)	-	(1,095)
Impairment loss on software	(3,119)	-	(3,119)
Impairment loss on goodwill	(21,089)	-	(21,089)
	<u>(25,839)</u>	<u>(514)</u>	<u>(26,353)</u>

<sup>(i)</sup> The Automotive comparatives have been represented to be consistent with the year ended 30 June 2012 analysis.

### Geographical information

#### Revenue

*In thousands of AUD*

	2012		2011	
	Revenues	Non current assets <sup>(i)</sup>	Revenues	Non current assets <sup>(i)</sup>
Australia	<b>228,694</b>	<b>27,092</b>	211,480	26,642
New Zealand	<b>18,222</b>	<b>414</b>	19,650	400
Total	<b><u>246,916</u></b>	<b><u>27,506</u></b>	231,130	27,042

<sup>(i)</sup> Other than the equity-accounted investees, the non current assets presented consist of property, plant and equipment, and intangible assets.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

## 5. Capital and reserves

### Reconciliation of movement in capital and reserves for the period ended 30 June 2012

*in thousands of AUD*

	Share-based payments reserve	Translation reserve	Realisation reserve	Total reserve	Share capital	Retained earnings	Total for members of the Company	Minority interest	Total equity
Balance at 1 July 2011	327	(2,552)	25,282	23,057	113,659	8,560	145,276	2,730	148,006
<b>Total comprehensive income for the year</b>									
Profit or loss	-	-	-	-	-	18,524	18,524	484	19,008
Other comprehensive income									
Foreign exchange translation differences	-	458	-	458	-	-	458	5	463
Total other comprehensive income	-	458	-	458	-	-	458	5	463
Total comprehensive income for the year	-	458	-	458	-	18,524	18,982	489	19,471
<b>Transactions with owners, recorded directly in equity</b>									
Own shares acquired	-	-	-	-	(5,180)	-	(5,180)	-	(5,180)
Share based payment transactions	198	-	-	198	-	-	198	-	198
Employee share issue	-	-	-	-	174	-	174	-	174
Transfer to reserve	-	-	2,327	2,327	-	(2,327)	-	-	-
Dividends to equity holders/ re-invested	-	-	-	-	-	(8,591)	(8,591)	(509)	(9,100)
Balance at 30 June 2012	525	(2,094)	27,609	26,040	108,653	16,166	150,859	2,710	153,569

*Amounts are stated net of tax*

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

### 5. Capital and reserves (continued)

#### Reconciliation of movement in capital and reserves for the period ended 30 June 2011

*in thousands of AUD*

	Share-based payments reserve	Translation reserve	Realisation reserve	Total reserve	Share capital	Retained earnings	Total for members of the Company	Minority interest	Total equity
Balance at 1 July 2010	214	(1,119)	25,282	24,377	113,442	33,497	171,316	2,725	174,041
<b>Total comprehensive income for the year</b>									
Profit or loss	-	-	-	-	-	(17,341)	(17,341)	522	(16,819)
Other comprehensive income									
Foreign exchange translation differences	-	(1,433)	-	(1,433)	-	-	(1,433)	(22)	(1,455)
Total other comprehensive income	-	(1,433)	-	(1,433)	-	-	(1,433)	(22)	(1,455)
Total comprehensive income for the year	-	(1,433)	-	(1,433)	-	(17,341)	(18,774)	500	(18,274)
<b>Transactions with owners, recorded directly in equity</b>									
Own shares acquired	-	-	-	-	(184)	-	(184)	-	(184)
Share-based payment transactions	113	-	-	113	-	-	113	-	113
Employee share issue	-	-	-	-	401	-	401	-	401
Dividends to equity holders/ re-invested	-	-	-	-	-	(7,596)	(7,596)	(495)	(8,091)
Balance at 30 June 2011	327	(2,552)	25,282	23,057	113,659	8,560	145,276	2,730	148,006

*Amounts are stated net of tax*



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

## 5. Capital and reserves (continued)

### Share capital

*In thousands of shares*

On issue at 1 July

Share buy-back <sup>(i)</sup>

Employee share scheme <sup>(ii)</sup>

On issue at 30 June – fully paid

	The Company Ordinary shares	
	2012	2011
On issue at 1 July	<b>39,997</b>	39,907
Share buy-back <sup>(i)</sup>	<b>(2,265)</b>	(88)
Employee share scheme <sup>(ii)</sup>	<b>103</b>	178
On issue at 30 June – fully paid	<b>37,835</b>	39,997

<sup>(i)</sup> In 2009 the Group announced an on-market share buy-back of up to 10% of its issued ordinary shares. The 12 month buy-back period commenced on 23 November 2009 and has been renewed on a yearly basis. The latest renewal of the share buy-back was for a 12 month period commencing on 23 November 2011.

<sup>(ii)</sup> In February 2012 the Group offered an employee share scheme to eligible employees with 3 full years service. The offer per employee was 209 (2011: 225) fully paid ordinary shares in the Company at no cost to the employee. Employees who accepted this offer have the same rights as other ordinary shareholders with the exception that they are unable to trade for a period of 5 years from the date of issue of the shares. The fair value of these shares was calculated using the closing price as traded on the ASX on the issue date, discounted by the average lending rate of 10%. The Company issued 103,037 (2011: 178,425) fully paid ordinary shares with a fair value of \$1.69 (2011: \$2.25) each to eligible employees. The fair value of \$1.69 is less than the market price of the shares when issued and reflects the 5 year period that these shares must be held in escrow (2011: market price of shares at date of issue).

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.

### Dividends

The following dividends were declared and paid by the Group:

<b>Paid during the year 2012</b>	<b>Cents per share</b>	<b>Total amount \$000</b>	<b>Franked / Unfranked</b>	<b>Date of payment</b>
Second Interim 2011 Ordinary Dividend <sup>(iii)</sup>	5.0	2,002	Fully Franked	08 July 2011
Final 2011 Ordinary Dividend	11.0	4,380	Fully Franked	23 September 2011
Interim 2012 Ordinary Dividend	11.0	4,211	Fully Franked	20 March 2012
Total Amount		<u>10,593</u>		
<b>Payable after end of year</b>				
Final 2012 Ordinary Dividend <sup>(i)</sup>	11.0	4,162	Fully Franked	21 September 2012
		<u>4,162</u>		

<sup>(i)</sup> The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2012, as it was declared after the year end, and will be recognised in subsequent financial reports.

<sup>(iii)</sup> Declared in the year ended 30 June 2011.

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

### 6. Discontinued operations

In May 2011 the Group sold the business and assets of its automotive parts distribution business in South Australia (which traded as Motor Traders) to Burson Automotive Pty Ltd (Burson). In July 2011 the Group sold its WA automotive parts distribution business to Automotive Holdings Group (AHG); the segment assets were classified as held for sale and operations were discontinued as at 30 June 2011.

Profit/(loss) attributable to the discontinued operations were as follows:

<i>In thousands of AUD</i>	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
<b>Results of discontinued operations</b>		
Revenue	<b>557</b>	166,839
Expenses	<b>(411)</b>	(165,485)
Impairment loss <sup>(i)</sup>	<b>(2,001)</b>	(3,119)
<b>Results from operating activities</b>	<b>(1,855)</b>	(1,765)
Income tax (expense)/benefit	<b>556</b>	2,369
<b>Results from operating activities, net of tax</b>	<b>(1,299)</b>	604
Gain/(loss) on sale of discontinued operation	<b>4,912</b>	(86)
Income tax (expense)/benefit on sale of discontinued operation	<b>(1,474)</b>	26
<b>Profit for the year</b>	<b>2,139</b>	544
Basic earnings per share	<b>5.5 cents</b>	1.4 cents
Diluted earnings per share	<b>5.5 cents</b>	1.4 cents

<sup>(i)</sup> At 30 June 2011 the recoverable amount of specific computer software assets utilised by the discontinued automotive operation was assessed resulting in an impairment loss of \$3,119,000. These assets were held in the corporate (\$1,580,000) and automotive (\$1,530,000) segments.

