KORVEST LTD

ANNUAL REPORT

2006

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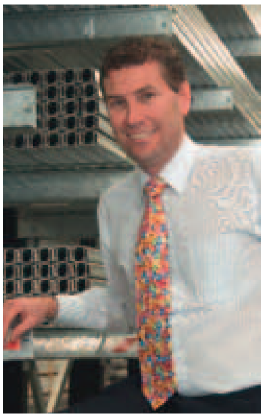
Contents

Korvest Management

David Simmons
Chairman
Non Executive Director

Ric Gros
Managing Director

Nicole Peters
Finance Director



David Salvaterra
General Manager
Ezystrut

Chris Hartwig
General Manager
Korvest Galvanisers
(commenced 14 August 2006)

Graham Twartz
Non Executive Director

Peter Brodribb
Non Executive Director

John Easling
Non Executive Director
(commenced 1 October 2006)

Directors' Report

for the year ended 30th June 2006

The directors present their report together with the financial report of Korvest Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2006 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are shown in Table 1.

Table 1

Name, qualifications and independence status	Age	Experience, special responsibilities and other directorships
David James Simmons B.A (Accounting), F.C.P.A Chairperson Non-Executive Director	52	A Director since 1994. Managing Director, Hills Industries Limited. Chairman, Fielders Australia Pty Ltd.
Graham Lloyd Twartz B.A.(Adel), Dip Acc (Flinders) Non-Executive Director .	49	A Director since 1999. Chairman of Audit Committee. Director, Hills Industries Limited. Director, Fielders Australia Pty Ltd.
Ric Gros F.A.I.C.D. Managing Director	48	A Director since 2005.
Peter Brodribb F.I.E (Aust) Non-Executive Director	61	A Director since 1984.
Nicole Anne Peters B.Ec (Adelaide), Grad. Dip CSA, A.C.A, A.C.S.A, M.A.I.C.D Finance Director	34	A Director since 2006. Company Secretary since November 2005.
Andre Jude D'Souza B.Bus (Accountancy), F.C.P.A Finance Director	45	A Director since 2000. Resigned October 2005.

Re-Elections

In accordance with our Articles of Association David Simmons and Nicole Peters retire from the Board at the forthcoming Annual General Meeting on 13 October 2006. Each is eligible for re-election at that meeting and offer themselves accordingly.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are shown in Table 2.

Financial Results

The revenue from trading activities for the year under review was $40.869m up 27% on the previous year. Profit after tax was $4.122m up 35%. The strong growth in both revenue and profit was a pleasing result and was boosted by the strength of the mining, infrastructure and non-residential markets.

With the ongoing difficulty of finding suitable acquisition targets, Korvest has focused on strengthening its current businesses and positioning them to maximise their growth potential over coming years. This effort can be seen in the current years results.

Korvest will continue to focus on providing excellent customer service, and ongoing improvements across all its systems and processes and is

During December 2005 Korvest upgraded the Galvanising plant. The product on the crane is about to be quenched to minimise white rust.

Table 2

Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Mr D.J. Simmons	10	11	2	2	2	2
Mr G.L. Twartz	9	11	1	2	2	2
Mr R. Gros	11	11	-	-	-	-
Mr P. Brodribb	11	11	1	1	-	-
Ms N.A. Peters	4	4	-	-	-	-
Mr A.J. D'Souza	4	4	-	-	-	-

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

expected to continue to perform solidly.

Dividends

The Directors announced an increased fully franked final dividend of 13.0 cents per share compared to 11.0 cents per share last year and 12.0 cents at the half year.

The full year dividend in relation to the 2006 year will be 25.0 cents per share compared to 21.0 cents per share for the previous year.

The final dividend will be paid on 1st September 2006.

A summary of dividends paid or declared by the Company to members since the end of the previous financial year are shown in Table 3.

Strategy and Future Performance

It is expected that the non-residential and engineering construction sectors will remain strong. There are significant infrastructure and mining projects forecast for development, particularly in South Australia, Queensland and Western Australia where we will be focussing additional resources.

The strategy to diversify our product base through the addition of complimentary products will be pursued and we will continue to progress a number of acquisition opportunities.

Activities

The principal continuing activities of the consolidated entity consist of hot dip galvanising, sheet metal fabrication, manufacture of EzyStrut cable and pipe support systems and fittings

Review of Operations

The consolidated entity is comprised of EzyStrut and Korvest Galvanisers.

EzyStrut

During the year the strong mining, infrastructure and non-residential markets continued to provide valuable growth for the EzyStrut business. The business also benefited from internal investments made with the upgrade of the national distribution centre in South Australia and across a number of the state branches. Increases in inventory levels were made to support new initiatives as well as optimising customer service levels across all businesses.

Korvest Galvanisers

The Galvanising business is now benefiting from substantial expenditure in process and material handling improvements made in the first half of the current financial year. These improvements are expected to

The Galvanising plant upgrade included the increase of our pickling capacity which is shown by the increase in the number of tanks in the photo. The product in the top picture is coming out of the caustic tank which degreases the product. The product is now ready to go into the rinse tank. The second picture shows a jig fully loaded with light structural work post Galvanising about to be quenched.

Table 3

	Cents per share	Total amount $'000	Franked/ unfranked	Date of payment
Declared and paid during the year 2006				
Interim 2006 ordinary	12.0	1,022	Fully franked	10 March 2006
Final 2005 ordinary	11.0	936	Fully franked	2 September 2005
Total amount		1,958		

Franked dividends declared as paid during the year were franked at the rate of 30 per cent.

Declared after end of year

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided and there are no income tax consequences.

Final ordinary	13.0	1,109	Fully franked	1 September 2006
Total amount		1,109		

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

Dealt with in the financial report as

- Dividends (Note 20) 1,958

deliver ongoing productivity increases in the coming years. In addition a small presence has been established in the South Australian market for grating and associated products and this has provided growth for this division and will be a continued focus in the future.

Current Year to Date

It is expected that the non-residential construction industry will remain strong, particularly in the areas that Korvest operates in. On this basis we expect to achieve acceptable results for the 12 months to June 2007.

Significant Changes

The Directors are not aware of any significant changes in the state of affairs of the consolidated entity that have occurred during the financial year which have not been covered elsewhere in this report.

Events Subsequent to Reporting Date

At the date of this report there is no matter or circumstance that has arisen since 30th June 2006, that has significantly affected, or may significantly affect:

(i) the operations of the consolidated entity;

(ii) the results of those operations; or

(iii) the state of affairs of the consolidated entity;

in the financial years subsequent to 30th June 2006.

Likely Developments

In the opinion of the Directors it would prejudice the interests of the consolidated entity if the Directors' Report was to refer to any additional information as to likely developments in the operations of the consolidated entity, including the expected results of those operations in subsequent financial years. Such information has therefore not been included in this report.

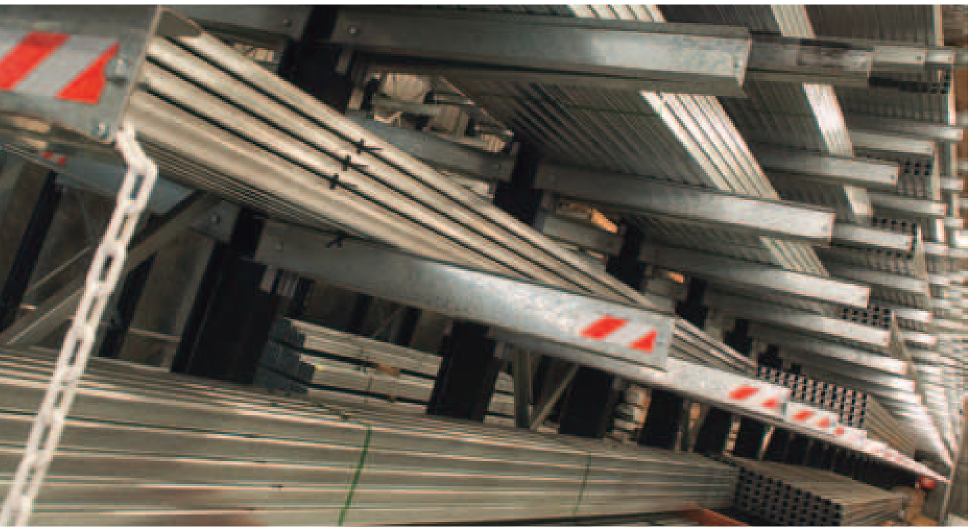
Directors' and Officers' Insurance

Since the end of the previous financial year the Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts, for current and former Directors and Officers of the Company. The insurance premiums relate to:

a) costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and

b) other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Improvements to our EzyStrut South Australian Distribution Hub incorporated changing warehouse layouts and increasing racking capacity to allow for more inventory holdings and better inventory control.



The improvements to our warehouse capacity coupled with our increased inventory holdings have been made in line with our relentless commitment to customer service and delivery in full on time.

The premiums were paid in respect of all of the Directors and Officers of the Company. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Remuneration Report

Principles of Compensation - Audited

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages are made up of fixed remuneration and performance-based remuneration. The remuneration structure takes into account,

(a) the overall level of remuneration for each director and executive;
(b) the executives' ability to control performance; and
(c) the amount of incentives within each executives' remuneration.

The Managing Director's incentive is paid as a fixed percentage on the consolidated earnings before interest and income tax. Incentives for other executives are paid as a fixed percentage of their divisional EBIT. The incentive percentage paid ranges from 1.25% to 5%. Executives also receive shares as part of the Employee Bonus Share Plan that is issued equally to all employees and options as part of the Executive Share Plan. The Board considers that the above performance structure is generating the desired outcome.

Non-executive directors receive a fixed fee. The total remuneration for all non-executive directors last voted upon by shareholders at the AGM held on 27 October 2000 is not to exceed $150,000.

Two non-executive directors are also directors of Hills Industries Limited. Transactions with Hills Industries Limited are disclosed in Note 27.

The adiditional pre treatment tanks and management of the pre treatment galvanising process has provided increased capacity and productivity levels to the Galvanising Division.

