



Coventry Group Ltd

ABN 37 008 670 102

ANNUAL GENERAL MEETING

5 NOVEMBER 2003

CHIEF EXECUTIVE OFFICER'S REPORT

Good afternoon Ladies and Gentlemen.

It is a pleasure to be at my first Coventry Group Annual General Meeting. I have enjoyed my first 9 months with the Group and I am excited about the future prospects of the Company.

This afternoon I will provide details of the Company's performance, an overview of our business strategy and give an indication of our future prospects.

2002/2003 RESULTS

Operating revenue for the year 2002/03 increased from \$401M to \$423M. As reported by the Chairman operating profit after tax was \$10.8M and earnings per share was 31.5 cents.

The return on shareholders' equity has improved from 2.9% to 6.8% and is a reflection of the improved level of profit as well as better management of capital. This improvement in profit was a result of a strong performance in our industrial and traditional automotive businesses and a significant reduction in Coventry Auto Parts (CAP) losses.

Additionally the effective tax rate for the Company was reduced from 65% to 36% mainly due to the losses of CAP being grouped for tax purposes following the move to full ownership of CAP in October 2002.

The operating cashflow was \$22.4M against \$15.7M for the prior year. The net interest cover was 11.1 times and the net debt to equity ratio was 14.3%. As you can see our balance sheet is in a very strong position and the cashflow reflects the underlying strength of the Company.

The Group's profit result was impacted by a \$2.2M writedown of distribution rights held by CAP's operations in NSW and this was offset by a profit of \$2.3M booked on the disposal of selected WA properties.

Starting with Industrial I will now run through the operating divisions.

INDUSTRIAL

Revenue for the industrial business increased 8% to \$165.3M with earnings before interest and tax improving 15% to \$13.8M. The return on capital before interest and tax was 19% which was up from 16% the previous year.

This was an excellent performance and was a result of strong revenue and gross margin growth arising from buoyant market conditions particularly in the resources sector.

Operational highlights included the continued growth of the construction fasteners business of Infix and the introduction of Express Fasteners in New South Wales which involves the selling and marketing of fasteners utilising mobile vans.

Hylton Parker in New Zealand improved profitability with a further expansion of the branch network and full integration of a new computer system.

AUTOMOTIVE

Revenue for the automotive business improved 6% to \$227M with earnings before interest and tax moving from \$2.7M to \$5.7M. The return on capital before interest and tax increased from 2.7% to 6.3% which is still well below our targeted level. The improved performance was a result of strong growth in the traditional WA and SA businesses coupled with a lower loss from CAP. CAP still recorded an unacceptable loss of \$5.8M which was a 22% improvement on the previous year.

Over the past several months CAP has had a significant management restructure in NSW with new state, operations and branch managers moving into the business from WA and SA.

A number of strategies have been put in place to increase CAP's performance and these include sales programs, cost reduction initiatives and targeted acquisitions.

Other initiatives of the automotive division include CGL Online, an electronic catalogue and online ordering system which enables trade customers to transact via the internet and the launch of Cortech, Redstone and CGL Tools which are a range of house branded products.

BITUMEN

The bitumen business has had a difficult year with revenue down 8% to \$13.6M and earnings before interest and tax down 30% to \$1.6M. The return on capital before interest and tax dropped from 52% to 26%. This drop in performance was a result of the loss of a major tendered customer due to intense competition and a drop in the level of government spending on roads.

The new asphalt plant which is a joint manufacturing facility with Emoleum was commissioned in June 2003. This facility will provide business opportunities for lower costs along with an improved product offering.

GASKETS

AA Gaskets Pty Ltd (AAG) recorded a 39% drop in earnings before interest and tax with a 15% drop in sales. The return on capital before interest and tax dropped from 19% to 14%. This result was impacted by the loss of the Repco account which represented approximately 30% of AA Gaskets Pty Ltd's business.

With the fall in revenue, the business was significantly restructured and downsized to be in line with the lower level of sales. The costs of restructuring impacted the operating profit.

STRATEGY

Following the initial strategy work in 2002, management and the Board have developed an overall strategy for the business. The first part of this was the establishment of the following mission statement –

“To be the first choice supplier of our products
and services to industrial and
automotive customers, provide a safe and rewarding
place of employment and consistently provide our
shareholders with superior returns”

The aim of this statement is to define to our staff, customers and shareholders what the Coventry Group goals are.

The Group strategy has four parts which are markets, customers, business improvement and growth.

The Group is committed to operating in the industrial and automotive markets where the core competencies of the Company can be leveraged to achieve a number one or two position in our chosen market segment. For example, a commitment has been made to build on our No. 2 position in the trade automotive parts market.

Customers are the core of our business and there is now a focus on measuring and providing a level of service that meets their needs. We are working on improving our sales programmes to ensure we sell the full range of products and services to all our customers.

Continuous improvement in our business processes will become central to the way we run our Company. This focus is wide ranging and projects associated with this include supply chain and purchasing, distribution centres, sales management and information technology.

The revenue growth will focus on organic sales or sales won by our sales force, coupled with strategic acquisitions. The acquisition strategy has two arms, the first being bolt-on businesses where we either have a geographic hole or there is an opportunity to rationalise a local market. An example of this was in New Zealand where we purchased Hamilton Nuts and Bolts.

The second part of the acquisition strategy is to pursue opportunities for larger acquisitions which will give the Company significant growth in revenue and profit. All acquisitions will be required to meet minimum hurdle rates.

PEOPLE

Staff are our major resource and the means to achieving a competitive advantage. To support the people in the Company a safety programme has been rolled out, a performance management system has been implemented and increased levels of training and development will be undertaken in the future.

OUTLOOK

The outlook for the Company is for steady growth in earnings over the next 12 months with the industrial business slightly stronger than automotive; bitumen will be flat and gaskets will improve.

Our firm commitment is for a significant improvement in CAP's performance.

The focus will be on revenue and gross profit growth with a commitment to maintaining or reducing our cost base.

For the first 3 months of the year our revenue and profit is on track to achieve the year end objectives and ahead of last year.

SUMMARY

For the last 12 months the business has been in transition with my appointment and the development of our strategic plan.

There are some strong and solid businesses in the Group which are going well and there are others that need to significantly improve their performance. From my perspective we need to ensure all businesses perform to the expected level.

Looking forward over the next 5 years, we will continue to improve the business and achieve our goal of a 12% return on shareholders' funds as well as capitalise on any opportunities that develop in our core markets.

Finally, I would like to thank the staff, management and Coventry Group Board for their support. I have full confidence that there is now a platform from which we can drive the businesses forward.

A handwritten signature in blue ink, appearing to read "Chris Glenn".

CHRIS GLENN

CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR