

Korvest Ltd and its Controlled Entities
ABN 20 007 698 106

Preliminary Final Report
30 JUNE 2006

Results for announcement to market

Summary of results

	Note	Percentage change from previous corresponding period	Amount \$ '000
Revenue		up 26.6% to	41,258
Total revenue	2(a)	up 26.6% to	41,258
Profit after tax from ordinary activities - continuing operations		up 34.7% to	4,122
Profit (loss), after tax, attributable to members	3	up 34.7% to	4,122

Dividend distributions				Amount per security	Franked amount per security
Interim dividend:					
- current reporting period				13.0c	13.0c
- previous corresponding period				11.0c	11.0c

Record date for determining entitlements to dividend	18 August 2006
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Date of distribution	1 September 2006
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Date of Annual General Meeting	13 October 2006
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* Commentary on the results made via our press release forms part of Appendix 4E.

Korvest Ltd and its Controlled Entities

Preliminary Final Report for Year Ended 30 June 2006

Condensed Consolidated Preliminary Income Statement

	Note	Consolidated Jun-06 \$ '000	Jun-05 \$ '000
Revenues	2(a)	40,870	32,162
Expenses, excluding financing costs	2(b)	(35,280)	(28,163)
Profit (loss) before financial income and income tax		5,590	3,999
Financial Income		388	434
Profit (loss) before income tax		5,978	4,433
Income tax expense		(1,856)	(1,372)
Profit (loss) for the period		4,122	3,061
Profit attributable to equity holders of the parent		4,122	3,061
Basic earnings per share		48.4c	36.1c
Diluted earnings per share		48.4c	36.1c
Net Tangible Asset Backing per share		\$2.26	\$2.02
Dividends per share		25.0c	21.0c

The basic and diluted EPS for the current period was derived based on the profit after tax and the number of weighted average shares of 8,518,073 (30/06/05 8,490,095).

The income statement is to be read in conjunction with the notes to the preliminary financial statements.

Korvest Ltd and its Controlled Entities
Preliminary Final Report for Year Ended 30 June 2006

Condensed Consolidated Preliminary Statement of Recognised Income and Expense

	<u>Note</u>	<u>Consolidated</u> <u>Jun-06</u> \$ '000	<u>Jun-05</u> \$ '000
Foreign exchange translation differences	5b	(58)	40
Net income recognised directly in equity		(58)	40
Profit for the period		4,122	3,061
Total recognised income and expense for the period		4,064	3,101
Attributable to:			
Equity holders of parent		4,064	3,101
Total recognised income and expense for the period		4,064	3,101

Other movements in equity arising from transactions with owners are set out in note 6

Korvest Ltd and its Controlled Entities
Preliminary Final Report for Year Ended 30 June 2006
Condensed Consolidated Preliminary Balance Sheet

	Note	Consolidated Jun-06 \$ '000	Jun-05 \$ '000
Current Assets			
Cash		4,645	8,341
Trade receivables		7,837	7,017
Inventories		7,146	3,750
Other current assets		-	-
Total Current Assets		19,628	19,108
Non-Current Assets			
Property, plant and equipment		6,870	5,964
Deferred tax		493	561
Total Non-Current Assets		7,363	6,525
Total Assets		26,991	25,633
Current Liabilities			
Trade and other payables		4,769	5,639
Provisions		1,452	1,386
Income tax payable		818	775
Total Current Liabilities		7,039	7,800
Non-Current Liabilities			
Interest bearing loans and borrowings		40	40
Provisions		620	655
Total Non-Current Liabilities		660	695
Total Liabilities		7,699	8,495
Net Assets		19,292	17,138
Equity			
Share capital	4	3,506	3,463
Reserves	5	1,250	1,303
Retained earnings		14,536	12,372
Total Equity		19,292	17,138

The balance sheet is to be read in conjunction with the notes to the preliminary financial statements.

Korvest Ltd and its Controlled Entities

Preliminary Final Report for Year Ended 30 June 2006

Condensed Consolidated Preliminary Statement of Cash Flows

	<u>Note</u>	<u>Consolidated</u> <u>Jun-06</u> \$ '000	<u>Jun-05</u> \$ '000
Cash flows from operating activities			
Cash receipts from customers		44,753	34,424
Cash paid to suppliers and employees		(43,381)	(30,489)
Income taxes paid		(1,744)	(1,705)
Interest received		389	432
Net cash (used in) / provided by operating activities		17	2,662
Cash flow from investing activities			
Proceeds from sale of plant and equipment		39	61
Payment for plant and equipment		(1,742)	(708)
Loans provided to other entities		5	-
Net cash (used in) investing activities		(1,698)	(647)
Cash flows from financing activities			
Dividends paid		(1,957)	(1,611)
Net cash (used in) financing activities		(1,957)	(1,611)
Net (decrease) in cash		(3,638)	404
Cash at the beginning of the period		8,341	7,898
Effects of exchange rate fluctuations on cash balances		(58)	39
Cash at the end of the period		4,645	8,341

The statement of cash flows is to be read in conjunction with the notes to the preliminary financial statements.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

1 Statement of Significant Accounting Policies

Korvest Ltd (the "Company") is a company domiciled in Australia. The condensed consolidated preliminary 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 condensed consolidated preliminary financial report was authorised for issue by the directors on 31 July 2006.