Table 4

		Short Term			Post Employment					
		Salary & Fees $	Bonus $	Non-monetary benefits $	Super-annuation benefits $	Termination benefits $	Share based payments $	Total $	S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(vi) Value of options as proportion of remuneration %
Specified directors										
D.J. Simmons	**2006**	**18,404**	**-**	**-**	**-**	**-**	**-**	**18,404**	**-**	**-**
Non-executive (Chairman)	2005	15,300	-	-	-	-	-	15,300	-	-
G.L. Twartz	**2006**	**18,404**	**-**	**-**	**-**	**-**	**-**	**18,404**	**-**	**-**
Non-executive (Director)	2005	15,300	-	-	-	-	-	15,300	-	-
P. Brodribb *	**2006**	**21,729**	**-**	**-**	**1,956**	**-**	**-**	**23,685**	**-**	**-**
Non-executive (Director)	2005	97,924	31,910	9,625	8,813	253,225	500	401,997	7.9	-
R. Gros	**2006**	**169,859**	**78,224**	**-**	**22,283**	**-**	**2,655**	**273,021**	**28.7**	**0.97**
Executive (Managing Director)	2005	84,522	30,441	-	9,819	-	-	124,782	24.4	-
N. Peters	**2006**	**100,311**	**-**	**-**	**8,999**	**-**	**-**	**109,310**	**-**	**-**
Executive (Finance Director)	2005	-	-	-	-	-	-	-	-	-
Specified executives										
D.M. Salvaterra	**2006**	**110,674**	**192,509**	**-**	**27,749**	**-**	**2,328**	**333,260**	**57.8**	**0.40**
General Manager – Ezy Strut	2005	110,105	257,519	-	25,121	-	1,000	393,745	65.4	-
G. Clement	**2006**	**104,900**	**-**	**-**	**9,293**	**-**	**1,164**	**115,357**	**-**	**0.58**
General Manager Korvest Galvanisers	2005	96,639	1,463	-	8,829	-	-	106,931	1.4	-
Former										
A.J. D'Souza	**2006**	**53,836**	**-**	**-**	**4,845**	**111,687**	**500**	**170,868**	**-**	**-**
Executive (Finance Director)	2005	148,950	-	11,229	13,405	-	1,000	174,584	-	-
Total Compensation Key Management Personnel	**2006**	**598,117**	**270,733**	**-**	**75,125**	**111,687**	**6,647**	**1,,062,309**	**25.5**	**0.44**
(Consolidated and Company)	2005	568,740	321,333	20,854	65,987	253,225	2,500	1,232,639	26.1	-

*Remuneration includes amounts paid whilst employed as Managing Director. Mr Brodribb retired on 31 December 2004.

Korvest has commenced the implementation of Lean Manufacturing across its site, starting with a '5S' Program that gives 'a place for everything and everything in its place'. This, in conjunction with an ongoing focus on improved safety, is already showing enormous benefits in our production operations.

Directors and Executive Remuneration (Company and Consolidated) - Audited

Details of the nature and amount of each major element of remuneration of each director of the company and key executives are shown in Table 4.

Options and Rights Over Equity Instruments Granted as Compensation - Audited

All options refer to options over ordinary shares of Korvest Ltd, which are exercisable on a one-for-one basis under the Executive Share plan.

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that were vested during the reporting period are shown in Table 5.

No options have been granted since the end of the financial year. The options were provided at no cost to the recipients.

Table 5

	Number of options Granted During 2006	Grant date	Number of options Vested During 2006	Fair Value Per Option at Grant Date $	Exercise Price Per Option $	Expiry Date
Directors						
R. Gros	30,000	15 March 2006	-	2,655	4.36	Jan 2027
Executives						
D. Salvaterra	15,000	15 March 2006	-	1,328	4.36	Jan 2027
G.Clement	7,500	15 March 2006	-	664	4.36	Jan 2027

All options expire on the earlier of their expiry date or termination of the individual's employment. The options vest two years from grant date. In addition to the continuing employment service condition, the vesting of the options is conditional on a performance hurdle. The performance hurdle requires that the total of the weighted average price of shares traded on the Stock Exchange in the five business days up to and including 31 December 2006 $5.57 when added to the total dividends paid by the Company in the two year preceding periods exceeds 5.57%.

After the vesting date the individuals must pay the exercise price over a maximum term of 20 years. Dividends, after deduction of an amount intended for the participants tax, are applied in payment of the exercise price. The arrangement to pay the exercise price over 20 years is interest free and without personal recourse to the participants (recourse is limited to the shares themselves).

As this is the first issue of options by the Company, no shares have been issued to date on the exercise of options previously granted as compensation.

Further details regarding options granted to executives under the Executive Share Plan are in Notes 18 and 26 to the financial statements.

Directors Interests

The relevant interest of each director over the shares and rights or options over such instruments issued by the companies within the consolidated entity and other related bodies corporate. As notified by the directors to the Australian Stock Exchange in accordance with S250G(1) of the Corporations Act 2001, at the date of this report is shown in Table 6

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 of written advice provided by resolution of the Audit Committee, is satisfied that the provision of these services did not compromise the auditor's 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.
- the non-audit services provided do not undermine the general principles relating to auditor

Korvest galvanising services the needs of the South Australian Industry as well as being a vertically integrated manufacturing process for the EzyStrut product range. Shown are electrical cable trays at the end of the galvanising process.

Table 6

	Korvest Ltd Ordinary Shares	Korvest Ltd Share Options	Korvest Ltd Ordinary Shares	Hills Industries Ordinary Shares	Hills Industries Share Options
David James Simmons	500	-	500	289,500	160,000
Ric Gros	2,100	30,000	2,100	-	-
Peter Brodribb	15,781	-	15,781	8,831	-
Graham Lloyd Twartz	26,115	-	26,115	173,403	120,000
Nicole Anne Peters	500	-	500	-	-
Andre Jude D'Souza	3,239	-	3,239	-	-

independence as they did not involve reviewing or auditing the auditor's own work, acting in management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risk and rewards.

For details of non-audit services fees charged refer to note 6 to the financial statements.

Financial Instruments Disclosure

The consolidated entity's activities expose it to interest rate fluctuations and credit, liquidity and cash flow risks from its operations. The Board has established policies and procedures in each of these areas to manage these risks. For details of financial instruments refer to note 21 to the financial statements.

Environment

The consolidated entity's operations are subject to various environmental regulations under both Commonwealth and State legislation. The consolidated entity has established a process whereby compliance with existing environmental regulations and new regulations is monitored continually. This process includes procedures to be followed should an incident occur which adversely impacts the environment.

The Directors are not aware of any breaches of environmental legislation during the financial year which are material in nature. The consolidated entity has, in accordance with its compliance policy, been investigating whether the quality of soil and ground water is affected by the operations of the site's previous owners.

The Directors are satisfied that these investigations and actions taken to date will ensure continued compliance with environmental legislation.

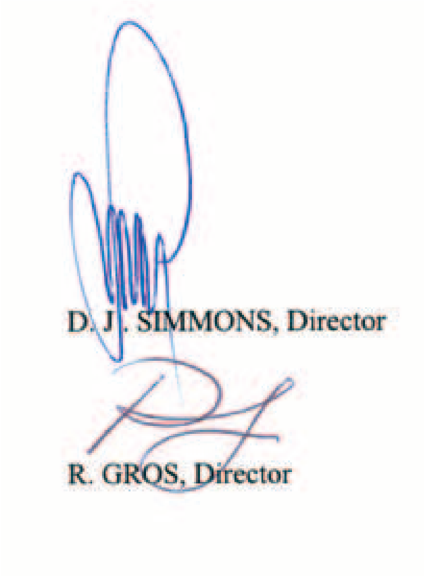
Lead Auditor's Independence Decalaration

The Lead auditor's independence declaration is set out on page 70 and forms part of the directors' report for financial year ended 30 June 2006.

Rounding Off

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

Signed at Adelaide this Friday 25th of August 2006 in accordance with a resolution of the Directors.



A jig with product in the process of being dipped into molten zinc in Korvests' 14m kettle – the largest kettle in South Australia.

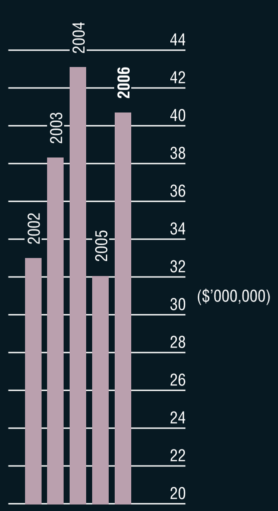
Five Year Summary

for year ended 30th June 2006

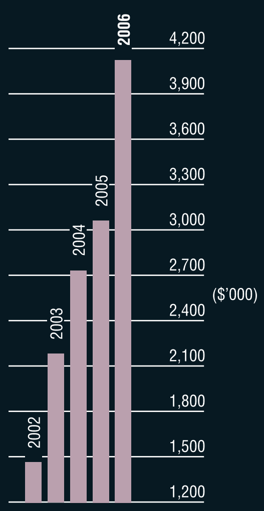
		2006	2005	2004	2003	2002
Sales Revenue	($'000)	**40,667**	32,058	43,107	38,325	33,024
Profit after tax	($'000)	**4,122**	3,061	2,727	2,179	1,466
Depreciation/Amortisation	($'000)	**789**	617	1,279	920	762
Cash flow from operations	($'000)	**17**	2,662	4,752	3,532	1,897
Profit from ordinary activities						
As % of Shareholders' Equity		**21.4%**	17.9%	17.2%	19.2%	15.9%
As % of Sales Revenue		**10.1%**	9.5%	6.3%	5.7%	4.4%
Per issued share		**48.4c**	36.1c	32.7c	27.3c	19.1c
Dividend						
Total amount	($'000)	**2,131**	1,784	1,424	1,009	772
Per issued share		**25.0c**	21.0c	17.0c	12.5c	10c
Times covered by profit from ordinary activities		**1.9**	1.7	1.9	2.2	1.9
Number of employees		**164**	161	158	254	214
Shareholders						
Equity in total assets		**71%**	67%	66%	49%	44%
Number at year end		**1,015**	1,048	1,000	913	858
Net assets per issued ordinary share		**$2.26**	$2.02	$1.87	$1.39	$1.19

Information presented for the years 2002 to 2004 has been prepared in accordance with Australian GAAP. Information for 2005 and 2006 has been calculated in accordance with Australian equivalents to IFRS

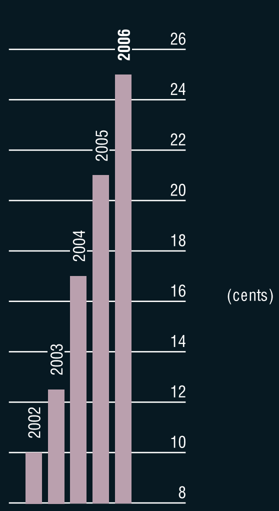
Sales Revenue



Profit From Ordinary Activities After Tax



Dividend per Share



Corporate Governance Statement

for year ended 30th June 2006

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

ASX Principles of Good Corporate Governance

In March 2003 the Australian Stock Exchange published corporate governance guidelines. Korvest has always had policies in place to ensure good business practices. The ASX recommendations first applied to Korvest for the financial year ended 30 June 2004 and the extent of compliance is required to be reported on in this annual report.