At 30 June 2012 the recoverable amount of certain property, plant & equipment previously utilised by its now discontinued automotive operation was reassessed, resulting in an impairment loss of \$2,001,000. These assets were held in the automotive segment.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

## 6. Discontinued operations (continued)

*In thousands of AUD*

### Cash flows from discontinued operations

	Consolidated	
	2012	2011
Net cash from(used) in operating activities	7,867	5,881
Net cash from(used) in investing activities	36,227	2,422
Net cash from(used) in financing activities	(44,115)	(8,309)
Net cash from discontinued operations	(21)	(6)

### Effect of disposal of Automotive business on the financial position of the Group

Property, plant and equipment	(1,505)	(394)
Inventories	(25,618)	(4,467)
Cash and cash equivalents	(21)	(6)
Trade and other receivables	(386)	-
Employee benefits	3,235	418
Trade and other creditors	243	-
Net assets and liabilities	(24,052)	(4,449)
Consideration received, satisfied in cash	28,964	5,395
Cash and cash equivalents disposed of	(21)	(6)
Net cash inflow	28,943	5,389

## Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

### 7. Acquisition of subsidiary and non-controlling interests

#### Acquisition of subsidiary

On 1 March 2012 the Group obtained control of Fluidrive Pty Limited, a distributor of hydraulic equipment and supplies by acquiring 100 percent of the shares and voting interests in the company.

Revenues in the year were insignificant for the Group.

The following summarises the consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

<i>In thousands of AUD</i>	<b>2012</b>
<b>Consideration transferred</b>	
Cash	<b>1,800</b>
Total consideration transferred	<b><u>1,800</u></b>
<b>Identifiable assets acquired and liabilities assumed</b>	
Cash	<b>246</b>
Current assets	<b>1,349</b>
Non current assets	<b>280</b>
Current liabilities	<b><u>(387)</u></b>
Total net identifiable assets	<b><u>1,488</u></b>

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amount for provisions, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

#### Goodwill

Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	<b>1,800</b>
Fair value of identifiable net assets	<b><u>(1,488)</u></b>
	<b><u>312</u></b>

The goodwill is attributable mainly to customer relations and the skills of the Fluidrive workforce.

#### Acquisition related costs

The acquisition related costs were immaterial to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2012 (continued)

## 8. Assets held for sale

In May 2011 the Coventry WA automotive business was contracted for sale to Automotive Holdings Group Limited. The assets less liabilities contracted for sale comprised the disposal group at 30 June 2011. The transaction settlement occurred on 1 July 2011.

Following the contracted sale of Coventry WA automotive business and the completed sale of the Motor Traders SA automotive business the Board agreed to sell the land and buildings associated with these businesses. The assets and liabilities of the automotive business and associated land and buildings were classified as held for sale as at 30 June 2011.

During the year end 30 June 2012, the assets and liabilities of the automotive business and all associated land and buildings were sold with the exception of one property that settled in August 2012.

*In thousands of AUD*

	<b>2012</b>	<b>2011</b>
<b>Assets classified as held for sale</b>		
Land and buildings	<b>209</b>	10,164
Plant and equipment	-	1,506
Inventories	-	26,114
	<b>209</b>	37,784
<b>Liabilities classified as held for sale</b>		
Employee benefits	-	3,235
	-	3,235

# Directors' Report

## 1. Directors

### Information on Directors

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

#### Name, qualifications, independence status and special responsibilities

**Barry Frederick Nazer**, BBus, FCPA, FFin, ANZIIF (Fellow), FAICD

Independent non-executive director  
Chairman of audit and risk committee; member of nomination committee

**John Harold Nickson**, B.Ec, CPA, FAICD

Independent non-executive director  
Chairman of remuneration committee; member audit and risk committee

**Kenneth Royce Perry**, B.Sc (Hons), MBA, MAICD, AusIMM

Independent non-executive director  
Member of audit and risk, remuneration and nomination committees

#### Experience and other directorships

Mr Nazer was appointed as a director of the Company in September 2003. He is a non-executive director of VDM Group Limited and M G Kailis Group.

Mr Nazer had 13 years of experience in engineered wood products manufacturing and distribution which included the positions of Chief Financial Officer (CFO) of Wesbeam Holdings Limited and CFO of WESFI Limited. He had 20 years of experience in the banking industry which included almost 9 years as CFO of Bank of Western Australia Limited (BankWest). Other prior experience includes 10 years in the insurance industry.

Other listed company directorships held during the past 3 financial years:  
VDM Group Limited from 1 October 2008 to current.

Mr Nickson was appointed a director of the Company in November 2007. He has over 43 years experience in the finance industry, including 35 years at Goldman Sachs JBWere (formerly J B Were and Son) until retiring in 2004. He was a Director/Partner for over 20 years.

For 28 years Mr Nickson specialised in corporate advice and finance, working closely with a wide range of listed and to be listed corporations, both public and private, many in Western Australia. He is a director of a number of private companies and a committee member of a medical research institute.

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

Mr Perry was appointed a director of the Company in September 2009. He was Chief Executive Officer of VDM Group Limited, a publicly listed Australian engineering, construction and contracting business until March 2011. Prior to this appointment in February 2010, Mr Perry was the Managing Director of Brandrill Limited from 2002 to 2009 when the company merged with Ausdrill Limited. Mr Perry has over 15 years' experience in senior management roles, including serving as President of Rio Tinto Group's Taiwanese steel mill and as the Director General of the Department of Minerals and Energy (WA) between 1994 and 1997. Subsequently he worked for Resource Finance Corporation, a private merchant and investment bank specialising in the natural resources sector. Mr Perry is also a member of various private boards.

Other listed company directorships held during the past 3 financial years:  
Brandrill Limited from 16 August 2002 to 16 December 2009

# Directors' Report

(continued)

## 1. Directors (continued)

### Information on Directors (continued)

#### Name, qualifications, independence status and special responsibilities

**Roger Baden Flynn**, B.Eng (Hons), MBA, FIE (Aust), FAICD  
Executive Chairman  
Chairman of nomination committee

**Vince Scidone**, BBus, AFAIM, AAICD  
Executive director

#### Experience and other directorships

Mr Flynn was appointed a director of the Company in October 2001 and he became Chairman in November 2006. In April 2007 he was appointed Executive Chairman. 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 a former director of Hills Holdings Limited, Wattyl Limited and Longreach Group Ltd and has had 44 board years experience on 6 listed companies, including 14 years as managing director of 4 separate ASX listed companies.

Other listed company directorships held during the past 3 financial years:  
Hills Holdings Limited from 1999 to 4 November 2011

Mr Scidone was appointed an executive director of the Company in February 2008. He joined the Company in 1996 as Group Marketing Manager and was appointed the Group General Manager, Industrial in 1997. He has led the Company's fastener business for a number of years.

Mr Scidone has a strong background in the steel, fastener and industrial industries having worked for BHP Steel, Email Limited and Ajax Fasteners.