(a) Statement of Compliance

The condensed consolidated preliminary financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, the Corporations Act 2001 and Appendix 4E to the Australian Stock Exchange listing rules.

International Financial Reporting Standards ("IFRSs") form the basis of Australian Accounting Standards adopted by the AASB, being 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 AIFRS and AASB 1 *First Time Adoption of AIFRS* 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 11.

The preliminary financial report is to be read in conjunction with the 2005 annual financial report, the December 2005 half-year report and any public announcements by Korvest Ltd and its controlled entities during the year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

(b) Basis of Preparation

The financial report is presented in Australian dollars. The financial report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

The preliminary financial report does not include full note disclosures of the type normally included in an annual financial report.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

1 Statement of Significant Accounting Policies (continued)

(b) Basis of Preparation (continued)

The current reporting period is the full year ended 30 June 2006. The previous corresponding period is the full year ended 30 June 2005.

The preparation of a preliminary financial report in conformity with AASB 134 Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated preliminary financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

The entity has elected to early adopt the following revised accounting standards:

- * 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.

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006**

1 Statement of Significant Accounting Policies (continued)

(b) Basis of Preparation (continued)

*AASB 2005-8 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004).

*AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) amending AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments.

* AASB 2005-11 Amendments to Australian Accounting Standards (September 2005) amending AASB 101 Presentation of Financial Statements, AASB 112 Income Taxes, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 133 Earnings per Share, AASB 139 Financial Instruments: Recognition and Measurement, and AASB 141 Agriculture.

* UIG 4 Determining whether an Arrangement contains a Lease.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards - AIFRSs, as required by AASB 1. The impact of the transition from previous GAAP to AIFRSs is explained in note 11. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy

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

(c) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists 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.

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006**

1 Statement of Significant Accounting Policies (continued)

(c) Basis of Consolidation (continued)

(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.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
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1 Statement of Significant Accounting Policies (continued)

(e) Property, Plant and Equipment

Land and Buildings

Land and buildings are stated at fair value.

Plant and Equipment

Items of property, 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 amortised 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.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

1 Statement of Significant Accounting Policies (continued)

(i) 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.

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.

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.

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006**

1 Statement of Significant Accounting Policies (continued)

(ii) Reversal of Impairment (continued)

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.

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006**

1 Statement of Significant Accounting Policies (continued)

(m) Employee Benefits (continued)

(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.

(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.

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006**

1 Statement of Significant Accounting Policies (continued)

(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.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

	Consolidated	
	<u>Jun-06</u>	<u>Jun-05</u>
	\$ '000	\$ '000
2. Revenue		
(a) <u>Revenue</u>		
Revenue from sales	40,668	32,058
Other	202	104
Total	40,870	32,162
(b) <u>Expenses</u>		
Cost of goods sold	23,336	18,177
Distribution	2,367	1,674
Marketing	7,373	6,212
Occupancy	426	340
Administration	1,529	1,631
Other	249	129
Total	35,280	28,163
(c) Profit for the period		
The profit for the period includes as expenses:		
Depreciation - plant and equipment	744	576
- buildings	45	42
Impairment of trade receivables	36	162
Impairment of Inventories	550	-
Profits/(Loss) on disposal of plant & equipment	(8)	15
Employee share bonus plan expense	42	48
Provision for employee entitlements	310	762
Other provisions	510	486

3. 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 predominantly in Australia.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended

30 June 2006

	Consolidated	
	<u>Jun-06</u>	<u>Jun-05</u>
	\$ '000	\$ '000
4. Contributed Equity		
(a) Issued and Paid-Up Capital		
Number of ordinary shares - current - 8,529,726	3,506	3,463
(Number of ordinary shares - 30/6/05 - 8,502,408)		
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.		
(b) Movements in Ordinary Shares		
Balance at the beginning of the period	3,463	3,415
Shares issued:		
- under Employee Share Bonus Plan	43	48
Balance at the end of the period	3,506	3,463

Employee Share Bonus Plan

The Company made two (30/6/05: 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 values 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

Shares issued to employees under the Employee Share Bonus Plan are recognised in equity at the fair value measured at grant date. The fair value recognised in equity is \$42,433 (30/6/05 \$47,866)

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006**

4. Contributed Equity (continued)

(c) Options

On 15th March 2006, the Company granted a total of 60,000 options over unissued ordinary shares to the Executive Directors and Senior Executive Team. These options are exercisable in January 2007 at an exercise price of \$4.36 per share. In addition, the ability to exercise 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 exceeds \$5.57 when added to the total dividends paid by the company in the two year preceeding periods.

A loan for up to the total exercise price for the options, is made available by the Company to the option holder to exercise the options. The loan has a maximum term of 20 years. Dividends, after deduction of an amount intended for the participants tax, are applied in repayment of the loan. The loan 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.