The Board has undertaken a detailed review of the ASX recommendations and determined that Korvest already complied with some recommendations.

Where Korvest considers that a recommendation is not appropriate to its particular circumstances, it has the flexibility not to adopt it, as long as it explains why it has chosen not to adopt it.

The Board has been monitoring the CLERP 9 legislation, particularly those provisions relating to financial reporting, corporate governance and the consolidated entity's relationship with its external auditors.

Commitment to Ethical Business Practices

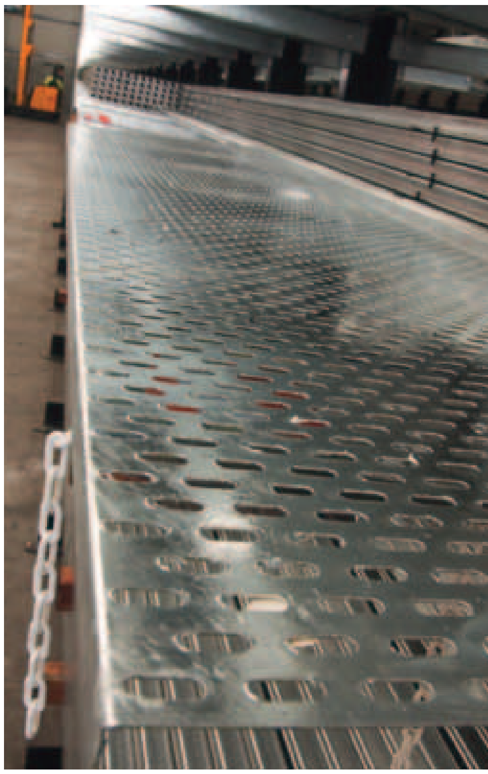
While the Board has adopted those ASX principles of good corporate governance that it has deemed pertinent, it believes that these types of rules and regulations are of limited value unless supported by a foundation of honesty and integrity.

The Board has adopted a formal (written) Code of Conduct for Korvest, effectively a corporate creed that is best applied by asking "What is the right thing to do?" The code applies to all employees within the consolidated entity from the Board, through management to all other staff. The code encourages all staff and other stakeholders to report any breaches of the code to the Chairman of the Board, who is required to investigate and report on all such matters.

The Code of Conduct is supported by more detailed policies setting out the philosophy of the consolidated entity in relation to its various stakeholders. A copy of the code is available on the website at www.korvest.com.au.

Korvest Ltd and its controlled entities

EzyStrut is a leading Australian supplier of electrical cable support systems servicing infrastructure needs accross Australia and Internationally.



Automation and robotics are integral aspects of the EzyStrut manufacturing process ensuring its global competitiveness and integrating our Lean manufacturing concepts.

Commitment to Good Corporate Governance

The Board's primary role is the protection and enhancement of long-term shareholder value. The Board believes that good corporate governance is essential to fulfilling its role and that it positively contributes to long-term shareholder value.

The Board delegates responsibility for the day-to-day management of the consolidated entity to the Managing Director and senior executives, but remains responsible for overseeing the performance of the management team. To ensure that this responsibility is clearly defined, the Board has delegated a range of authorities to management through formal delegations. These include limited expenditure authority along with the authority to enter into contracts and engage staff.

Board Composition

The company constitution allows for a maximum of ten directors. The company Board currently comprises five directors, three being non-executive directors plus the Managing Director and the Finance Director. The directors come from a variety of business and professional backgrounds and bring to the Board a range of skills and experience relevant to the consolidated entity. Details of the directors' experience, expertise and terms in office are set out on page 3 of this annual report.

Board independence

Three non-executive directors are non-independent. Two of the directors that are non-independent, Mr D J Simmons and Mr G L Twartz are considered non-independent primarily due to their positions as directors at Hills Industries Limited which holds a major interest in Korvest. The other, Mr P. Brodribb, is considered non-independent due to his former position of Managing Director of Korvest.

In the event of a tied vote, the Chairman, a non-independent non-executive director, has the casting vote. This is not in accordance with ASX recommendation 2.1 but is considered appropriate by the directors for a small, established public consolidated entity.

The Board believes that the first priority in the selection of directors is their ability to add value to the Board and enhance the performance whilst safeguarding shareholders' interests. Accordingly, relevant expertise and competence is considered as important as technical independence.

The role of the Chairman

The Chairman, Mr D J Simmons, whilst non-executive, is a non-independent director. This is not in accordance with ASX recommendation 2.2 but is considered appropriate given that Hills Industries Limited holds 47% of the shares in the company. Mr Simmons' considerable experience in the various industries within which the consolidated entity operates and the various positions and activities engaged in outside the entity are considered invaluable in his role as Chairman.

The board believes that the role of chairman should be filled by the person most suited to the role, with the most relevant skills and experience and who adds the greatest value to the Board and to the consolidated entity

Nomination Committee

The Board has not established a Nomination Committee due to the size of the consolidated entity.

A director appointed to fill a casual vacancy must stand for election at the next Annual General Meeting. One third of the non-executive directors must retire at each Annual General Meeting, being those longest in office since their last election. Those directors are eligible for re-election at that meeting.

Board Operations

During 2006 the Board met 11 times and the directors' attendance at those meetings is set out on page 4 of this annual report. The directors receive a comprehensive Board pack, which includes financial statements and executive reports. The Chairman and the Managing Director communicate regularly between Board meetings. Senior executives attend and present to Board and committee meetings on particular issues when required.

All directors have unrestricted access to company records, information and personnel and the board has a policy of allowing individual directors to seek independent professional advice at the Company's expense, subject to the approval of cost by the Chairman. Such approval shall not be unreasonably withheld.

Board Committees

As set out in more detail below, the Board reviews its governance structures, including Board committees, to regularly assess their effectiveness and efficiency.

Each committee operates in accordance with a Board approved charter. Details of committee membership, its meetings and attendance at those

Investment in our Regional warehouses ensures we maintain our service capabilities across Australia and New Zealand. This is our newly ugraded Queensland operations located in Darra.

meetings are set out on page 4 of this annual report.

Board Performance

The company Board informally reviews the operations of the Board and its committees and the performance of its individual directors. The review is conducted annually, focusing on a few key issues each year with a view to assessing overall performance over a three year period. The Board has also formalised a process for the induction of new directors to ensure they are provided with the information required to properly perform their role.

Directors' Remuneration

The remuneration of non-executive directors is different to that of executives. Executive directors receive a salary and may receive shares in accordance with plans approved by shareholders. Further details in respect of executive remuneration are set out on page 11 to 16 of this report.

Non-executive directors receive a set fee per annum and are fully reimbursed for any out of pocket expenses necessarily incurred in carrying out their duties. They do not receive any performance related remuneration, nor shares or options as part of their remuneration.

When reviewing directors' fees, the Board takes into account any changes in the size and scope of the consolidated entity's activities, the potential liability of directors and the demands placed on them in discharging their responsibilities. The Board also considers the advice of independent remuneration consultants.

Retirement Benefits

Directors receive their statutory superannuation entitlements only.

Contracts With Directors

Details of transactions between directors and the consolidated entity are set out in Note 26 of this annual report.

Indemnity and insurance of Directors

In accordance with the company's constitution and to the extent permitted by law, Korvest indemnifies every person who is, or has been, a director or secretary and may agree to indemnify a person who is or has been an officer of a group company against a liability incurred by that person in his or her capacity as such a director, secretary or officer, to another person (other than the company or a related body corporate of the company) provided that the liability does not arise out of conduct involving a lack of good faith. In addition, the company has directors and officers insurance against claims and expenses that Korvest may be liable to pay under these indemnities.

Commitment to Financial integrity

The Board has policies designed to ensure that the consolidated entity's financial reports meet high standards of disclosure and provide the information necessary to understand the consolidated entity's financial performance and position. The policies require that the Managing Director and Finance Director provide to the Board prior to the Board approving the annual and half-year accounts, a written statement that the accounts present a true and fair view, in all material respects, of the consolidated entity's financial performance and position and are in accordance with relevant accounting standards, laws and regulations.

The chief executive officer and the chief financial officer have declared, in writing to the Board, that the financial risk management and associated compliance and controls have been assessed and found to be operating efficiently and

Distribution warehouses strategically located in each Capital city are supported by Adelaide's newly upgraded distribution hub and resourced to meet our Delivery in Full on Time targets. This is our Victorian warehouse located in Derrimut, also recently relocated.