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

#### Directors' Interests

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

	<b>Number of Ordinary Shares</b>	<b>Number of Options (Unlisted)</b>
BF Nazer	104,420	-
JH Nickson	107,653	-
KR Perry	-	-
RB Flynn	250,496	850,000
V Scidone	29,487	250,000

# Directors' Report

(continued)

## 1. Directors (continued)

### Directors' Interests (continued)

During the 2011/12 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 RB Flynn, who has a service contract with the Company which entitles him to benefits in the Company as disclosed in the Remuneration Report section of this report.
- Mr V Scidone, who has an employment contract with the Company which entitles him to benefits in the Company as disclosed in the Remuneration Report section of this report.

### 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 2012, 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
BF Nazer	14	14	4	4	-	-	1	1
JH Nickson	14	13	4	4	2	2	-	-
KR Perry	14	13	4	4	2	2	1	1
RB Flynn	14	14	-	-	-	-	1	1
V Scidone	14	13	-	-	-	-	-	-

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

## 2. Principal activities

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

### Fasteners

- distribution and marketing of industrial fasteners, stainless steel fasteners and hardware, construction fasteners, specialised fastener products and systems, and associated industrial tools and consumables.



# Directors' Report

(continued)

## 2. Principal activities (continued)

### Fluids

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

### Hardware

- 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.

### Gasket Manufacturing

- manufacture and distribution of automotive and industrial gaskets.

### Automotive

- This business was sold on 1 July 2011 and is reported in the notes to the financial statements as a discontinued operation.

## Directors' Report

(continued)

### 3. Consolidated results

Results of the Group for the year ended 30 June 2012 were as follows:

*In thousands of AUD*

#### Continuing operations

	2012	2011
Revenue from sale of goods	242,864	229,365
Profit/(loss) before tax	21,246	(16,065)
Income tax expense	(4,377)	(1,298)
<b>Profit/(loss) from continuing operations for the year</b>	<b>16,869</b>	<b>(17,363)</b>

#### Discontinued operations

Revenue from sale of goods	557	166,839
Profit/(loss) before tax	3,057	(1,851)
Income tax expense	(918)	2,395
<b>Profit/(loss) from discontinued operations for the year</b>	<b>2,139</b>	<b>544</b>
<b>Profit/(loss) for the year</b>	<b>19,008</b>	<b>(16,819)</b>

Profit/(loss) for the year attributable to:

- equity holders of the Company	18,524	(17,341)
- minority interest	484	522
<b>Profit/(loss) for the year</b>	<b>19,008</b>	<b>(16,819)</b>

# Directors' Report

(continued)

## 4. Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

<b>Paid during the year 2012</b>	<b>Cents per share</b>	<b>Total amount \$000</b>	<b>Franked / Unfranked</b>	<b>Date of payment</b>
Second Interim 2011 Ordinary Dividend <sup>(iii)</sup>	5.0	2,002	Fully Franked	08 July 2011
Final 2011 Ordinary Dividend	11.0	4,380	Fully Franked	23 September 2011
Interim 2012 Ordinary Dividend	11.0	4,211	Fully Franked	20 March 2012
Total Amount		<u>10,593</u>		
<b>Payable after end of year</b>				
Final 2012 Ordinary Dividend <sup>(i)</sup>	11.0	4,162	Fully Franked	21 September 2012
		<u>4,162</u>		

<sup>(i)</sup> The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2012, as it was declared after the year end, and will be recognised in subsequent financial reports.

<sup>(iii)</sup> Declared in the year ended 30 June 2011.

## 5. Review of operations and results

The Group recorded a profit before tax from continuing operations of \$21.2 million compared to a loss of \$16.1 million for the previous comparative period after the impairment of goodwill. The profit after tax derived from continuing operations was \$16.9 million compared to a loss of \$17.4 million for the prior period. The profit after tax of \$19.0 million (loss of \$16.8 million – 30 June 2011) represents the results of all the Group's operations.

The profit result from continuing operations was achieved through a number of factors, as follows:

- out of the 19 properties associated with the disposed automotive businesses, 18 were sold by 30 June 2012 and all had settled by the date of this release. The sales generated a profit of \$11.0 million and cash inflows of \$20.9 million.
- strong performances were achieved in the Fluids and Gaskets businesses delivering a profit before tax and financing of \$14.7 million (\$10.3 million – 30 June 2011), up 43.2% compared to the prior comparative period.

During the period trading conditions in the Fasteners and the Hardware businesses remained difficult with intense competitive pressure. The reportable loss before finance costs, income tax and material non-cash items improved to \$1.3 million (loss of \$2.5 million – 30 June 2011). Management remains focused on improvements in these businesses through cost reduction and customer service developments.

# Directors' Report

(continued)

## 5. Review of operations and results (continued)

The Group net cash position improved significantly to \$55.0 million (\$7.1 million - 30 June 2011). This was due to:

- the disposal of the WA automotive business to AHG generating \$28.9 million;
- the proceeds from the sale of 18 properties generating \$20.9 million; and
- operating activities generating \$18.2 million (\$7.6 million - 30 June 2011).

These strong cash inflows allowed \$15.8 million of cash to be returned to shareholders through dividends and share buy-backs in the year (\$5.8 million - 30 June 2011).

Net tangible assets per share increased by 33 cents in the period to \$3.71 (\$3.38 - 30 June 2011).

### Business units performance review

#### Fasteners

Sales for the Fasteners business declined by 1.6% to \$124.7 million compared to the previous comparative period. The loss before interest and tax was \$0.6 million compared with a loss of \$2.0 million in the previous comparative period, excluding the charge for impairment of goodwill. In the prior period a charge against goodwill of \$21.1 million was recorded due to poor trading conditions and outlook for the business.

Management focus and initiatives have led to an increase in margins at a gross profit level and a reduction in the cost base of the business. This has been achieved by focusing on increased efficiency, the streamlining of processes and cost management within the business. The launch of a new sales management plan and the introduction of technology continues to be rolled out across the branch network. The 'Bolt Shop', an on-line product catalogue and purchasing site, continues to grow and is one of a series of initiatives to further improve customer relationships.

#### Fluids

Sales for the Fluids business increased by 27.6% to \$80.6 million compared to the previous comparative period. Profit before interest and tax was \$12.2 million - up 60% on the previous comparative period. The result was driven by strong demand from the resources sector in the three states the business operates in - Queensland, Western Australia and South Australia.

The Fluids business has achieved significant levels of organic growth, with continued strong demand from the resources sector. The focus on quality and customer relationships that was driven into the business three years ago has been a strong positive factor in this growth. In this past year product and market extension has been a key focus of the business, which has been well supported by the major customers.

In March the Group bought Fluidrive Pty Ltd, a Gladstone based distributor of hydraulic equipment. The business has been successfully integrated into the Fluids business and is performing strongly. The Group continues to explore other opportunities to purchase companies operating in the Fluids space. Additionally, after a review of its geographic footprint the Group decided to open a branch in the key Mt. Isa region, resulting in a network of 8 branches for the business.

#### Hardware

Sales for the Hardware business declined by 8.6% to \$24.6 million compared to the previous comparative period. The business recorded a loss before interest and tax of \$2.8 million (loss \$1.2 million - 30 June 2011) which included a material write down of inventory by \$1.6 million.

During the year new management was brought in to run the business. The focus brought by this management team has delivered a sizable reduction in inventory and number of product lines, reducing cash tied up in the business and increasing operating and warehouse efficiency. Although the cost base is less, more internal resources are now allocated to 'customer facing' activities. By 30 June 2012 delivery KPI's had been increased and the focus of the business had transitioned from internal improvement to sales growth. The more efficient business will be able to take advantage of emerging opportunities as they appear in the market.