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

	Consolidated	
	<u>Jun-06</u>	<u>Jun-05</u>
	\$ '000	\$ '000
5. Reserves		
(a) Asset revaluation reserve	1,264	1,264
Foreign currency translation reserve	(19)	39
Employee equity settled benefits reserve	5	-
	1,250	1,303
(b) Movements in Reserves		
Asset revaluation reserve		
Balance at the beginning of the period	1,264	1,264
Revaluation of property, plant and equipment	-	-
Balance at the end of the period	1,264	1,264
Foreign Currency Translation reserve		
Balance at the beginning of the period	39	-
Foreign exchange translation differences	(58)	39
Balance at the end of the period	(19)	39
Employee Equity Settled Benefits Reserve		
Balance at the beginning of the period	-	-
Employee Equity Issues	5	-
Balance at the end of the period	5	-
6. Retained Earnings		
Balance at the beginning of the period	12,372	9,378
Deferred tax recognised directly in equity	-	(207)
Transfer from reserves	-	1,751
Profit for the period	4,122	3,061
Distributions to shareholders	(1,958)	(1,611)
Balance at the end of the period	14,536	12,372

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

7. Dividends

Final - ordinary fully franked at 11.0 cents per share and paid on 2 September 2005	936	-
Interim - ordinary fully franked dividend at 12.0 cents per share and paid on 10 March 2006	1,022	
Final - ordinary fully franked at 9.0cents per share and paid on 3 September 2004	-	763
Interim - ordinary fully franked dividend at 10.0 cents per share and paid on 11 March 2005	-	848
Total	1,958	1,611

Since the end of the financial year, the directors declared a final ordinary dividend fully franked at 13.0 cents per share to be paid on 1 September 2006. The total amount payable is \$1,108,864.

The financial effect of this dividend has not been brought to account in the financial report for the year ended 30 June 2006. The financial effect of the dividend will be recognised in the next reporting period.

The dividend Investment Plan and Share Investment Plan have been suspended.

All dividends paid or declared are fully franked at the tax rate of 30% and do not include foreign sourced income. The directors expect dividends will be fully franked for the foreseeable future.

Number of ordinary securities issued and quoted at the end of the current period.	8,529,726	8,502,408
Increase in the number of shares as a result of new issues.	27,318	29,768

8. Acquisition of controlled entities

The consolidated entity did not gain control over any entities during the current full year period or the previous corresponding period.

9. Events Subsequent to Reporting Date

There has not arisen in the interval 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 Company, to affect significantly the operations of the consolidated entity in subsequent financial periods.

Korvest Ltd and its Controlled Entities

**Notes To And Forming Part of the HPreliminary Financial Statements for the Year Ended
30 June 2006**

10. Summary of impact of transition to AIFRS

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

The accounting policies in note 1 have been applied in preparing the condensed consolidated preliminary 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.

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.

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

[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:

	\$ '000
Retained profits as at 1 July 2004 under AGAAP	9,378
Adjustment on deferred taxes	<u>(207)</u>
Retained profits as at 1 July 2004 under AIFRS	<u>9,171</u>

Korvest Ltd and its Controlled Entities

Notes To And Forming Part of the Preliminary Financial Statements for the Year Ended
30 June 2006

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

Income Statement

Reconciliation of Profit

for the year ending 30 June 2005

	<u>AGAAP</u>	<u>Transition impact</u>	<u>AIFRS</u>
Revenue from Sales	32,060		32,060
Other revenue	581	<45>	536
Revenues	32,641	<45>	32,596
Expenses excluding financing costs	<28,160>	<3>	<28,163>
Profit before income tax	4,481	<48>	4,433
Income tax expense	<1,372>	0	<1,372>
Profit for the period	3,109	<48>	3,061

Balance Sheet as at 30 June 2005

Reconciliation of Equity

Current Assets

Cash	8,341		8,341
Receivables	6,987		6,987
Inventories	3,750		3,750
Other	30		30
Inter-co Loan	0		0
Total Current Assets	19,108	0	19,108

Non-Current Assets

Property, plant and equipment	5,964		5,964
Other	1,006	73	1,079
Total Non-Current Assets	6,970	73	7,043
Total Assets	26,078	73	26,151

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

Balance Sheet as at 30 June 2005 (continued)	<u>AGAAP</u>	<u>Transition impact</u>	<u>AIFRS</u>
Current Liabilities			
Accounts Payable	5,639		5,639
Borrowings	0		0
Provisions excluding tax liabilities	1,386		1,386
Dividends	0		0
Tax Liabilities	775		775
Total Current Liabilities	7,800	0	7,800
Non-Current Liabilities			
Borrowings	40		40
Provisions excluding tax liabilities	655		655
Deferred tax liabilities	238	280	518
Total Non-Current Liabilities	933	280	1,213
Total Liabilities	8,733	280	9,013
Net Assets	17,345	<207>	17,138
Shareholders' Equity			
Share capital	3,415	48	3,463
Reserves	1,303	0	1,303
Retained profits	12,627	<255>	12,372
Total Shareholders' Equity	17,345	<207>	17,138