Our Galvanising Division often provides services for some interesting and unusual projects. Recent work performed was an architectural galvanising finish for these 12m high flagpoles situated at the Northern entrance to the Adelaide Royal Showgrounds.

effectively. The operational and other risk management compliance and controls, have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Audit Committee

The Board has an Audit Committee. The committee has a Board approved charter setting out its role, responsibilities, structure and membership requirements. A copy of its charter can be found on the Korvest website.

The committee consists of three directors, all of whom are non-executive and non-independent. The Chairman of the committee is a non-independent director who is not the Chairman of the Board. The composition of the committee is not in accordance with ASX recommendation 4.3 but is considered appropriate by the directors for a small, established public company. The Managing Director, Finance Director and external and internal auditors are invited to attend the committee meetings. Details of membership and attendance at committee meetings are set out on page 4 of this annual report.

The Audit Committee is responsible for reviewing the financial accounts and other financial information distributed externally, monitoring the adequacy of risk management and internal control systems and monitoring procedures in place to ensure compliance with statutory responsibilities.

Audit Process

The consolidated entity's financial accounts are subject to an annual audit by an independent, professional auditor, who also reviews the half-year accounts. The Board requests the external auditor to attend the Annual General Meeting each year and to be available to answer shareholder questions regarding the conduct of the audit and the preparation and content of the auditor's report.

Auditor independence

The Board has in place policies for ensuring the quality and independence of the consolidated entity's external auditor. The majority of fees paid to the external audit firm for work other than the audit of the accounts was for taxation services. Details of the amounts paid for both audit and non-audit services are set out in Note 6 of this annual report. The Board requires that adequate hand-over occurs in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

Risk Management and Oversight

The Managing Director is charged with implementing appropriate risk systems within the consolidated entity. He includes in his report to the Board any issues or concerns.

The Board reviews all major strategies for their impact on the risks facing the consolidated entity and takes appropriate action. Similarly, the consolidated entity reviews all aspects of its operations for changes to the risk profile on an annual basis.

Commitment to Responsible Executive Remuneration

The Board believes that it has a responsibility to ensure that executive remuneration is fair and reasonable, having regard to the competitive market for executive talent, structured effectively to motivate and retain valued executives and designed to produce value for shareholders.

The Remuneration Committee sets policies for directors' and senior officers' remuneration, makes specific recommendations to the Board on the remuneration of directors and senior officers and undertakes a detailed review of the performance of the Managing Director at least annually. The committee consists of two non-independent directors. Details of membership and attendance at committee meetings are set out on page 4 of this annual report.

Commitment to Shareholders

Market Disclosure

The Board is committed to ensuring that shareholders are informed of all non-confidential material matters. It accomplishes this through:

- the annual report distributed at the end of September each year;
- making appropriate disclosure to the market where necessary.

The Board has established continuous disclosure controls throughout the consolidated entity that include senior executives providing regular sign-off concerning matters that require disclosure to the ASX.

Share Dealings by Directors and Officers

In accordance with the company's constitution, all directors are required to be shareholders and hold a minimum of 500 shares. The company has for many years encouraged the holding of its

More work performed by our Galvanising Division. This structure is now situated at the foreshore at Christies Beach in South Australia near the Surf Life Saving Club.

shares by directors and employees.

The Board has adopted a share dealing policy that specifically precludes directors and officers from buying or selling shares within 45 days prior to the announcement of the annual or half-year results, the day of and the day after the announcements and if in possession of price sensitive information not generally available to the public. A copy of the policy is available on the Korvest website and details of directors' individual shareholdings are set out in Note 26 of this annual report.

Commitment to Other Stakeholders

The Board recognises its obligations to its various stakeholders and that it is always responsible and accountable for its actions and their consequences.

Commitment to its Staff

Korvest aspires to be a well regarded and progressive employer that provides safe and rewarding workplaces for all of its staff so that they can fully contribute their talents to the achievement of corporate goals.

Korvest encourages its staff to become shareholders and share in the success of the consolidated entity. The current employee share plan offers all permanent staff with more than twelve months continuous service ordinary shares in Korvest.

Korvest is committed to protecting the health, safety and wellbeing of its staff, contractors and visitors to its premises.

Commitment to the Environment

Korvest cares about the environment and recognises that protection of it is an integral and fundamental part of its business. Korvest has an environmental management system in place and management assists staff to understand and implement the relevant aspects of this system in their day-to-day work.

Environmental compliance is monitored with relevant issues being reported through management to the Board.

Commitment to the Community

The Board believes that Korvest has a responsibility to the Australian community. Korvest aspires to be a good corporate citizen through the effective provision of quality products and services, through the taxes it pays, the employment and training its provides its staff, the involvement of its staff in professional, educational and community organisations and through the donations it makes to various charities. Korvest is justifiably proud of its reputation as a dependable Australian entity.

During this financial year Korvest has placed significant investment into its facilities positioning itself for strong continued future growth and other opportunities that may arise. Customer service is our number one focus in all aspects of our business.

Financial Statements

for the year ended

30 June 2006

Income Statements

for year ended 30th June 2006

		Consolidated		The Company	
In Thousands of AUD	Note	**2006**	2005	**2006**	2005
Revenue	3	**40,667**	32,058	**40,593**	31,756
Other Income	3	**202**	104	**202**	104
		40,869	32,162	**40,795**	31,860
Expenses, excluding net financing costs	4	**(35,279)**	(28,163)	**(35,001)**	(27,741)
Profit before financing costs		**5,590**	3,999	**5,794**	4,119
Financial income	7	**388**	434	**388**	434
Net financing costs		**388**	434	**388**	434
Profit before tax		**5,978**	4,433	**6,182**	4,553
Income tax expense	8	**(1,856)**	(1,372)	**(1,856)**	(1,372)
Profit for the year		**4,122**	3,061	**4,326**	3,181
Attributable to:					
Equity holders of the parent		**4,122**	3,061	**4,326**	3,181
Profit for the year		**4,122**	3,061	**4,326**	3,181
Earnings per share for profit attributable to the ordinary equity holders of the Company:					
Basic earnings per share from continuing operations	9	**0.48**	0.36		
Diluted earnings per share from continuing operations	9	**0.48**	0.36		
Dividends per share		**0.25**	0.21		
Ordinary shares	20	**8,530**	8,502		

The income statements are to be read in conjunction with the notes of the financial statements set out on pages 40 to 67.

Statements of Recognised Income and Expenses

for year ended 30th June 2006

		Consolidated		The Company	
In Thousands of AUD	Note	**2006**	2005	**2006**	2005
Foreign exchange translation differences	20	**(58)**	39	**-**	-
Net income recognised directly in equity		**(58)**	39	**-**	-
Profit for the period		**4,122**	3,061	**4,326**	3,181
Total recognised income and expense for the period	20	**4,064**	3,100	**4,326**	3,181
Attributable to:					
Equity holders of the parent		**4,064**	3,100	**4,326**	3,181
Total recognised income and expense for the period	20	**4,064**	3,100	**4,326**	3,181

Other movements in equity arising from transactions with owners as owners are set out in note 20.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 40 to 67.

Balance Sheets

for year ended 30th June 2006

		Consolidated		The Company	
In Thousands of AUD	Note	**2006**	2005	2006	2005
Assets					
Cash and cash equivalents	10	**4,645**	8,341	**4,611**	8,315
Trade and other receivables	11	**7,837**	7,017	**7,881**	7,014
Inventories	12	**7,146**	3,750	**6,756**	3,518
Total current assets		**19,628**	19,108	**19,248**	18,847
Deferred tax assets	14	**493**	561	**493**	561
Loans due from controlled entities	11	**-**	-	**820**	493
Property, plant and equipment	15	**6,870**	5,964	**6,823**	5,898
Total non-current assets		**7,363**	6,525	**8,136**	6,952
Total assets		**26,991**	25,633	27,384	25,799
Liabilities					
Trade and other payables	16	**4,769**	5,639	**4,717**	5,619
Employee benefits	18	**996**	899	**991**	897
Income tax payable	13	**818**	775	**818**	775
Provisions	19	**456**	487	**456**	487
Total current liabilities		**7,039**	7,800	**6,982**	7,778
Interest-bearing loans and borrowings	17	**40**	40	**40**	40
Employee benefits	18	**260**	295	**260**	295
Provisions	19	**360**	360	**360**	360
Total non-current liabilities		**660**	695	**660**	695
Total liabilities		**7,699**	8,495	**7,642**	8,473
Net assets		**19,292**	17,138	**19,742**	17,326
Equity					
Issued capital		**3,506**	3,463	**3,506**	3,463
Reserves		**1,250**	1,303	**1,269**	1,264
Retained earnings		**14,536**	12,372	**14,967**	12,599
Total equity attributable to equity holders of the parent		**19,292**	17,138	**19,742**	17,326
Total equity	20,29	**19,292**	17,138	**19,743**	17,326

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 40 to 67.

Statements of Cash Flows

for year ended 30th June 2006

		Consolidated		The Company	
In Thousands of AUD	Note	**2006**	2005	**2006**	2005
Cash flows from operating activities					
Cash receipts from customers		**44,753**	34,424	**44,565**	34,039
Cash paid to suppliers and employees		**(43,381)**	(30,489)	**(42,933)**	(29,988)
Cash generated from operations		**1,372**	3,935	**1,632**	4,051
Interest received		**389**	432	**389**	432
Income taxes paid		**(1,744)**	(1,705)	**(1,744)**	(1,705)
Net cash from operating activities	25	**17**	2,662	**277**	2,778
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**39**	61	**39**	61
Acquisition of property, plant and equipment	15	**(1,742)**	(708)	**(1,741)**	(700)
Loans provided to other entities		**4**	-	**6**	-
Net cash from investing activities		**(1,697)**	(647)	**(1,696)**	(639)
Cash flows from financing activities					
Loans to / repaid by controlled entities		**-**	-	**(327)**	23
Dividends paid	20	**(1,958)**	(1,611)	**(1,958)**	(1,611)
Net cash from financing activities		**(1,958)**	(1,611)	**(2,285)**	(1,588)
Net increase in cash and cash equivalents		**(3,638)**	404	**(3,704)**	551
Cash and cash equivalents at 1 July		**8,341**	7,898	**8,315**	7,764
Effect of exchange rate fluctuations on cash held		**(58)**	39	**-**	-
Cash and cash equivalents at 30 June	10	**4,645**	8,341	**4,611**	8,315

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 40 to 67.