# Directors' Report

(continued)

## 5. Review of operations and results (continued)

### Business units performance review (continued)

#### Gaskets

Sales for the Gaskets business increased by 2.4% to \$12.8 million compared to the previous comparative period. The business recorded a profit before interest and tax of \$2.5 million, down marginally on the result achieved in the previous comparative period of \$2.7 million. The business continues to benefit from the market differentiation they deliver through quality and the breadth of product range.

#### Managed System Services

In October 2011, Managed System Services Pty Ltd, a wholly owned subsidiary, was established. The entity is marketing the Group's IT service capability and seeking to take advantage of opportunities in the IT sector. To date the entity has secured customers in the education, financial services and distribution sectors.

## 6. Earnings per share

Basic profit per share for the year ended 30 June 2012 was 47.8 cents. This compares to a basic (loss) per share of (43.4) cents for the previous year.

## 7. Significant change in the company's affairs

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

## 8. Events subsequent to reporting date

The directors are not aware of any matter or circumstance having arisen since the end of the financial year and the date of this report that has significantly affected, or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 9. Likely developments

The Group 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 Group and have the potential to increase and maximise shareholder wealth. The Group is also actively seeking to organically grow its existing business units and restore the profitability of the Fastener and Hardware businesses.

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

## Directors' Report

(continued)

### 10. Remuneration report

Remuneration is referred to as compensation throughout this remuneration report.

The LTI valuation figures (in sub-section 10.2 below) are as a result of a legally mandated calculation method which ascribes a valuation to market price options with hurdle conditions which are in excess of what directors consider to be a fair free market value at which such options could have been valued at and sold in a free and fair market.

Sub-sections 10.1 to 10.7 of the remuneration report have been audited by the Company's external auditor, KPMG.

#### 10.1 Key Management Personnel (KMPs)

KMPs are the persons who have authority and responsibility for planning, directing and controlling the activities of the Company and the Group.

The following were KMPs of the Group at any time during the reporting period and unless otherwise indicated were KMPs for the entire period:

##### Non-executive directors

BF Nazer  
JH Nickson  
KR Perry

##### Executive directors

RB Flynn, Executive Chairman  
V Scidone, Director and General Manager, Fasteners

##### Executives

AP Hockley, Chief Financial Officer<sup>(i)</sup>  
KS Smith, Chief Financial Officer<sup>(ii)</sup>

<sup>(i)</sup> Resigned as CFO on 14 April 2012

<sup>(ii)</sup> Appointed CFO on 14 April 2012

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

##### 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. 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 (continued)

As at 30 June 2012 the non-executive directors fees were allocated as follows (does not include statutory superannuation contributions):

Chairman (base fee) <sup>(i)</sup>	\$nil
Non-executive Directors (base fee)	\$76,000
Interstate Non-executive Director (base fee)	\$87,000
Chairman of Audit & Risk Committee (in addition to base fee)	\$15,000
Chairman and Member of Remuneration Committee (in addition to base fee)	\$5,000

<sup>(i)</sup> The Company has an Executive Chairman who is paid a salary but no separate director fees.

### 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 three 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. This compensation framework also applies to executive directors.

The total compensation of the Executive Chairman reflects the combination of duties fulfilled as Chairman of the Board and as Managing Director of the Company.

### 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.

# Directors' Report

(continued)

## 10. Remuneration report (continued)

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

#### Performance linked compensation

##### Short-term incentives

Short-term cash incentives of up to 25% of fixed annual compensation (35% for the Executive Chairman) are payable to the senior executives upon the achievement of various annual performance targets, which currently include net profit after tax, dividends paid, changes in share price and other key performance indicators (for certain executives on a consolidated basis and for others on a business unit basis). Such targets ensure that incentives are principally paid when value has been created for shareholders and when profit is above the budget. Discretionary bonuses may be paid when authorised by the Remuneration Committee.

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 to senior management, including key management personnel, through the Executive Long Term Incentive Plan ("ELTIP") which was approved by shareholders at the 2003 annual general meeting.

In November 2007, options over unissued ordinary shares in the Company were granted to the executive directors and senior executives.

The terms upon which the options over unissued shares were issued are as follows:

- the exercise price of the options is \$3.88, which is the volume weighted average price ("VWAP") at which the shares in the Company traded on the ASX during the 30 day period following the release of the Company's audited accounts for the year ended 30 June 2007 plus 10%;
- the options have a term of 5 years from the date of issue and options not exercised by the end of that period will lapse;
- the options may only be exercised if the price of the Company's shares on ASX (determined by reference to a 5 day VWAP) exceeds certain percentages of growth relevant to the underlying spot price (\$3.65), in particular:
  - (i) one third of the options can be exercised if the 5 day VWAP exceeds the underlying spot price of the options by 15%;
  - (ii) one third of the options can be exercised if the 5 day VWAP exceeds the underlying spot price of the options by 30%; and
  - (iii) one third of the options can be exercised if the 5 day VWAP exceeds the underlying spot price of the options by 45%.

In September and October 2010, options over unissued shares in the Company were issued to senior executives and executive directors. The terms upon which the options over unissued shares were issued are as follows:

- the exercise price of the options is \$2.27, which is the volumed weighted average price ("VWAP") at which the shares in the Company traded on the ASX during the 20 day period following the release of the Company's audited accounts for the year ended 30 June 2010;
- the options have a term of 3 years from the date of issue and options not exercised by the end of that period will lapse; and
- one third of the options may be exercised if the earnings per share (defined in ELTIP rules to be the net profit after tax adjusted in the discretion of the Board to take account of significant or unusual items and then divided by the number of shares on issue) has grown over the period from the first full financial year prior to granting the options to the last full financial year preceding the exercise of the option at a compound annual rate of at least 8% whilst a further third may be exercised on achieving each of the 10% and 12% thresholds for the same period. The testing period will be the three years following the financial year ended 30 June 2010 or such shorter time as the Board may subsequently determine.



# Directors' Report

(continued)

## 10. Remuneration report (continued)

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

The purpose of the issue of the options is to provide executive management with a strong incentive by aligning their rewards with the return to shareholders measured by the performance of the Company's share price.

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

### Consequences of performance on shareholder wealth

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

	2012	2011	2010	2009	2008
	\$	\$	\$	\$	\$
Profit/(loss) attributable to equity holders of the Company	<b>18,524,000</b>	(17,341,000)	6,474,000	(1,416,000)	6,522,000
Dividends paid	<b>10,593,000</b>	5,594,000	4,361,000	-	-
Change in share price	<b>0.35</b>	0.45	0.94	(1.00)	(2.59)

Profit is considered as one of the financial performance targets in setting the short term incentives. The profit/(loss) amounts for years 2006 onwards have been calculated in accordance with Australian equivalents to IFRS (AIFRS).

The overall level of KMP compensation takes into account the performance of the Group. As can be seen the profit/(loss) attributable to equity holders has shown no consistent pattern in the last five years however the results in each year have been influenced by individually material items often of a non-recurrent or non-cash nature.

# Directors' Report

(continued)

## 10. Remuneration report (continued)

### 10.3 Details of compensation

The following table provides the details, nature and amount of elements of compensation for the directors and the key management personnel of the Company and the Group for the year ended 30 June 2012.

