



Coventry Group Ltd

ABN 37 008 670 102

ANNUAL GENERAL MEETING

6 NOVEMBER 2006

CHAIRMAN'S ADDRESS

Ladies & Gentlemen:

I am pleased to have this opportunity to speak to you about the Coventry Group's performance for the year ended 30 June 2006.

RESULTS TO 30 JUNE 2006

I will touch on a few matters today but first let me make some comments on our results for the year ended 30 June. The headline result was a net profit after tax of \$9.6 million - a drop of nearly 46% on the previous year. However, that comparison is not a true guide to the Company's underlying trading performance. In the year to June, 2005 the result was boosted by one-off profits from the sale of land and buildings whereas in the year to June, 2006 there was a negative impact caused by restructuring costs, an impairment charge and non-cash acquisition adjustments. A more helpful comparison is gained by removing the effects of these unusual factors to arrive at normalised earnings before interest and tax. That figure is \$22.8 million and was a small reduction on the previous year.

I am not trying to disguise the true accounting outcome, but demonstrating to you that the Company's performance over the past year was not all bad news. Certainly, we did not do as well as we had hoped.

The underlying result was impacted by external economic factors, higher interest charges and higher costs, principally associated with our information technology transformation, as well as a very competitive environment for all of our product lines. That said, our handling of some issues was not as effective as we would have liked.

EARNINGS PER SHARE

Earnings per share for the year were 26.1 cents. However, on a normalised basis this would have been 36.7 cents and the Board had confidence in declaring a final dividend of 17 cents, resulting in a total of 35 cents for the year, and we were able to cover this by partly drawing on retained earnings.

AUTOMOTIVE

Despite the hope that I have expressed in the past, the automotive business in New South Wales and Queensland continued to disappoint and the Board decided to close down the New South Wales operations and sell the saleable components to Burson Automotive, a Victorian based business which has begun to expand into New South Wales. This transaction was completed in September and the after tax cost of \$1.4 million was provided for in the 2005/06 result. We will continue to operate in Queensland, which has a bigger branch network and a greater orientation to retail sales, and we are confident that a profitable business can be developed in that State in an acceptable timeframe.

INDUSTRIAL

During the year we announced the acquisition of Cornall Group and Howard Silvers Hardware. These businesses will form the core of a new cabinet and furniture hardware division within the Industrial business unit.

This represents further diversification for the Group and we will be looking for opportunities to expand in this sector.

CURRENT CHALLENGES AND THE YEAR AHEAD

The Company is moving through a period of significant transformation and this is creating pressures for our management and staff and has resulted in some temporary deterioration in customer service as changes are implemented.

The Information Technology project is progressing but we are having to learn as we go – I suspect that this is a feature of all such major installations. We are also moving down the path of relocating our Morley distribution centre and head office to a new building under construction at Redcliffe which we will lease. Both of these projects are designed to help us achieve greater productivity and at the same time raise the standard of customer service right across the Company. Chris Glenn will have more to say about these projects.

Looking to the year ahead, we expect the pressure on Automotive to continue. Various factors are impacting on demand: consumer discretionary spending has been affected by higher fuel prices and concerns about rising interest rates. While there has been some easing of petrol prices in recent times, there can be no certainty that this will last. Also, improving reliability of modern motor vehicles must be expected to impact on demand for spare parts.

To help alleviate this effect, we are extending our modest push into the retail market through some of our branches in appropriate locations in Western Australia and Queensland as well as in the Northern Territory which is already well established in this market. Having said that, I emphasise that serving the trade side of automotive will remain the major focus of our business.

Continued strong growth in Western Australia and Queensland should underpin the prospects for our Industrial business although a more subdued housing construction market, particularly in other States and New Zealand, will affect some divisions.

Bitumen will continue to grapple with higher raw material costs and we do not expect any significant turn-around in the Gaskets business.

Competition is strong across all areas of our operations and this underlines the need for us to raise the standard of customer service and at the same time achieve productivity gains.

The year has started reasonably satisfactorily and, if there are no external setbacks or unexpected dislocation caused by either the IT conversion or the move to Redcliffe, I hope that we would be able to produce a result in line with last year's 'normalised' outcome.

THE BOARD

Now, let me turn to board matters. At this meeting you will be asked to consider the re-election of Joe Boros as a director. Joe is a highly valued member of the Board and his fellow directors unanimously support his re-election.

Cliff Kyle and I retire at this meeting and will not be replaced. The directors have determined that the Board will be limited to five members, including the managing director.

As I noted in the Annual Report, Cliff has served the Company well for some 27 years in both an executive and non-executive capacity. He has been a member of the Board for 16 years, the last eight years as a non-executive director. His family has had a long association with the Company beginning with his grandfather, Ron Kyle, who was one of the Company's founders and his father Peter who was Executive Chairman. I extend our thanks to Cliff for his contribution to the Company,

and particularly as a director, and I am sure you will join me in wishing him well for the future.

STAFF

I acknowledge the efforts of Chris Glenn and his leadership team, and indeed our staff at all levels, in what has been a very challenging year. Apart from the economic and competitive pressures of the market place, they have had to face the challenge of significant, and still ongoing, change.

