Coventry Group Ltd

ABN 37 008 670 102

Shareholders Half Yearly Report

Six months ended 31 December 2010

Dear Shareholder

The Directors of Coventry Group Ltd present their report on the results of the Company and its controlled entities (the Group) for the six month period ended 31 December 2010.

KEY POINTS

Trading:

- **Revenue up 3% to $202.3M despite price deflation in some key products.**
- **Another record result for gaskets.**
- **Strong resource driven demand for the fluids business in Western Australia and Queensland and other businesses in Western Australia.**
- **Very competitive markets in South Australia for auto and in most states and New Zealand for fasteners and cabinet and furniture hardware.**
- **Profit before tax and significant items $3.4M, down 21%.**

Financials:

- **Interim dividend held at 6cps fully franked.**
- **Large goodwill write-off for Coventry Fasteners in Australia and New Zealand as previously flagged resulted in a net loss after tax of $19.6M.**
- **Net tangible assets per share rose 1% to $3.34 with property held at book which is well below current market value.**
- **Strong balance sheet.**

Strategic:

- **Post balance sheet date (18/02/11) announced sale of low returning South Australian auto business (Motor Traders) at a modest premium to net tangible assets.**
- **South Australian properties are expected to be sold separately at a premium to book value.**

RESULTS SUMMARY

For the six month period ended 31 December 2010, Group revenue from continuing operations increased by 3% to $202.3 million, compared to the previous comparative period.

The Group recorded a loss before tax from continuing operations of $18.6 million compared to a profit of $3.5 million for the previous comparative period. Loss after tax was $19.6 million compared to a profit of $2.4 million.

The profit result was negatively impacted by a number of cost factors, as follows:

- due to poor trading conditions for the Group's fastener divisions in both Australia and New Zealand, the goodwill associated with their acquisition over a decade earlier was considered impaired, resulting in $21.3 million expense (2009:$nil);
- the non-cash costs of an employee share issue and the computed cost of options issued to executives amounting to $0.5 million (2009:$nil);
- as a consequence of continuing poor trading conditions, costs associated with restructure and redundancies amounting to $0.2 million (2009:$0.4 million) were incurred.

Group net debt was $3.7 million, a 39% reduction on the previous comparative period. It was however a deterioration of $8.6 million from the position at 30 June 2010 due primarily to increase in stock levels, investment in motor vehicles associated with proposed revised leasing accounting rules and other plant and equipment and payment of final dividend in respect of the last financial year.

The results from trading in all parts of the Group other than the Cooper Fluid Systems division and the gaskets manufacturing business were very poor and were markedly below the previous comparative period. The competitive position for both the fastener division and the automotive parts business was intense.

Loss per share (basic) was 49.7 cents compared to 5.4 cents earnings for the previous comparative period.

DIVIDEND

The directors have declared a dividend of 6 cents per ordinary share, fully franked, payable on 25 March 2011 to shareholders registered as at 11 March 2011 (the record date). The dividend reinvestment plan will continue to be suspended for this dividend. A 6 cent fully franked interim dividend was declared for the six months ended 31 December 2009.

BUSINESS UNITS PERFORMANCE REVIEW

Automotive Parts Distribution

Revenue of the automotive parts business was up 5% on the previous comparative period to $86.8 million. A profit before material items, interest and tax of $1.2 million (2009:$2.0 million) was recorded.

The South Australian business, Motor Traders, suffered in a highly competitive market place and whilst it remained profitable it was at a lower level than the previous comparative period. As disclosed in Note 10 to the financial statements the Group has entered into an agreement to sell most of its operating assets and exit the automotive parts distribution business in South Australia subsequent to period end.

The business in Western Australia was also competitive in the “traditional” automotive aftermarket but its sales to the mining sector did exhibit good growth. The distribution centre in Redcliffe is now operating efficiently and is arguably the best automotive parts distribution service in the state. The drive for Western Australia is to continue to improve its trading performance and results which again will come largely through increased sales.

The business has undertaken a thorough review of its operations and cost base to align those costs and whilst there is always room for improvement this task is largely complete.

Since the end of the last financial year the business has opened 1 new branch in a strategic location at Joondalup, Western Australia to capitalise on sales growth opportunities.

Industrial Products Distribution

Revenue for the industrial products business unit increased 3% to $110.3 million compared to the previous comparative period. Profit before interest and tax prior to the factors detailed below was $1.8 million – down 40% on the previous comparative period. The combined adverse impact from goodwill impairment and restructure and redundancy costs was $21.4 million. The figure of $1.6 million recorded in the previous comparative period was not impacted by goodwill impairment.

The general economic conditions facing all divisions within this business unit were adverse for the period. Construction activity particularly on the east coast remained subdued and climatic conditions were also adverse, a trend which has increased since year end. Whilst demand from mining production activities was strong, which benefited the Cooper Fluid Systems division, economic activity generally was subdued. As a consequence competitive pressure for remaining businesses was intense which adversely impacted particularly the fastener divisions both in Australia and New Zealand.

The Cooper Fluid Systems division which operates primarily to resources customers based in the key resources states of Queensland and Western Australia traded strongly in the period.

The cabinet and furniture hardware business, Artia, was adversely impacted by the lower economic activity but its results were also adversely impacted by costs and business disruption caused by the consolidation of its distribution activities from a number of sites to one site in Victoria. Whilst the impacts were negative in this period the consolidation will enable customer service to be enhanced and on going productivity and cost reductions to be achieved.

The recent floods, particularly in Queensland, will be negative for this business unit in the short term but do provide a longer term boost as infrastructure is rebuilt.

The gaskets manufacturing controlled entity recorded a slight increase in revenue over the previous comparative period to $6.4 million. Profit before interest and tax was $1.3 million – up 5% on the previous comparative period.

OUTLOOK

The competitive market situation for all businesses was intense in the six months to 31 December 2010 – this was particularly the case for fasteners but also large parts of the automotive parts distribution business.

The term “two speed” economy was true for the period and with the exception of Cooper Fluid Systems and some segments of the automotive parts distribution business our businesses generally suffered. The floods that have occurred in the eastern states of Australia in January will probably ensure that similar economic conditions prevail until the end of the current financial year. The infrastructure rebuild that should then ensue will however be positive for our businesses.

A key initiative for the Group will be to continue to critically review the cost structures of all businesses to ensure that profit is maximised in the short term and that the platform for medium term growth is not prejudiced.

The Group’s Industrial business continues to be the most difficult to predict and the relative rate of profit improvement will be influenced by the rate of increase in general economic activity.

The Group’s gaskets business should continue to prosper but it may prove difficult to maintain recent record levels.

In summary it remains difficult to give firm guidance but given economic improvement, a gradual lift in the Group’s operating profit is likely.

Roger Flynn
Executive Chairman

Share Registry

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