Name	Short-term benefits			Post employment benefits	Other long-term benefits	Share-based payment	Termination benefits	Total	Proportion of compensation related	Value of options as proportion of remuneration
	Cash salary and fees	STI cash bonus	Non-monetary benefits	Super-annuation <sup>(i)</sup>	Long service leave provision	Value of ELTIP options				
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Non-executive Directors</b>										
BF Nazer	91,000	-	-	8,190	-	-	-	99,190	-	-
JH Nickson	50,280	-	-	50,000	-	-	-	100,280	-	-
KR Perry	81,000	-	-	7,290	-	-	-	88,290	-	-
<b>Total</b>	<b>222,280</b>	<b>-</b>	<b>-</b>	<b>65,480</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>287,760</b>	<b>-</b>	<b>-</b>
<b>Executive Directors</b>										
RB Flynn	809,033	-	-	38,663	(6,826)	94,898	-	935,768	10.1	10.1
V Scidone	425,749	-	17,916	25,000	6,790	33,537	-	508,992	6.6	6.6
<b>Total</b>	<b>1,234,782</b>	<b>-</b>	<b>17,916</b>	<b>63,663</b>	<b>(36)</b>	<b>128,435</b>	<b>-</b>	<b>1,444,760</b>		
<b>Other key management personnel</b>										
AP Hockley <sup>(ii)</sup>	146,181	168,000	-	38,535	2,264	32,690	-	387,670	51.8	8.4
KS Smith <sup>(iii)</sup>	41,197	-	-	3,944	70	-	-	45,211	-	-
<b>Total</b>	<b>187,378</b>	<b>168,000</b>	<b>-</b>	<b>42,479</b>	<b>2,334</b>	<b>32,690</b>	<b>-</b>	<b>432,881</b>		
<b>Total compensation key management personnel</b>	<b>1,644,440</b>	<b>168,000</b>	<b>17,916</b>	<b>171,622</b>	<b>2,298</b>	<b>161,125</b>	<b>-</b>	<b>2,165,401</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.

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

<sup>(ii)</sup> Resigned as Chief Financial Officer on 14 April 2012

<sup>(iii)</sup> Appointed Chief Financial Officer on 14 April 2012

# Directors' Report

(continued)

## 10. Remuneration report (continued)

### 10.3 Details of compensation (continued)

The following table provides the details, nature and amount of elements of compensation for the directors and the key management personnel of the Company and the Group for the year ended 30 June 2011.

Name	Short-term benefits			Post employment benefits	Other long-term benefits	Share-based payment	Termination benefits	Total	Proportion of compensation related	Value of options as proportion of remuneration
	Cash salary and fees	STI cash bonus	Non-monetary benefits	Super-annuation <sup>(ii)</sup>	Long service leave provision	Value of ELTIP options				
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Non-executive Directors</b>										
BF Nazer	91,000	-	-	8,190	-	-	-	99,190	-	-
JH Nickson	50,280	-	-	50,000	-	-	-	100,280	-	-
KR Perry	81,000	-	-	7,290	-	-	-	88,290	-	-
<b>Total</b>	<b>222,280</b>	<b>-</b>	<b>-</b>	<b>65,480</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>287,760</b>	<b>-</b>	<b>-</b>
<b>Executive Directors</b>										
RB Flynn	825,049	35,300	-	25,959	-	58,564	-	944,872	6.2	6.2
V Scidone	423,112	10,000	18,177	23,929	20,779	14,450	-	510,447	2.8	2.8
<b>Total</b>	<b>1,248,161</b>	<b>45,300</b>	<b>18,177</b>	<b>49,888</b>	<b>20,779</b>	<b>73,014</b>	<b>-</b>	<b>1,455,319</b>		

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

## Directors' Report

(continued)

### 10. Remuneration report (continued)

#### 10.3 Details of compensation (continued)

Name	Short-term benefits			Post employment benefits	Other long-term benefits	Share-based payment	Termination benefits	Total	Proportion of compensation related	Value of options as proportion of remuneration
	Cash salary and fees	STI cash bonus	Non-monetary benefits	Super-annuation <sup>(i)</sup>	Long service leave provision	Value of ELTIP options				
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Other key management personnel</b>										
AP Hockley	287,551	15,100	-	51,930	-	12,834	-	367,415	3.5	3.5
MW Ridley	255,728	10,000	19,291	47,592	-	12,834	-	345,445	3.7	3.7
MJ Hurley	321,180	60,000	5,705	19,871	-	6,130	-	412,886	1.5	1.5
BN Carter <sup>(ii)</sup>	180,421	40,475	12,186	24,887	33,942	2,280	-	294,191	0.8	0.8
JE Robinson <sup>(iii)</sup>	112,667	-	-	5,715	(19,241)	-	-	99,141	-	-
J Colli	147,524	6,000	-	11,961	(4,022)	3,352	-	164,815	2.0	2.0
<b>Total</b>	<b>1,305,071</b>	<b>131,575</b>	<b>37,182</b>	<b>161,956</b>	<b>10,679</b>	<b>37,430</b>	<b>-</b>	<b>1,683,893</b>		
<b>Total compensation key management personnel</b>	<b>2,775,512</b>	<b>176,875</b>	<b>55,359</b>	<b>277,324</b>	<b>31,458</b>	<b>110,444</b>	<b>-</b>	<b>3,426,972</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.

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

<sup>(ii)</sup> Became a relevant group executive during 30 June 2011 for the purposes of section 300A (1)(c) of the Corporations Act 2001.

<sup>(iii)</sup> Ceased being a relevant group executive during 30 June 2011 for the purposes of section 300A (1)(c) of the Corporations Act 2001.

#### 10.4 Analysis of bonuses included in compensation

Short-term incentive bonuses were awarded as compensation to the senior executives during the year ended 30 June 2012 on the basis of performance against pre-determined criteria. A bonus was paid to Mr Hockley as a result of the successful conclusion of a major corporate transaction. Other senior executives were paid discretionary bonuses authorised by the Remuneration Committee.

# Directors' Report

(continued)

## 10. Remuneration report (continued)

### 10.5 Service contracts

Compensation and other terms of employment for the Executive Chairman 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:

RB Flynn, Executive Chairman

- The contract has no fixed term.
- Fixed annual compensation to be reviewed annually by the Board.
- Long service leave is payable by the Company in accordance with relevant state legislation.
- The contract provides for participation in short-term and long-term incentive plans.
- Other than for an act that may have a serious detrimental effect on the Company, such as wilful disobedience, fraud or misconduct, termination of employment requires 12 months notice by the Company. In the event that the Company no longer requires Mr Flynn to report directly to the Board or if the Company no longer requires Mr Flynn to carry out the normal functions of Managing Director, the Company must pay the equivalent of the fixed annual compensation as a redundancy payment.

V Scidone, Executive Director and General Manager, Fasteners

- 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.

KS Smith, 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 8 weeks notice by the Company.

### 10.6 Services from remuneration consultants

The Board Remuneration Committee engaged Gerard Daniels as remuneration consultant to the Board to review the amount and elements of compensation of the KMPs remuneration and provide recommendations in relation thereto. It was agreed a fee of \$20,000 be paid to Gerard Daniels in respect of reviewing the amounts and elements of the KMPs remuneration.

# Directors' Report

(continued)

## 10. Remuneration report (continued)

### 10.6 Services from remuneration consultants (continued)

The Board is satisfied that the remuneration recommendations were made by Gerard Daniels free from undue influence by KMPs about whom the recommendations may relate.

The Board undertook its own inquiries and review of the processes and procedures followed by Gerard Daniels during the course of its assignment and is satisfied that its remuneration recommendations were made free from undue influence. These inquiries included arrangements under which Gerard Daniels was required to provide the Board with a summary of the way in which it carried out its work, the details of its interaction with KMPs in relation to the assignment and other services, and the responses to questioning by members of the Board after the completion of the assignment.

### 10.7 Options over shares granted as compensation

Options that have been granted, subject to vesting conditions, to date are disclosed in note 18 of the full financial report. During the period ended 30 June 2012, no options were granted, vested, exercised or lapsed. The number of options forfeited during the year ended 30 June 2012 was 200,000 (2011: nil). There were 1,650,000 (2011: 1,850,000) options outstanding as at the year ended 30 June 2012.

## 11. Environmental regulation

The Group is not subject to any specific environmental regulation.

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

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

For the financial year ended 30 June 2012 and as at the date of this report, the Group has not been prosecuted nor incurred any infringement penalty for environmental incidents.

## 12. Insurance of officers

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

## 13. Corporate governance

The Statement of Corporate Governance Practices as disclosed on pages 46 to 57 of the Concise Annual Report sets out the Company's main corporate governance practices throughout the financial year and as at the date of this report.

## 14. Share options

### Options granted to directors and key management personnel

Options that have been granted, subject to vesting conditions, to date are disclosed in note 18 of the full financial report. No options were vested, exercised or lapsed during and since the end of the reporting period. The number of options forfeited during the year ended 30 June 2012 was 200,000 (2011: nil).

# Directors' Report

(continued)

## 15. Non-audit services

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

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

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out in note 4 to the full financial report.

## 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 59 and forms part of this directors' report.

## 17. Company secretary

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

## 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.



R B Flynn  
Executive Chairman

Perth  
27 August 2012

# Statement of Corporate Governance Practices

## Introduction

This statement is dated 27 August 2012 and sets out the corporate governance practices of Coventry Group Ltd (CGL) for the 2011/12 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.

In August 2007 the ASXCGC released a revised set of principles and recommendations for good corporate governance following a review of those initial principles and recommendations. This resulted in 8 principles being established which came into effect from the first financial year commencing on or after 1 January 2008.

In June 2010 the ASXCGC released amendments to the 2nd edition of the Corporate Governance Principles and Recommendations which covered diversity, remuneration, trading policies and briefings.

ASXCGC's paper on the revised principles and recommendations refers to corporate governance as:

"the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled by corporations. It encompasses the mechanisms by which companies and those in control, are held to account. Corporate governance 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 encompasses the ASXCGC's revised principles and recommendations on corporate governance and should be read in conjunction with CGL's concise 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.

## ASXCGC Principle 1

Lay solid foundations for management and oversight.

Companies should establish and disclose the respective roles and responsibilities of board and management.

## ASXCGC Recommendation 1.1

Companies should establish the functions reserved for the board and those delegated to senior executives and disclose these functions.

## 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.

The board has a charter which formalises 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.



# Statement of Corporate Governance Practices

(continued)

The board charter can be viewed on the Group's website under the tab – "Investors, Corporate Governance".

The Company has in place formal letters of engagement for non-executive directors, setting out the key terms and conditions of their appointment.

The executive chairman, Mr R B Flynn, as the chief executive officer of the Company, is engaged in accordance with a service contract and has a formal position description.

All senior executives of the Company are employed pursuant to formal service contracts and have formal position descriptions. The chief financial officer 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, and other operational matters. There are separate policies covering capital expenditure and treasury transactions. The policies are amended and updated as circumstances arise.

## **ASXCGC Recommendation 1.2**

Companies should disclose the process for evaluating the performance of senior executives.

### **CGL Practice**

Arrangements are in place to monitor the performance of senior executives of the Company. The direct reports to the chief executive officer have formal reviews at least once a year.

Performance is measured against previously agreed objectives/key performance indicators (KPI's). Apart from reviewing KPI's, the performance appraisal also considers leadership competencies, areas of improvement, training and development as well as career aspirations.

The board monitors the performance of the chief executive officer 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.

## **ASXCGC Recommendation 1.3**

Companies should provide the information indicated in the Guide to reporting on Principle 1.

### **CGL Practice**

The information required for reporting on Principle 1 has been disclosed by the Company.

## **ASXCGC Principle 2**

Structure the board to add value.

Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

## **ASXCGC Recommendation 2.1**

A majority of the board should be independent directors.

# Statement of Corporate Governance Practices

(continued)

## CGL Practice

The board presently consists of five directors. Three directors are non-executive directors and considered to be independent. The names of the directors of the Company as at the date of this statement are set out on pages 28 and 29 of the concise 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 has adopted the following policy:

"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.

The board may consider variations to this policy in exceptional circumstances."

During the 2011/12 financial year and as at the date of this statement there were no changes to the composition of the board.

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 page 8 of the concise annual report.

To assist the board in discharging its responsibilities, the board has established the following board committees:

- audit & risk committee
- remuneration committee
- nomination committee

## ASXCGC Recommendation 2.2

The chair should be an independent director.

# Statement of Corporate Governance Practices

(continued)

## **CGL Practice**

In April 2007, Mr R B Flynn was appointed as the Company's executive chairman. Mr Flynn is not independent in terms of the ASXCGC's criteria for independent directors. Accordingly the Company does not comply with this recommendation.

The board was strongly of the view that the most suitable person to become chief executive upon Mr Glenn's departure was Mr Flynn, given his relevant past experience and achievements combined with his knowledge of the Company, its people and its operations. The board is still supportive of this position. The three independent non-executive directors have deep insight to the business, are frequently updated and approve all major commitments in line with a clearly established authority schedule.

## **ASXCGC Recommendation 2.3**

The roles of the chair and the chief executive officer should not be exercised by the same individual.

## **CGL Practice**

With the appointment of Mr Flynn as executive chairman in April 2007 the roles of chairperson and the chief executive officer are exercised by the same person. Accordingly the Company does not comply with this recommendation.

Refer to comments for CGL Practice under ASXCGC Recommendation 2.2.

## **ASXCGC Recommendation 2.4**

The board should establish a nomination committee.

## **CGL Practice**

The board has established a nomination committee.

The members of the nomination committee are:

- R B Flynn (Chairman), executive chairman
- B F Nazer, independent non-executive director
- K R Perry, independent non-executive director

The committee has a formal charter.

The committee's charter can be viewed on the Group's website under the tab – "Investors, Corporate Governance".

## **ASXCGC Recommendation 2.5**

Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

# Statement of Corporate Governance Practices

(continued)

## CGL Practice

The board charter stipulates that an annual performance evaluation of the board be undertaken. The audit & risk committee also has a requirement for regular self assessment.

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. Such a review has been undertaken during the 2011/12 financial year.

The Company has a formal induction programme for all newly appointed directors.

## ASXCGC Recommendation 2.6

Companies should provide the information indicated in the Guide to reporting on Principle 2.

## CGL Practice

The information required for reporting in Principle 2 has been disclosed by the Company.

## ASXCGC Principle 3

Promote ethical and responsible decision making.

Companies should actively promote ethical and responsible decision making.

## ASXCGC Recommendation 3.1

Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

## CGL Practice

The Company has 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 – "Investors, Corporate Governance".

# Statement of Corporate Governance Practices

(continued)

## **ASXCGC Recommendation 3.2**

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

### **CGL Practice**

In November 2011, the Company established a diversity policy.

The policy can be viewed on the Group's website under the tab – "Investors, Corporate Governance".