Not everything has gone as they would have wished but they have coped with these difficulties and are helping to lay the foundations for solid progress in the future.

This is the last occasion on which I will address you as chairman. I thank you for giving me the opportunity of serving as a director and I thank my board colleagues for their confidence in electing me as chairman. It has been an interesting five years, to say the least. The Company has begun a necessary journey of transformation but still has some way to go. I have every confidence that, in time, under the guidance of Roger Flynn and your Board, and the leadership of Chris Glenn and the executive team, the Company will grow and prosper and shareholders will be well rewarded.



WARWICK KENT, AO
CHAIRMAN



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CHIEF EXECUTIVE OFFICER'S REPORT

Good afternoon ladies and gentlemen.

In my report today I will address a number of areas covering the 2005/06 results. This includes a brief overview of the performance of the four business units and the Group's gearing and cashflow position, together with comments on the strategic direction of the Company, initiatives associated with acquisitions and divestments, our progress on the conversion of IT systems, our people and finally on the outlook facing the Company in the coming year.

Our sales increased 6.6% to \$502 million, with most of this growth contributed by the Industrial business unit on the back of a number of acquisitions made during the year.

Profit after tax was down 46% to \$9.6 million on last year.

However, as mentioned earlier by the Chairman, this is not an accurate reflection of our performance once significant items from the prior year and one off adjustments for the current period are eliminated. On a normalised basis, profit after tax was \$13.5 million – a drop of 8%.

Earnings per share fell from 48.9 cents to 26.1 cents – a drop of 46.6%. However on a normalised basis, that is after allowing for significant items and one off adjustments, earnings per share was 36.7 cents.

Return on shareholder funds was marginally down to 8.1% and is below our stated target of 12%.

During the year the Company's operating cashflow fell 83.2% to \$2.1 million. The key contributing factor to this drop was the initial working capital requirements for the three businesses that were acquired during the 2005/06 year. The increased debt level was attributed to these acquisitions as well as costs associated with commencing the rollout of the new IT system, and the payment of a special dividend in July 2005.

INDUSTRIAL

I will now provide a brief overview of the Group's respective business units, commencing with Industrial.

Sales increased 13% to \$201.9 million. Normalised earnings before interest and tax rose marginally to \$18.8 million. The acquisitions of Am-Tech Fasteners in New Zealand, Cornall Group and Howard Silvers Hardware contributed to the sales growth. However, a weaker performance by the fastener division due to more competitive market conditions in NSW, VIC, and SA, and a weaker NZ economy, tempered the overall profit result.

Return on capital employed declined from 23.1% to 18.8% due to the part year of revenue and income of the acquisitions not yet being fully realised.

The Fluids division achieved excellent trading results due to the buoyant mining sector.

During the year the fastener division established new state distribution centres in QLD and VIC. Greenfield expansion was also undertaken with four new branches established - Mandurah (WA), Parafield (SA), Moonah (TAS) and New Plymouth (NZ).

Industrial was the first business unit to convert to the new Oracle IT system. During the 'phase in' stages, the fastener divisions that were first to be converted experienced a downturn in sales. Initiatives have since been implemented to address such issues.

Continued activity for major resource projects should positively impact the Industrial business unit. Revised business and management structures, supply chain initiatives and opportunities for profitable growth from the new cabinet and hardware division should place Industrial in a strong position for growth over the next few years.

AUTOMOTIVE

Sales for the Automotive business unit rose by 2% to \$277.8 million for the year while normalised profit before interest and tax fell 16% to \$4.2 million.

The disappointing results were due to difficult trading conditions in the automotive sector which we believe were affected by high petrol prices and rising interest rates.

Motor Traders in South Australia and Independent Motor Mart in the Northern Territory achieved improved profit results on the previous year.

Significant restructuring of the business unit is continuing following the appointment of a new Group General Manager and other senior managers.

A number of key strategic initiatives aimed at improving the revenue and overall performance have been identified. Implementation of some of the initiatives has already commenced and they address critical operational issues such as inventory management, product sourcing, sales management, branding and operational costs.

As mentioned earlier by the Chairman the restructure also resulted in the sale and closure of the New South Wales automotive operations.

The move of the WA warehouse and head office to Redcliffe is the key automotive project for the 2006/07 year. The project is well advanced and the relocation is planned for mid year 2007. This initiative will bring the WA business modern and efficient operations to support its customers. The automotive business, following the Oracle conversion and the Redcliffe move, will have a solid base for the future.

GASKETS

The Group's Gasket manufacturing business which has operations in Victoria and New Zealand achieved a profit before interest and tax of \$1.5 million – down 21% on the previous year. Sales were also lower by 8% at \$11.4 million. The return on capital declined from 22.6% to 16%.

The flow-on effect of soft trading conditions in the automotive parts market negatively impacted the sales performance of the business.

The business is continuing to implement improvements in production processes with the outcome being better efficiencies and reduced operating costs.

We anticipate the gaskets business to produce similar results in the coming year as it continues to operate in a soft, relatively mature environment.