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

for year ended 30th June 2006

1. Statement of Significant Accounting Policies

Korvest Ltd (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprises the Company and its subsidiary (together referred to as the "consolidated entity").

The financial report was authorised for issue by the directors on 25th of August 2006.

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASB's') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 First-Time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 29.

(b) Basis of Preparation

The financial report is prepared in Australian dollars. The entity has elected to early adopt the following accounting standards and amendments as at transition date:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements*, AASB 124 Related Party Disclosures
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement.
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts*
- AASB2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 121 *The effects of Changes in Foreign Exchange Rates (July 2004)*
- UIG 8 *Scope of AASB 2.*

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7, AASB 2005-9 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity.

The following standards and amendments have been issued and are available for early adoption at reporting date. However, they have not been early adopted as they are not applicable to the Company and the consolidated entity and have no impact on their financial results:

- AASB 2006-2 *Amendments to Australian Accounting Standards* (March 2006)
- UIG 6 *Liabilities arising from participating in a Specific Market – Waste Electrical & Electronic Equipment*

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO

06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this consolidated financial report.

(c) Basis of Consolidation

(i) Subsidiaries Subsidiaries are entities controlled by the Company. Control exits when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

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

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the 'Investment in associates' and 'Share of associates net profit' accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Foreign Currency

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to Australian dollars at the rates of exchange ruling on that date. Exchange differences relating to such amounts are brought to account in the income statement in the financial year in which the exchange rates change.

The consolidated entity does not hedge foreign currency transactions.

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

(e) Property, Plant and Equipment

Land and Buildings Land and buildings are stated at fair value.

Plant and Equipment Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

(f) Depreciation

Depreciation is provided so as to write off the cost of each non-current asset excluding freehold land over its effective useful life ranging from 3 to 40 years. The straight line method is used. The depreciation rates used for each class of asset are buildings - 2.5% and plant and equipment - a range of depreciation rates averaging 10%. The rates are consistent with the prior year. The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(g) Receivables

Trade debtors are carried at their cost less impairment losses.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes direct materials, direct labour and an appropriate proportion of variable and fixed factory overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

(i) Calculation of Recoverable Amount The recoverable amount of the consolidated entity's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

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

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

(ii) Reversal of Impairment Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

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

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

(k) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Trade accounts are non-interest bearing and normally settled within 60 days.

(l) Provisions

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

(m) Employee Benefits

(i) Wages, salaries, annual leave and non-monetary benefits Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax.

(ii) Long Service Leave The consolidated entity's net obligation in respect of long term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Defined Contribution Superannuation Funds Contributions made by the consolidated entity to the employee contributory superannuation fund and other industry superannuation funds are recognised as an expense in the income statement as incurred.

(iv) Employee Share Bonus Plan The Employee Share Bonus Plan allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.The fair value of the options granted is measured using a present value model. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(v) Executive and Director Share Plan The Executive Share Plan allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The valuation method takes into account the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected of the shares and the risk-free interest rate for the life of the option except where forfeiture is only due to share prices not achieving the threshold for vesting

(n) Interest Bearing Borrowings

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

(o) Income Tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

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

(p) Revenue Recognition

Sales revenue Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products to outside entities. Sales revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer.

Interest income Interest income is recognised as it accrues.

(q) Goods and services tax

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

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

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

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

2. Segment Reporting

Business segments

The entity operates in the Industrial Products sector in the manufacture of electrical and cable support systems, steel fabrication, associated metal treatment and galvanising services.

Geographical segments

The entity operates predominately in Australia.

In Thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005

3. Revenue and other income

Revenue					
Sales of goods		**40,667**	32,058	**40,593**	31,756
Other income					
Other income		**202**	104	**202**	104
		40,869	32,162	**40,795**	31,860

4. Expenses

Cost of goods sold		**23,336**	18,177	**23,504**	18,199
Distribution expenses		**2,367**	1,674	**2,254**	1,610
Sales and marketing expenses		**7,373**	6,212	**7,116**	5,938
Administration expenses		**1,529**	1,631	**1,551**	1,631
Occupancy expenses		**426**	340	**349**	262
Other expenses		**248**	129	**227**	101
		35,279	28,163	**35,001**	27,741

Profit from ordinary activities before income tax has been arrived at after charging / (crediting) the following items

Depreciation of buildings		**45**	42	**45**	42
Depreciation of property, plant and equipment		**744**	575	**724**	551
	15	**789**	617	**769**	593
Increase in provisions	19	**150**	847	**150**	847
Executive share plan expense	18,20	**5**	-	**5**	-
Employee share bonus plan expense	18,20	**42**	48	**42**	48
Impairment loss on trade receivables	11	**36**	162	**36**	162
Impairment loss on inventories	12	**550**	-	**550**	-
(Profit) / Loss on disposal of property, plant and equipment		**8**	(15)	**8**	(15)

5. Personnel expenses

		Consolidated		The Company	
In Thousands of AUD	Note	**2006**	2005	**2006**	2005
Wages and salaries		**8,976**	7,512	**8,839**	7,383
Other associated personnel expenses		**1,341**	1,322	**1,334**	1,318
Contributions to defined contribution superannuation funds	18a	**670**	575	**670**	575
Increase in liability for annual leave	18	**187**	522	**187**	522
Increase in liability for long service leave	18	**122**	241	**122**	241
Equity-settled transactions	18b	**48**	48	**48**	48
		11,344	10,220	**11,200**	10,087

6. Auditors' remuneration

	2006	2005	**2006**	2005
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	**35,500**	31,100	**35,000**	31,100
Overseas KPMG Firms:				
Audit and review of financial reports	**6,850**	5,548	**-**	-
	41,850	36,648	**35,000**	31,000
Other services				
Auditors of the Company				
KPMG Australia				
Other assurance services	**1,075**	-	**1,075**	-
Taxation services	**5,000**	4,900	**5,000**	4,900
Overseas KPMG Firms:				
Taxation Services	**-**	3,162	**-**	-
	6,075	8,062	**6,075**	4,900

In Thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005

7. Net financing costs

Interest income		388	434	388	434
Financial income		388	434	388	434
Interest expense		-	-	-	-
Financial expenses		-	-	-	-
Net financing income		388	434	388	434

8. Income tax expense

Recognised in the income statement					
Current tax expense					
Current year		**1,791**	1,439	**1,791**	1,439
Adjustments for prior years		**(4)**	20	**(4)**	20
		1,787	1,459	**1,787**	1,459
Deferred tax expense					
Origination and reversal of temporary differences		**68**	(87)	**68**	(87)
	14	**68**	(87)	**68**	(87)
Total income tax expense in income statement		**1,856**	1,372	1,856	1,372
Attributable to:					
Continuing operations		**1,856**	1,372	**1,856**	1,372
Discontinuing operations		-	-	-	-
		1,856	1,372	**1,856**	1,372
Numerical reconciliation between tax expense and pre-tax net profit					
Profit before tax- continuing operations		**5,977**	4,433	**6,182**	4,554
Profit before tax		**5,977**	4,433	**6,182**	4,554
Income tax using the domestic corporation tax rate of 30% (2005: 30%)		**1,793**	1,330	**1,855**	1,366
Increase in income tax expense due to: Non-deductible expenses		**67**	22	**5**	(14)
Under / (over) provided in prior years		**(4)**	20	**(4)**	20
Income tax expense on pre-tax net profit		**1,856**	1,372	**1,856**	1,372

9. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of $4,121,703 (2005: $3,060,722) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 8,518,073 (2005: 8,490,095). The calculation of diluted earnings per share was based on the profit $4,121,703 (2005: $3,060,722) and weighted average number of shares of 8,529,467 (2005: 8,490,095). The weighted average number of shares was adjusted for the effect of dilutive share options.

Earnings per share for continuing and discontinued operations

In AUD	2006	2005
Basic and diluted earnings per share		
From continuing operations	0.48	0.36
From discontinuing operations	-	-
	0.48	0.36

For the financial year ended 30 June 2006, earnings per share for continuing and discontinued operations has been calculated using the same figures as earnings per share.

10. Cash and cash equivalents

	Consolidated		The Company	
In Thousands of AUD	**2006**	2005	**2006**	2005
Bank balances	645	341	611	315
Call deposits	4,000	8,000	4,000	8,000
Cash and cash equivalents in the statement of cash flows	4,645	8,341	4,611	8,315

11. Trade and other receivables

In thousands of AUD		**2006**	2005	**2006**	2005
Current					
Other receivables and prepayments		56	30	56	29
Trade receivables	21	7,781	6,987	7,825	6,985
		7,837	7,017	7,881	7,014
Non-current					
Loans to controlled entities	27	-	-	820	493
		-	-	820	493

Other trade receivables are shown net of impairment losses amounting to $534,000 (2005: $498,000) recognised in the current year, and arising from the likely bankruptcy of a significant customer.

12. Inventories

	Consolidated		The Company	
In Thousands of AUD	**2006**	2005	**2006**	2005
Raw materials and consumables	**3,756**	1,735	**3,755**	1,734
Work in progress	**75**	64	**75**	64
Finished goods	**3,315**	1,951	**2,926**	1,720
	7,146	3,750	**6,756**	3,518
Carrying amount of inventories stated at fair value less costs to sell	**238**	-	**238**	-

Finished goods are shown net of impairment losses amounting to $550,000 (2005: $Nil) recognised in the current year, and arising from the likely inability to sell a product range.

13. Current tax assets and liabilities

The current tax liability for the consolidated entity and the Company of $818,223 (2005: $774,967) represent the amount of income taxes payable in respect of current and prior periods.