## **ASXCGC Recommendation 3.3**

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

### **CGL Practice**

The Company is committed to a work environment that values, encourages, promotes and fosters fairness and diversity. A number of objectives have been established to achieve gender diversity namely as follows:

- (i) ensure recruitment and selection practices reflect the principle of diversity and encourage a diverse candidate pool for appointments to senior levels;
- (ii) develop mentoring programs and network opportunities;
- (iii) support promotion of talented women in management positions;
- (iv) achieve a diverse and skilled workforce with a view to increasing representation of women across the Company; and
- (v) creating a work environment that values and utilises contributions of employees with diverse backgrounds, experiences and perspectives.

These objectives have been reviewed by the board nomination committee to establish what progress has been made towards their achievement. Objectives (i) and (v) have been achieved whilst some progress has been made in achieving objectives (ii) and (iv). In relation to objective (iii) there was some improvement with 29% of women in the Company holding managerial or professional positions. Whilst there are no women on the Board or executive team, steps will be taken to explore any opportunities that may arise. Fuller details of gender diversity objectives are set out in the concise annual report.

## **ASXCGC Recommendation 3.4**

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

### **CGL Practice**

As at June 2012, 18% of the Company's employees were women. There were no women on the Company's board or in senior executive positions. 29% of the Company's managerial or professional positions were held by women.

# Statement of Corporate Governance Practices

(continued)

## **ASXCGC Recommendation 3.5**

Companies shall provide the information indicated in the Guide to reporting on Principle 3.

## **CGL Practice**

The information required for reporting on Principle 3 has been disclosed by the Company.

## **ASXCGC Principle 4**

Safeguard integrity in financial reporting.

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

## **ASXCGC Recommendation 4.1**

The board should establish an audit committee.

## **CGL Practice**

The board has established an audit & risk committee.

## **ASXCGC Recommendation 4.2**

The audit committee should be structured so that it:

- consists of only non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board; and
- has at least three members.

## **CGL Practice**

The members of the audit & risk committee are:

- B F Nazer (Chairman), independent non-executive director
- J H Nickson, independent non-executive director
- K R Perry, independent non-executive director

The chief executive officer, internal and external auditors and the chief financial officer attend meetings by invitation.

# Statement of Corporate Governance Practices

(continued)

Details of the experience of the members of the committee are set out on page 8 of the concise annual report and indicate that each is suitably qualified to be a member of the audit & risk committee.

## **ASXCGC Recommendation 4.3**

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.

The committee's charter can be viewed on the Group's website, under the tab – "Investors, Corporate Governance".

## **ASXCGC Recommendation 4.4**

Companies should provide the information indicated in the Guide to reporting on Principle 4.

## **CGL Practice**

The information required for reporting on Principle 4 has been disclosed by the Company.

The selection and appointment of the external auditor involves a formal tender process. The successful candidate is then put at the next annual general meeting of the Company for approval by shareholders. This process was last undertaken in 2003. External audit engagement partners are rotated every 5 years.

## **ASXCGC Principle 5**

Make timely and balanced disclosure.

Companies should promote timely and balanced disclosure of all internal matters concerning the company.

## **ASXCGC Recommendation 5.1**

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

## **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 – "Investors, ASX Announcements".

The Company has a formal policy for communicating with the investment community and the media. The executive chairman and chief financial officer 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.

# Statement of Corporate Governance Practices

(continued)

## ASXCGC Recommendation 5.2

Companies should provide the information indicated in the Guide to reporting on Principle 5.

## CGL Practice

The information required for reporting on Principle 5 has been disclosed by the Company.

## ASXCGC Principle 6

Respect the rights of shareholders.

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

## ASXCGC Recommendation 6.1

Companies should design a communications policy for promoting effective communication with shareholders and encourage their effective participation at general meetings and disclose their policy or a summary of that policy.

## 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 executive chairman's address at the annual general meeting is 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.

Formal presentations to briefing sessions held for analysts or institutional investors are released to the market and placed on the Company's website prior to the briefing session being held.

## ASXCGC Recommendation 6.2

Companies should provide the information indicated in the Guide to reporting on Principle 6.

## CGL Practice

The information required for reporting on Principle 6 has been disclosed by the Company.



# Statement of Corporate Governance Practices

(continued)

## **ASXCGC Principle 7**

Recognise and manage risk.

Companies should establish a sound system of risk oversight and management and internal control.

## **ASXCGC Recommendation 7.1**

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

## **CGL Practice**

In November 2008, the Company established a policy for the oversight and management of material business risks. The policy titled Risk Management Policy and Methodology (CORP600) can be viewed on the Group's website under the tab – "Investors, Corporate Governance".

The board via the audit & risk committee has reviewed and approved this policy, and is satisfied that management has implemented a sound system of risk management and internal control.

## **ASXCGC Recommendation 7.2**

The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

## **CGL Practice**

The Company has an independent internal audit function which (on behalf of management) appraises the adequacy and effectiveness of the Company's risk management and internal control systems on an ongoing basis.

The board receives and reviews the results of these appraisals via the audit & risk committee.

The Company has established a Group risk register which includes material business risks.

A Group risk update is provided at each audit & risk committee meeting. In addition risk is a standing agenda item at each board and monthly senior management team meetings.

## **ASXCGC Recommendation 7.3**

The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

## **CGL Practice**

The board has received assurance from the executive chairman and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is mostly operating efficiently and effectively in all material respects in relation to financial reporting risks and where not so operating, is being brought into compliance.

# Statement of Corporate Governance Practices

(continued)

## **ASXCGC Recommendation 7.4**

Companies should provide the information indicated in the Guide to reporting on Principle 7.

## **CGL Practice**

The information required for reporting on Principle 7 has been disclosed by the Company.

## **ASXCGC Principle 8**

Remunerate fairly and responsibly.

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

## **ASXCGC Recommendation 8.1**

The board should establish a remuneration committee.

## **CGL Practice**

The board has established a remuneration committee.

The committee has a formal charter.

The committee's charter can be viewed on the Group's website, under the tab – "Investors, Corporate Governance".

## **ASX Recommendation 8.2**

The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least 3 members.

# Statement of Corporate Governance Practices

(continued)

## **CGL Practice**

The members of the remuneration committee are:

- J H Nickson, (chairman), independent non-executive director
- K R Perry, independent non-executive director

Whilst the Company complies with the recommendation that the committee consists of a majority of independent directors and is chaired by an independent director, it does not comply with the requirement of at least three members. The Company is of the view that given its relative size and operations and composition of the board, a remuneration committee of two members is adequate to discharge its responsibilities.

The chief executive officer who attends by invitation, absents himself from meetings before any discussion by the committee in relation to his own remuneration.

## **ASX Recommendation 8.3**

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior 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.

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 36 to 44 of the concise 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 36 to 44 of the concise annual report.

## **ASXCGC Recommendation 8.4**

Companies should provide the information indicated in the Guide to reporting on Principle 8.

## **CGL Practice**

The information required for reporting Principle 8 has been disclosed by the Company.

## Directors' Declaration

In the opinion of the directors of Coventry Group Ltd, the accompanying concise financial report of the Group, comprising Coventry Group Ltd and its controlled entities, for the financial year ended 30 June 2012 as set out on pages 10 to 45:

- (a) has been derived from or is consistent with the full financial report for the financial year;
- (b) complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'R B Flynn', with a horizontal line underneath it.

R B Flynn  
Executive Chairman

Perth  
27 August 2012

# Lead Auditor's Independence Declaration



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

To: the directors of Coventry Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 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.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'Denise McComish'.