BITUMEN

Sales for the Bitumen business grew 13% to \$16.9 million. Profit before interest and tax was steady at \$1.2 million, with return on capital employed of 21%.

The Hot Mix division increased volumes for asphalt as it secured additional local council contracts. However, higher raw materials costs led by increased oil prices resulted in lower margins.

Bitumen Emulsions experienced lower sales as high bitumen prices forced key customers to look for lower cost products alternatives.

We expect that for the coming year, the bitumen business will continue to grow sales as new market initiatives are explored though production costs, particularly oil prices, will keep profits relatively steady.

STRATEGY

Moving onto the Group's strategic direction.

Our objective is to provide a strong return on capital by operating as a diversified distribution and service company to industrial, automotive and other technical based markets. To achieve this goal we aim to be a key participant with a strong brand in each of our chosen market sectors.

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

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

The benefits of the Group's new core Oracle IT system will enable an improvement of operations in all business units and also allow the capabilities and the cost of the system to be spread across the Company.

ACQUISITIONS & DIVESTMENTS

Moving to acquisitions and divestments. During the 2005/06 year we have been active in this area.

In July 2005, Am-Tech Fastenings & Components, a New Zealand based fasteners business was purchased. This business has contributed an additional NZ\$7.9 million of sales during the year in review.

Another initiative during the year was the Group's entry into the cabinet hardware market. The purchase of Cornall Group and Howard Silvers Hardware, in December 2005 and January 2006 respectively, resulted in the establishment of a new cabinet and furniture hardware division within the Industrial business. Cornall Group and Howard Silvers Hardware have combined annual sales of \$38 million.

The strategy behind these acquisitions is that the market is similar to our Fastener divisions, there is some product and customer overlap and it is a specialist distribution business.

The two acquisitions will provide a significant opportunity for profitable growth in this area.

As mentioned earlier, the continuing review of the Automotive business resulted in the sale and closure of operations in New South Wales. The sale to Burson Automotive was completed in September 2006 and allows us to focus on improving the operating performance of the WA, SA, QLD and NT divisions.

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

INFORMATION SYSTEMS

The overriding key project that is currently being undertaken by the Group is the conversion of the main operating IT system to Oracle. By the end of December 2006, half of the Company's operations will have converted to the Oracle system. The rollout is planned for completion by July 2007.

This initiative has challenged the organisation in both technical terms and our ability to adapt to change. There have been issues with the conversion which have slowed down the project and interrupted the business. The conversion of our South Australian automotive division, Motor Traders, encountered a number of implementation problems which have negatively impacted business activity. Resources have been allocated to address the issues and most are now resolved. The next key milestone in this project is the conversion of the WA automotive business which is scheduled for the middle of this month. Following the conversion of the WA automotive business we will be at a point in the project where we can say with confidence that the likelihood of encountering the problems experienced to date will be significantly reduced.

When the rollout is completed, Oracle will provide significant opportunities to achieve process improvements especially in the area of inventory management.

PEOPLE

The Group's employees are without doubt our key asset.

Our attention in this critical area has been on occupational health and safety, recruitment, retention and training and development.

Focus on occupational health issues over the past few years has delivered some outstanding results.

The Company's lost time injury rate has dropped 46% over the last three years to a rate of 1.6% which is better than industry best practice benchmarks.

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

The recruitment process has also continued to focus on people who have the required skills and capability to stay and grow with the business.

Training and development has been a high priority especially in light of the conversion to a new IT system. Significant resources have been dedicated to provide frontline leadership, change management and back up resources to assist in providing an orderly changeover environment.

The Group's management team has been significantly strengthened over the past 12 months. Don Beisley who brings a wealth of experience in retailing and warehousing, has been appointed as Group General Manager to lead the

Automotive business. The Industrial business has also had a revised management structure with new General Managers appointed for the three key operating divisions.

OUTLOOK

We anticipate that the Group's net profit after tax for 2006/07 should be similar to that of the previous year on a normalised basis. The major risks which may influence the final result is the possibility of business interruptions associated with completing the Oracle IT system rollout and the relocation to the new Redcliffe site.

That said, with the continued buoyancy in the mining and resources sector, we anticipate the Industrial business should experience stronger growth. The business should benefit from stronger management depth, new initiatives introduced in the past year to improve business efficiency and greater contribution from recent acquisitions in the cabinet and furniture hardware division.

The automotive parts business unit should perform better with the closure and sale of the New South Wales operations and improvements in the other operating regions following restructuring efforts in the past year. However, we expect that soft market conditions for the automotive sector will continue and therefore partly offset any gains achieved.

We anticipate the bitumen and gaskets businesses to achieve steady results.

IN CONCLUSION

The organisation continues to be in transition with a number of major business improvement projects underway.

However, the foundations are being laid for the Company to grow its business and provide better returns to its shareholders.

I would like to acknowledge and thank the staff and management for their efforts and commitment.

I also acknowledge the support and guidance of the Board and in particular the Chairman, Warwick Kent, who has been an invaluable mentor to me over the past three years. I wish him and his wife Jan well in their retirement.



CHRIS GLENN
CHIEF EXECUTIVE OFFICER