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets		Liabilities		Net	
In Thousands of AUD	**2006**	2005	**2006**	2005	**2006**	2005
Property, plant and equipment	**281**	229	**280**	280	**1**	(51)
Inventories	**165**	-	**455**	238	**(290)**	(238)
Provisions	**622**	701	**-**	-	**622**	701
Other items	**160**	149	**-**	-	**160**	149
Tax (assets) / liabilities	**1,228**	1,079	**735**	518	**493**	561
Set off of tax	**-**	-	**-**	-	**-**	-
Net tax (assets) / liabilities	**1,228**	1,079	**735**	518	**493**	561

14. Deferred tax assets and liabilities (continued)

The Company	Assets		Liabilities		Net	
In thousands of AUD	**2006**	2005	**2006**	2005	**2006**	2005
Property, plant and equipment	**281**	229	**280**	280	**1**	(51)
Inventories	**165**	-	**455**	238	**(290)**	(238)
Provisions	**622**	701	**-**	-	**622**	701
Other items	**160**	149	**-**	-	**160**	149
Tax (assets) / liabilities	**1,228**	1,079	**735**	518	**493**	561
Set off of tax	**-**	-	**-**	-	**-**	-
Net tax (assets) / liabilities	**1,228**	1,079	**735**	518	**493**	561

Movement in Temporary Differences During the Year

	Consolidated				The Company			
In Thousands of AUD	Balance 1 July 04	Recognised in Income	Recognised in Equity	Balance 30 June 05	Balance 1 July 04	Recognised in Income	Recognised in Equity	Balance 30 June 05
Property, plant and equipment	153	3	(207)	(51)	153	3	(207)	(51)
Inventories	(190)	(48)	-	(238)	(190)	(48)	-	(238)
Provisions	480	221	-	701	480	221	-	701
Other items	238	(89)	-	149	238	(89)	-	149
	681	87	(207)	561	681	87	(207)	561

	Consolidated				The Company			
In Thousands of AUD	Balance 1 July 05	Recognised in Income	Recognised in Equity	Balance 30 June 06	Balance 1 July 05	Recognised in Income	Recognised in Equity	Balance 30 June 06
Property, plant and equipment	(51)	52	-	1	(51)	52	-	1
Inventories	(238)	(52)	-	(290)	(238)	(52)	-	(290)
Provisions	701	(79)	-	622	701	(79)	-	622
Other items	149	11	-	160	149	11	-	160
	561	(68)	-	493	561	(68)	-	493

15. Property, Plant and equipment

	Consolidated			The Company		
In Thousands of AUD	Land and Buildings (Fair Value)	Plant and Equipment (Cost)	Total	Land and Buildings (Fair Value)	Plant and Equipment (Cost)	Total
Balance at 1 July 2004	3,485	6,845	10,330	3,485	6,750	10,235
Other acquisitions	217	491	708	217	483	700
Disposals	-	(184)	(184)	-	(186)	(186)
Balance at 30 June 2005	3,702	7,152	10,854	3,702	7,047	10,749
Balance at 1 July 2005	3,702	7,152	10,854	3,702	7,047	10,749
Other acquisitions	109	1,633	1,742	109	1,632	1,741
Disposals	-	(139)	(139)	-	(139)	(139)
Balance at 30 June 2006	3,811	8,646	12,457	3,811	8,540	12,350
Depreciation and impairment losses						
Balance at 1 July 2004	19	4,391	4,410	19	4,376	4,395
Depreciation charge for the year	42	575	617	42	551	593
Disposals	-	(137)	(137)	-	(137)	(137)
Balance at 30 June 2005	61	4,829	4,890	61	4,790	4,851
Balance at 1 July 2005	61	4,829	4,890	61	4,790	4,851
Depreciation charge for the year	45	744	789	45	724	769
Disposals	-	(92)	(92)	-	(92)	(92)
Balance at 30 June 2006	106	5,481	5,587	106	5,422	5,528
Carrying amounts						
At 1 July 2004	3,466	2,454	5,920	3,466	2,374	5,840
At 30 June 2005	3,641	2,323	5,964	3,641	2,257	5,898
At 1 July 2005	3,641	2,323	5,964	3,641	2,257	5,898
At 30 June 2006	3,705	3,165	6,870	3,705	3,118	6,823

An independent valuation of Land and Buildings was carried out in September 2003 by Mr John Vestakis, AAPI, and Mr Don Harris, AAPI, on the basis of the open market value of the properties concerned in their existing use. Land was valued at $1,950,000 and buildings were valued at $1,535,000. The carrying amount of the Land and Buildings at cost at 30 June 2006 if not revalued would be $1,573,784

In Thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005

16. Trade and other payables

Other trade payables and accrued expenses	21	**3,428**	4,024	**3,425**	4,072
Non-trade payables and accrued expenses		**1,341**	1,615	**1,292**	1,547
		4,769	5,639	**4,717**	5,619

17. Interest-bearing loans and borrowings

Non-current liabilities				
Unsecured government loan	**40**	40	**40**	40
	40	40	**40**	40
Financing facilities				
Standby letters of credit	**300**	300	**300**	300
Unsecured bank facility	**8,000**	8,000	**8,000**	8,000
	8,300	8,300	**8,300**	8,300
Facilities utilised at reporting date				
Standby letters of credit	**-**	-	**-**	-
Unsecured bank facility	**-**	-	**-**	-
	-	-	**-**	-
Facilities not utilised at reporting date				
Standby letters of credit	**300**	300	**300**	300
Unsecured bank facility	**8,000**	8,000	8,000	8,000
	8,300	8,300	**8,300**	8,300

Financing arrangements

Standby letter of credit

The standby letter of credit facility is a committed facility, reviewed annually. No drawdowns against this facility had been made as at 30 June 2006.

Unsecured bank facility

The unsecured bank facility is reviewed annually. No drawdowns against this facility had been made as at 30 June 2006.

18. Employee benefits

	Consolidated		The Company	
In Thousands of AUD	**2006**	2005	**2006**	2005
Current				
Liability for long service leave	**478**	380	**478**	380
Liability for annual leave	**518**	519	**517**	518
	996	899	**991**	897
Non Current				
Liability for long-service leave	**260**	295	**260**	295
Total employee benefits	**1,256**	1,194	**1,251**	1,192

(a) Defined contribution superannuation funds

The consolidated entity makes contributions to a defined contribution superannuation fund. The amount recognised as expense was $669,750 for the financial year ended 30 June 2006 (2005: $574,665).

(b) Share based payments

i) Executive Option Scheme

On 15th March 2006, the consolidated entity granted a total of 60,000 options over unissued ordinary shares to the Executive Directors and Senior Executive Team. These options vest in January 2007 at an exercise price of $4.36 per share. The vesting conditions include a performance hurdle. The performance hurdle requires that the total of the weighted average price of shares traded on the Stock Exchange in the five business days up to and including 31 December 2006 exceeds $5.57 when added to the total dividends paid by the Company in the two year preceding periods.

After vesting the exercise price is payable over a maximum term of 20 years. Dividends, after deduction of an amount intended for the participants tax, are applied in payment of the exercise price. The arrangement to pay the exercise price over 20 years is interest free and without personal recourse to the participants (recourse is limited to the shares themselves).

These are the first options ever granted by the Company. The value of share options taken to the profit and loss for 2006 is $5,310 (2005: $Nil).

ii) Employee Share Scheme

The Company made two issues of ordinary shares under the Employee Share Bonus Plan during the period. All employees with more than twelve months of service are eligible to participate in the plan. The shares are issued at market value for no consideration. Details of the issue are as follows:

Date of Issue	Total Number of Shares Issued	Market Value of Shares Issued	Shares Issued per Participating Employee	Number of Participating Executive Directors
30 June 2006				
2nd Sept 2005	14,208	55,695	128	2
11th Mar 2006	13,110	57,160	114	0
30 June 2005				
3rd Sept 2004	16,226	66,364	122	2
14th Mar 2005	13,542	60,939	111	2

19. Provisions

In Thousands of AUD	Claims	Site Restoration	Total
Consolidated			
Balance at 1 July 2005	-	847	847
Provisions made during the year	25	125	150
Provisions used during the year	-	(181)	(181)
Balance at 30 June 2006	25	791	816
Current	25	431	456
Non-current	-	360	360
	25	791	816
The Company			
Balance at 1 July 2005	-	847	847
Balance at 30 June 2006	25	791	816

Claims

The provision for claims relates to products sold to a specific customer during the financial year ended 30 June 2006. The provision is based on estimates made based on a specific incident. The consolidated entity expects to incur the liability within the next year.

Site restoration

A provision of $360,000 was made during the financial year ended 30 June 2003 and further provision of $486,000 was made during the financial year ended 30 June 2005 in respect of the consolidated entity's obligation to rectify potential environmental damage at the Site restoration main site premises in Kilburn. Some required work was completed during the financial year ended 30 June 2006 at a cost of $181,000. Further work of $125,000 was identified during the financial year ended 30 June 2006. These works will be completed over the financial year ending 30 June 2007 and future periods.

20. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

In Thousands of AUD	Note	Share Capital	Translation Reserve	Revaluation Reserve	Reserve for Own Shares	Retained Earnings	Total
Consolidated							
Balance at 1 July 2004		3,415	-	1,264	-	9,171	13,850
Total recognised income and expense		-	39	-	-	3,061	3,100
Transfer from reserves		-	-	-	-	1,751	1,751
Equity-settled transactions, net of tax	18b	48	-	-	-	-	48
Dividends to shareholders		-	-	-	-	(1,611)	(1,611)
Balance at 30 June 2005		3,463	39	1,264	-	12,372	17,138
Balance at 1 July 2005		3,463	39	1,264	-	12,372	17,138
Total recognised income and expense		-	(58)	-	-	4,122	4,064
Equity-settled transactions, net of tax	18b	43	-	-	5	-	48
Dividends to shareholders		-	-	-	-	(1,958)	(1,958)
Balance at 30 June 2006		3,506	(19)	1,264	5	14,536	19,292

	Note	Share Capital	Revaluation Reserve	Reserve for Own Shares	Retained Earnings	Total Equity
The Company						
Balance at 1 July 2004		3,415	1,264	-	9,278	13,957
Total recognised income and expense		-	-	-	3,181	3,181
Transfer from reserves		-	-	-	1,751	1,751
Equity-settled transactions, net of tax	18b	48	-	-	-	48
Dividends to shareholders		-	-	-	(1,611)	(1,611)
Balance at 30 June 2005		3,463	1,264	-	12,599	17,326
Balance at 1 July 2005		3,463	1,264	-	12,599	17,326
Total recognised income and expense		-	-	-	4,326	4,326
Own shares acquired by Employee Share Plan Trust		43	-	5	-	48
Dividends to shareholders		-	-	-	(1,958)	(1,958)
Balance at 30 June 2006		3,506	1,264	5	14,967	19,742

Share capital

	The Company Ordinary Shares	
In thousands of shares	**2006**	2005
On issue at 1 July	**8,502**	8,472
Issued for cash	**28**	30
On issue at 30 June – fully paid	**8,530**	8,502

The consolidated entity has also issued share options (see note 18).

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

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

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Revaluation reserve

The revaluation reserve relates to land and buildings measured at fair value in accordance with applicable Australian Accounting Standards.

Reserve for own shares

The reserve for own shares represents the value of shares held by an equity compensation plan that the consolidated entity is required to include in the consolidated financial statements. This reserve will be reversed against share capital when the underlying shares vest in the employee. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the consolidated entity's own equity instruments.

Dividends

Dividends recognised in the current year by the Company are:

	Cents per Share	Total Amount	Franked/Unfranked	Date of Payment
2006				
Interim 2006 ordinary	12.0	1,022	Fully franked	10 March 2006
Final 2005 ordinary	11.0	936	Fully franked	2 September 2005
Total amount		1,958		
2005				
Interim 2005 ordinary	10.0	848	Fully franked	11 March 2005
Final 2004 ordinary	9.0	763	Fully franked	3 September 2005
Total amount		1,611		

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

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided. The declaration and subsequent payment of dividends has no income tax consequences.

In thousands of AUD	Cents per share	Total amount	Franked / unfranked	Date of payment
Final ordinary	13.0	1,109	Fully franked	1 September 2006
Total amount		1,109		

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

20. Capital and reserves (continued)

	The Company	
In thousands of AUD	**2006**	2005
Dividend franking account	7,497	6,529

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(a) franking credits that will arise from the payment of the current tax liabilities;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by $475,228 (2005: $400,823).

21. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business.

Credit risk

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

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

Effective interest rates and repricing analysis

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

Consolidated		2006			2005			
In Thousands AUD	Note	Effective Interest Rate	Total	6 Months or Less	Effective Interest Rate	Total	6 Months or Less	6-12 Months
Cash and cash equivalents*	10	5.5%	4,645	4,645	5.64%	8,341	341	8,000

The Company		2006			2005			
In Thousands AUD	Note	Effective Interest Rate	Total	6 Months or Less	Effective Interest Rate	Total	6 Months or Less	6-12 Months
Cash and cash equivalents*	10	5.5%	4,615	4,615	5.64%	8,315	315	8,000

*These assets / liabilities bear interest at a fixed rate.

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the AUD. The currencies giving rise to this risk are primarily New Zealand Dollars

21. Financial instruments (continued)

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

In thousands of AUD	Note	Carrying Amount 2006	Fair Value 2006	Carrying Amount 2005	Fair Value 2005
Consolidated					
Trade and other receivables	11	7,781	7,781	6,987	6,987
Cash and cash equivalents	10	4,645	4,645	8,341	8,341
Trade and other payables	16	(3,428)	(3,428)	(4,024)	(4,024)
		8,998	8,998	11,304	11,304
The Company					
Trade and other receivables	11	7,825	7,825	6,985	6,985
Cash and cash equivalents	10	4,611	4,611	8,315	8,315
Trade and other payables	16	(3,425)	(3,425)	(4,072)	(4,072)
		9,011	9,011	11,228	11,228

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other receivables / payables

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

22. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
In thousands of AUD	**2006**	2005	**2006**	2005
Less than one year	**254**	226	**228**	159
Between one and five years	**812**	548	**812**	520
More than five years	**-**	60	**-**	60
	1,066	834	**1,040**	739

The consolidated entity leases a number of warehouse and factory facilities under operating leases. The leases typically run for a period of five years, with an option to renew the lease after that date. Lease payments are increased every five years to reflect market rentals. None of the leases includes contingent rentals. Rentals are increased by CPI each year.

During the financial year ended 30 June 2006, $376,251 was recognised as an expense in the income statement in respect of operating leases (2005: $287,753).

23. Capital and other commitments

	Consolidated		The Company	
In thousands of AUD	**2006**	2005	**2006**	2005
Capital expenditure commitments - Plant and equipment contracted but not provided for and payable:				
Within one year	**170**	14	**170**	14
One year or later and no later than five years	**-**	-	**-**	-
Later than five years	**-**	-	**-**	-
	170	14	**170**	14

24. Consolidated entities

	Note	Country of Ownership	Ownership Interest 2006	Ownership Interest 2005
Ultimate Parent entity				
Hills Industries Limited		Australia	**47**	47
Subsidiaries				
Korvest NZ Ltd		New Zealand	**100**	100

Hills Industries Limited controls Korvest Ltd by virtue of their control of the company's board through the chairman's casting vote, effective management of the company and exposure to the risks and benefits of ownership, or control of voting rights through the dilution of minority shareholders.

25. Reconciliation of cash flows from operating activities

In thousands of AUD	Note	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
Cash flows from operating activities					
Profit for the period		**4,122**	3,061	**4,326**	3,181
Adjustments for:					
Depreciation	15,4	**789**	617	**769**	593
Gain on sale of property, plant and equipment	4	**8**	(15)	**8**	(15)
Equity-settled share-based payment expenses	18	**48**	48	**48**	48
Income tax expense	8	**1,856**	1,372	**1,856**	1,372
Operating profit before changes in working capital and provisions		**6,823**	5,083	**7,007**	5,179
(Increase)/decrease in trade and other receivables		**(820)**	(796)	**(867)**	(1,037)
(Increase)/decrease in inventories		**(3,396)**	(604)	**(3,238)**	(539)
(Decrease)/increase in trade and other payables		**(877)**	222	**(910)**	(103)
Increase in provisions and employee benefits		**31**	462	**28**	983
		1,761	4,367	**2,020**	4,483
Income taxes paid		**(1,744)**	(1,705)	**(1,744)**	(1,705)
Net cash from operating activities		**17**	2,662	**277**	2,778

26. Key management personnel disclosures

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

Non-executive directors

David James Simmons (Chairperson)
Appointed 24 February 1994

Graham Lloyd Twartz
Appointed 1 November 1999

Peter Brodribb
Appointed 31 December 1984

Executive directors

Ric Gros (Managing Director, Korvest Ltd)
Appointed 1 January 2005

Nicole Anne Peters (Finance Director, Korvest Ltd)
Appointed 24 February 2006

Andre Jude D'Souza (Finance Director, Korvest Ltd)
Appointed 28 July 2000
Resigned 31 October 2005

Executives

David Salvaterra (Executive GM, Ezystrut)

Graham Clement (Executive GM, Galvanising)

The key management personnel compensation included in 'personnel expenses' (see note 5) are as follows:

	Consolidated		The Company	
In AUD	**2006**	2005	**2006**	2005
Short-term employee benefits	**869**	911	**869**	911
Other long term benefits	**75**	66	**75**	66
Termination benefits	**112**	253	**112**	253
Equity compensation benefits	**2**	3	**2**	3
	1,058	1,233	**1,058**	1,233

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report on pages 11 to16.
Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

26. Key management personnel disclosures (continued)

Other key management personnel transactions with the Company or its controlled entities

From time to time, key management personnel of the Company or its controlled entities, or their related entities, may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

Options and rights over equity instruments granted as compensation

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

	Held at 1 July 2005	Granted as Compensation	Exercised	Other Changes	**Held at 30 June 2006**	Vested During the Year	Vested and Exercisable at 30 June 2006
Directors							
Ric Gros	-	30,000	-	-	**30,000**	-	-
Executives							
David Salvaterra	-	15,000	-	-	**15,000**	-	-
Graham Clement	-	7,500	-	-	**7,500**	-	-

*Other changes represent options that expired or were forfeited during the year.

No options held by key management personnel are vested but not exercisable.

Movements in shares

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

Directors	Held at 1 July 2005	Purchases	Received on Exercise of Options	Sales	**Held at 30 June 2006**
D.J. Simmons	500	-	-	-	**500**
G.L. Twartz	26,115	-	-	-	**26,115**
R. Gros	2,100	-	-	-	**2,100**
P. Brodribb	15,781	-	-	-	**15,781**
N.A. Peters	-	500	-	-	**500**
A. J. D'Souza	3,111	128	-	-	**3,239**
Executives					
D.M. Salvaterra	5,591	242	-	-	**5,833**
G. Clement	-	114	-	-	**114**

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

26. Key management personnel disclosures (continued)

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

Graham Clement, GM Galvanising resigned effective 4th July 2006. Chris Hartwig was appointed GM Galvanising effective 14 August 2006.

27. Non-key management personnel disclosures

Identity of related parties

The consolidated entity has a related party relationship with its ultimate parent entity (see Note 24), its subsidiary (see Note 24) and with its key management personnel (see note 26).

Other related party transactions

Ultimate Parent Entity

During the year the following material transactions took place with Hills Industries Limited.

	Consolidated		The Company	
	2006	2005	**2006**	2005
Sales	**358**	449	**358**	449
Purchases	**568**	596	**562**	596
Payment of Dividends	**911**	752	**911**	752
Amounts payable at balance date (current)	**72**	117	**72**	116
Amounts receivable at balance date (current)	**58**	63	**58**	63

Subsidiaries

Loans are made by the Company to its wholly owned subsidiary. Loans outstanding between the Company and its controlled entities have no fixed date of repayment and are non-interest bearing. During the financial year ended 30 June 2006, such loans to subsidiaries totalled $327,162 (2005: $23,303).