Denise McComish  
*Partner*

Perth  
27 August 2012

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# Independent Auditor's Report



## Independent auditor's report to the members of Coventry Group Limited

### Report on the concise financial report

We have audited the accompanying concise financial report of the Group comprising Coventry Group Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes 1 to 8 derived from the audited financial report of the Group for the year ended 30 June 2012. The concise financial report does not contain all the disclosures required by Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

#### *Directors' responsibility for the concise financial report*

The directors of the Company are responsible for the preparation and presentation of the concise financial report in accordance with Australian Accounting Standard AASB 1039 *Concise Financial Reports and the Corporations Act 2001* and for such internal control as the directors determine are necessary to enable the preparation of the concise financial report.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Standards*. We have conducted an independent audit in accordance with Australian Auditing Standards, of the financial report of Coventry Group Limited for the year ended 30 June 2012. We expressed an unmodified audit opinion on the financial report in our report dated 30 June 2012. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the risk of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design procedures, that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our procedures included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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# Independent Auditor's Report

(continued)



## Independence

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

## Auditor's opinion

In our opinion, the concise financial report of Coventry Group Limited and its controlled entities for the year ended 30 June 2012 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

## Report on the remuneration report

The following paragraphs are copied from our Report on the remuneration report for the period ended 30 June 2012.

We have audited the Remuneration Report included in paragraph 10.1 to 10.7 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

## Auditor's opinion

In our opinion, the remuneration report of Coventry Group Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of the KPMG firm.

KPMG

A handwritten signature of Denise McComish.

Denise McComish

Partner

Perth

27 August 2012

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# Shareholder Information

as at 31 August 2012

## TWENTY LARGEST SHAREHOLDERS

Name	Ordinary Shares	
	Number	% of Total
1. RBC Dexia Investor Services Australia Nominees Pty Limited (BK Cust A/C)	7,133,163	18.85
2. BNP Paribas Noms Pty Ltd (DRP)	1,724,973	4.56
3. Citicorp Nominees Pty Limited	1,650,387	4.36
4. National Nominees Limited	1,604,249	4.24
5. HSBC Custody Nominees (Australia) Limited	1,511,887	4.00
6. Dorsett Investments Pty Ltd	1,484,761	3.92
7. Swanwall Holdings Pty Ltd	1,408,535	3.72
8. JP Morgan Nominees Australia Limited	1,037,223	2.74
9. Anne Kyle	1,000,000	2.64
10. Sandhurst Trustees Ltd (SISF A/C)	857,672	2.27
11. Devadius Pty Ltd	836,619	2.21
12. McCusker Holdings Pty Ltd	734,511	1.94
13. Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	705,184	1.86
14. Forum Investments Pty Ltd	372,539	0.98
15. Clifford Maxwell Kyle	331,208	0.88
16. Buduva Pty Ltd	325,000	0.86
17. Geoffrey Michael Kyle	319,253	0.84
18. FFSF Asset Management Pty Ltd (FF Super Fund A/C)	250,246	0.66
19. Joan Merle Smith	234,427	0.62
20. Pinemont Plantations Pty Ltd	216,942	0.57
	<hr/>	
	23,738,779	62.74

## DISTRIBUTION OF SHAREHOLDINGS

Size of Holding	Shareholders		Shares	
	Number	%	Number	%
1 to 1,000	1,957	54.15	675,088	1.78
1,001 to 5,000	1,090	30.16	2,770,690	7.32
5,001 to 10,000	268	7.42	1,998,853	5.28
10,001 to 100,000	264	7.30	6,618,321	17.49
100,001 and over	35	0.97	25,772,492	68.13
	<hr/>			
	3,614	100.00	37,835,444	100.00
Unmarketable parcel of shares	394	10.90	23,771	0.06



# Shareholder Information

as at 31 August 2012 (continued)

## SUBSTANTIAL SHAREHOLDERS

The Company's register of substantial shareholders showed the following particulars as at 31 August 2012.

Name of Substantial Shareholder	Extent of Interest (No. of shares)	Date of Last Notification
Investors Mutual Limited	7,727,328	24.12.2010
Schroder Investment Management Australia Limited	3,329,674	15.06.2012

## UNQUOTED EQUITY SECURITIES

	Number of Options	Number of Holders
Options issued under the Executive Long Term Incentive Plan		
Executive Director Options		
- options expiring on 4 November 2012	500,000	1
- options expiring on 22 November 2012	100,000	1
- options expiring on 28 October 2013	500,000	2
Executive Options		
- options expiring on 22 November 2012	200,000	3
- options expiring on 16 September 2013	300,000	2
- options expiring on 30 September 2013	50,000	1

## VOTING RIGHTS

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

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

# Corporate Directory

**Coventry Group Ltd**

ABN 37 008 670 102

**Registered and Principal Administrative Office**

525 Great Eastern Highway

Redcliffe, Western Australia 6104

Telephone: (08) 9276 0111

Facsimile: (08) 9436 5406

**Postal Address**

PO Box 740

Cloverdale, Western Australia 6985

**Web Site**

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

**Secretary**

John Colli

**Bankers**

Australian and New Zealand Banking Group Limited

77 St Georges Terrace

Perth, Western Australia 6000

**Auditors**

KPMG

Level 8

235 St. Georges Terrace

Perth, Western Australia 6000

**Share Registry**

Computershare Investor Services Pty Ltd

GPO Box 2975

Melbourne, Victoria 3001

or

Level 2

45 St Georges Terrace

Perth, Western Australia 6000

Telephone from within Australia: 1300 763 414

Telephone from outside Australia: +(61) 3 9415 4856

Facsimile: +(61) 3 9473 2500

Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

Website: [www.investorcentre.com](http://www.investorcentre.com)

**Securities Exchange Listing**

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

**Shareholder Enquiries/Change of Address**

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

#### **CORPORATE OFFICE**

525 Great Eastern Hwy  
Redcliffe, Western Australia 6104

#### **COVENTRY FASTENERS - AUSTRALIA**

##### **Western Australia**

Bunbury  
Kalgoorlie  
Kwinana  
O'Connor  
Osborne Park  
Wangara  
Welshpool

##### **New South Wales**

Alexandria  
Artarmon  
Huntingwood  
Lismore  
Newcastle  
Orange  
Wagga  
Wollongong

##### **Northern Territory**

Winnellie

##### **Queensland**

Cairns  
Geebung  
Gladstone  
Mackay  
Maroochydore  
Morningside  
Mt Isa

Pinkenba  
Toowoomba  
Townsville  
Wacol  
West Burleigh

##### **South Australia**

Kilburn  
Lonsdale

##### **Tasmania**

Burnie  
Hobart

##### **Victoria**

Campbellfield  
Dandenong  
Geelong North  
Laverton  
Mildura  
Shepparton  
Wodonga

#### **HYLTON PARKER FASTENERS - NEW ZEALAND**

Hamilton  
Hastings  
Mairangi Bay  
New Plymouth  
Penrose  
Wellington  
Whangarei  
Dunedin  
Nelson  
Christchurch

#### **ARTIA - AUSTRALIA**

Thomastown (Victoria)  
Huntingwood (New South Wales)  
Willawong (Queensland)  
Malaga (Western Australia)  
Marleston (South Australia)  
Invermay (Tasmania)

#### **ARTIA - NEW ZEALAND**

Auckland  
Christchurch

#### **COOPER FLUID SYSTEMS - AUSTRALIA**

##### **Queensland**

Brisbane  
Gastone  
Mackay  
Mt Isa  
Toowoomba  
Townsville

##### **South Australia**

Hindmarsh

##### **Western Australia**

Kalgoorlie  
Perth

#### **AA GASKETS - AUSTRALIA**

Campbellfield (Victoria)

#### **NZ GASKETS - NEW ZEALAND**

Avondale