28. Subsequent events

There has not arisen between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the consolidated entity, to affect significantly the operations of the consolidated entity in subsequent financial periods.

29.Summary of impact of transition to AIFRS

As stated in note 1(a), these are the consolidated entity's first consolidated financial statements prepared in accordance with Australian Accounting Standards - AIFRSs.

The accounting policies in note 1 have been applied in preparing the consolidated financial statements for the financial year ended 30 June 2006, the comparative information for the financial year ended 30 June 2005, and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes below:

[a] Equity-based compensation benefits

Shares – Employee Share Bonus Plan

Under AASB 2 Share-based Payment, from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees as part of the Executive Share Plan after 7 November 2002 but that had not vested by 1 January 2005. Under AIFRS, the fair value of shares granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date using a discounted valuation method that takes into account the terms and conditions upon which the shares are granted. The discounted method is used as the shares cannot be traded for a period of seven years after vesting.

29.Summary of impact of transition to AIFRS (continued)

The result is a change to the previous accounting policy under which no expense is recognised for equity-compensated compensation.

For the financial year ended 30 June 2005, employee benefits expense have been increased, and retained earnings decreased, by $47,866 representing the share expense for the period.

[b] Property, plant and equipment

Under AIFRS the gain or loss on the disposal of property, plant and equipment is recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity an amount of $45,251 has been reclassified from revenue to other expenses for the financial year ended 30 June 2005.

[c] Taxation

On transition to AIFRS the balance sheet method of tax effect accounting has been adopted, rather than the liability method applied previously under Australian GAAP.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided are based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

The impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the deferred tax balances is an increase in deferred tax assets of $73,619 and an increase in deferred tax liabilities of $280,822 and a decrease in retained earnings of $207,203.

Summary of impact of transition to AIFRS on retained earnings

The impact of AIFRS on retained earnings as at 1 July 2004 is summarised below:

In thousands of AUD	Consolidated	The Company
Retained profits as at 1 July 2004 under AGAAP	9,378	9,485
Adjustment on deferred taxes	(207)	(207)
Retained profits as at 1 July 2004 under AIFRS	9,171	9,278

Summary of impact of transition to AIFRS on profit for 2005

The impact of AIFRS on profit for 2005 is summarised below:

In thousands of AUD	Consolidated	The Company
Profit for the period ended 30 June 2005 under AGAAP	3,109	3,229
Adjustment for employee share scheme	(48)	(48)
Profit for the period ended 30 June 2005 under AIFRS	3,061	3,181

29.Summary of impact of transition to AIFRS (continued)

Reconciliation of Equity

Consolidated

In thousands of AUD	1 July 2004			30 June 2005		
	Previous GAAP	Effect of Transition to AIFRSs	AIFRSs	Previous GAAP	Effect of Transition to AIFRSs	AIFRSs
Assets						
Cash and cash equivalents	7,898	-	7,898	8,341	-	8,341
Trade and other receivables	6,221	-	6,221	7,017	-	7,017
Inventories	3,146	-	3,146	3,750	-	3,750
Total current assets	17,265	-	17,265	19,108	-	19,108
Deferred tax assets	681	(255)	426	768	(207)	561
Loans due from controlled entities	-	-	-	-	-	-
Property, plant and equipment	5,919	-	5,919	5,964	-	5,964
Total non-current assets	6,600	(255)	6,345	6,732	(207)	6,525
Total assets	23,865	(255)	23,610	25,840	(207)	25,633
Liabilities						
Trade and other payables	5,776	-	5,776	5,639	-	5,639
Employee benefits	803	-	803	899	-	899
Income tax payable	1,021	-	1,021	775	-	775
Provisions	-	-	-	487	-	487
Total current liabilities	7,600	-	7,600	7,800	-	7,800
Interest-bearing loans and borrowings	40	-	40	40	-	40
Employee benefits	417	-	417	295	-	295
Provisions	-	-	-	360	-	360
Total non-current liabilities	457	-	457	695	-	695
Total liabilities	8,057	-	8,057	8,495	-	8,495
Net assets	15,808	(255)	15,553	17,345	(207)	17,138
Equity						
Issued capital	3,415	-	3,415	3,415	48	3,463
Reserves	3,015	-	3,015	1,303	-	1,303
Retained earnings	9,378	(255)	9,123	12,626	(255)	12,371
Total equity	15,808	(255)	15,553	17,345	(207)	17,138

29.Summary of impact of transition to AIFRS (continued)

Reconciliation of Equity (continued)

The Company

In thousands of AUD	1 July 2004			30 June 2005		
	Previous GAAP	Effect of Transition to AIFRSs	AIFRSs	Previous GAAP	Effect of Transition to AIFRSs	AIFRSs
Assets						
Cash and cash equivalents	7,764	-	7,764	8,315	-	8,315
Trade and other receivables	6,655	-	6,655	7,014	-	7,014
Inventories	32,980	-	32,980	3,518	-	3,518
Total current assets	17,399	-	17,399	18,847	-	18,847
Deferred tax assets	681	(255)	426	768	(207)	561
Loans due from controlled entities	-	-	-	493	-	493
Property, plant and equipment	5,838	-	5,838	5,898	-	5,898
Total non-current assets	6,519	(255)	6,264	7,159	(207)	6,952
Total assets	23,918	(255)	23,663	26,006	(207)	25,799
Liabilities						
Trade and other payables	5,722	-	5,722	5,619	-	5,619
Employee benefits	803	-	803	897	-	897
Income tax payable	1,021	-	1,021	775	-	775
Provisions	-	-	-	487	-	487
Total current liabilities	7,546	-	7,546	7,778	-	7,778
Interest-bearing loans and borrowings	40	-	40	40	-	40
Employee benefits	417	-	417	295	-	295
Provisions	-	-	-	360	-	360
Total non-current liabilities	457	-	457	695	-	695
Total liabilities	8,003	-	8,003	8,473	-	8,473
Net assets	15,915	(255)	15,660	17,533	(207)	17,326
Equity						
Issued capital	3,415	-	3,415	3,415	48	3,463
Reserves	3,015	-	3,015	1,264	-	1,264
Retained earnings	9,485	(255)	9,230	12,854	(255)	12,599
Total equity	15,915	(255)	15,660	17,533	(207)	17,326

Directors' Declaration

Directors' declaration

1 In the opinion of the directors of Korvest Limited ('the Company'):

(a) the financial statements and notes including the remuneration disclosures that are contained in the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and ASIC Class Order 06/105 *Calculation of director and executive remuneration/* Corporations Act Regulation 2M.6.04

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at Adelaide this 25th day of August, 2006.

Signed in accordance with a resolution of the directors:

David Simmons
Director

KPMG

Independent audit report to the members of Korvest Ltd

Scope

We have audited the financial report of Korvest Ltd ("the Company") for the financial year ended 30 June 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 29, and the directors' declaration set out on pages 35 to 69. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Korvest Ltd is in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

A Santin

Partner

Adelaide, 25th August 2006

KPMG

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

To: the directors of Korvest Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

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

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

KPMG

KPMG

A Santin
Partner

Adelaide, 25 August 2006

ASX Additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 25 August 2006)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Number
Hills Finance Ltd	3,960,349

Voting rights

Ordinary shares

Refer to note 20 in the financial statements

Options

Refer to note 18 in the financial statements

	Number of Equity Security Holders		
Category	Total Holders	Units	% Issued Capital
1 - 1,000	513	162,087	1.90
1,001 - 5,000	367	933,116	10.94
5,001 - 10,000	73	551,207	6.46
10,000 - 100,000	56	1,322,267	15.50
100,000 and over	7	5,560,938	65.20
	1016	8,529,615	100.00

The number of shareholders holding less than a marketable parcel of ordinary shares is 150.

Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home exchange is Adelaide.

Other information

Korvest Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Twenty largest shareholders

Hills Finance Ltd	3,960,349	46.43
Donald Cant Pty Ltd	449,773	5.27
Cogent Nominees Pty Limited	355,396	4.17
JP Morgan Nominees Australia Limited	279,772	3.28
Citicorp Nominees Pty Limited	207,552	2.43
Mr John Frederick Bligh	112,840	1.32
RBC Dexia Investor Services Australia Nominees Pty Limited	95,806	1.12
Mr Benjamin Henderson	66,054	0.77
Mr Peter Simpson-Morgan	66,054	0.77
Ling Nominees Pty Ltd	61,900	0.73
Citicorp Nominees Pty Limited	59,676	0.70
Rotret Three Pty Ltd	54,108	0.63
Mardie Pty Ltd	50,358	0.59
Howard Securities Pty Ltd	44,483	0.52
LTM Nominees Pty Ltd	44,179	0.52
Balgowan Nominees Pty Ltd	40,365	0.47
National Nominees Limited	38,400	0.45
Grinding Services Pty Ltd	34,735	0.41
AJR Solutions Pty Ltd	32,426	0.38
Australian Reward Investment Alliance	31,049	0.36
	6,085,275	71.32

Offices and Officers

Company Secretary

Nicole Anne Peters, B.Ec (Adelaide), Grad. Dip CSA, A.C.A, A.C.S.A, M.A.I.C.D

Principal Registered Office

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Fax: (08) 8360 4599

Locations of Share Registries

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Level 5
115 Grenfell Street
Adelaide, South Australia, 5000
Ph: (08) 8236 2300
Fax: (08) 8236 2305

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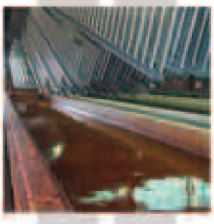
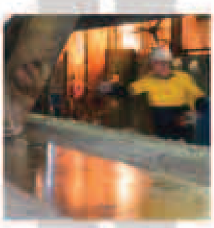
KORVEST LTD





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