# Value creation

Gregory Australia Limited | Annual Report 2006

# Contents



# The investment strategy

‘To maximise shareholder wealth and enhance stakeholder returns through the growth and development of the business organically as well as through the strategic acquisition of companies and products that meet our core values of:

- Proven innovation;
- Inspired design; and
- Intellectual property ownership.’

Expanding our business: now and in the future. Creating new business synergies and income streams, marketing new products. That’s what inspires the Gregory team as we plan for continued success.

# Growth through diversity

## in a changing market

'Growth through diversity'. These three words sum up Gregory's new direction. Through mergers, acquisitions and strategic alliances, Gregory is being transformed into a substantial company geared for growth, yet protected from the cyclical performance of individual markets.

Our objective is to bring together under the Gregory umbrella, companies which create products that capture market attention and investor interest. Products which represent the best in innovation and inspired design.

These are the qualities that build the brands and commercial success stories of tomorrow. They are also the qualities that build major corporations and reward those who invest in their future.

Whilst broadening our investment horizons, we continue to strengthen our core businesses.

Growth. Diversity. A brighter future. That's what inspires the management team at Gregory Australia as we plan our future.

## Understanding the investment strategy

The best way to understand the strategy that will take Gregory Australia forward to the next level is to consider the investments that have already been made.

The acquisition of PNE, a leading Australian designer and manufacturer of electronic control systems, spearheaded our wave of acquisitions. PNE creates control systems for everything from consumer appliances to sophisticated banking and medical equipment, and has 20 years of leadership in the field behind it.

At the same time, Opentec solutions became a part of the Gregory family of companies. Opentec specialises in 'ruggedised' portable computers and peripherals. Primarily designed for military applications, the product range is being expanded to address a variety of commercial applications.

More recently, we have announced the acquisition of a substantial share in research and development company DataInfoTech; the acquisition of specialty control system manufacturer Impart Special Products; and the proposed acquisition of New Zealand based Alpha Aviation, which is now commencing production of its training aircraft against a firm order book.

Each of these companies is a testament to the creative achievement of innovation, inspiration and intellectual property. Each brings a common commitment to excellence to the Group which is ideally placed to provide operational and technical synergies to its new members.

Richard Sealy
Chairman

# Building resources and expertise
## in a globally competitive market

> Chairman's Report

### Dear Shareholders

It is with pleasure that I report to you on what has been an interesting and most important year for your Company. A year in which the largest profit ever reported in the history of Gregory Australia Limited was produced.

You will recall that last year your directors took some hard decisions and incurred some major one off charges relating to prior period activities. This, together with other initiatives, allowed the Company to move forward in a positive manner.

As a result of the acquisitions made during the financial year, your directors considered it appropriate to restructure the Company into various divisions. This restructuring is aimed at allowing each entity to operate through a distinct trading division, which reflects the growing industrial nature of the Gregory Group.

The commercial furniture activities have also been transferred to a new division, Gregory Commercial Furniture (GCF), which will now carry out all the commercial furniture activities of the Group. Historically, Gregory has reported erratic earnings due to the episodic nature of commercial furniture sales and as a consequence of this, it has failed in the past to create value for its shareholders. As a division, GCF will now enjoy significantly reduced overheads and with good stock levels of ergonomic furniture strengthened by the integration of the two new additions to its already impressive range, Boss Design and SoftCell, it is poised to deliver good results in the 2006/2007 financial year and beyond.

The acquisition of PNE Industries Pty Limited (PNE) brought a new dimension to the Company without compromise to its core values of:

- Proven innovation;
- Inspired design; and
- Ownership of intellectual property.

PNE brought two new divisions to Gregory; an electronics manufacturing business, which is the core business of PNE, which now forms the second new division, namely, PNE Electronics; and a computer manufacturing business; which will now be operated through a third new division, namely, Opentec Solutions.

PNE designs, manufactures and distributes an innovative range of electronic control solutions which are used in products as diverse as air conditioners, environmental control systems, biomedical equipment, pool, spa pumps and chlorinators, smart vending machines and smart safes. PNE has a solid history of profitable performance. Whereas Opentec specialises in the manufacture of ruggedised computers and PDA's as computing solutions for defence and private enterprise. Over the last year, Opentec performed well in the defence market and seeks to expand its horizons into other sectors.

More recently and since balance date, Gregory acquired Impart Special Products Pty Limited a company that designs and manufactures a range of specialised "Emergency Sound and Light" and other products that complement the activities of PNE; and a 30% interest in DataInfoTech Pty Limited a company specialising in developing and commercialising innovative information systems, data capture and transfer solutions and others, which align very closely to the development of new products for Opentec.

Subject to approval by the members of both companies Gregory has reached agreement to acquire all the shares on issue in Alpha Aviation Limited (Alpha) by the issue of 27,574,133 ordinary Gregory shares at 40 cents each. Alpha, which is based in new premises in Hamilton, New Zealand, has completed a start-up phase and received all the necessary certifications to manufacture and sell the aircraft worldwide. Alpha is now in production of this highly respected range of aircraft consisting of a two-seat aluminium trainer and aerobatic aircraft. The market for trainer aircraft is large and has been poorly serviced for many years. Alpha has identified this opportunity and with an excellent product has already received 23 orders and has a further 14 aircraft under option.

More comprehensive information relating to the companies comprising the Gregory Group may be found in the Managing Director's Report.

Expanding our business: The Company has undergone a major transformation by capitalising on its strengths as an emerging industrial conglomerate with a solid future.

# HIGHLIGHTS

## Statement of Financial Performance
For the year ended 30 June 2006

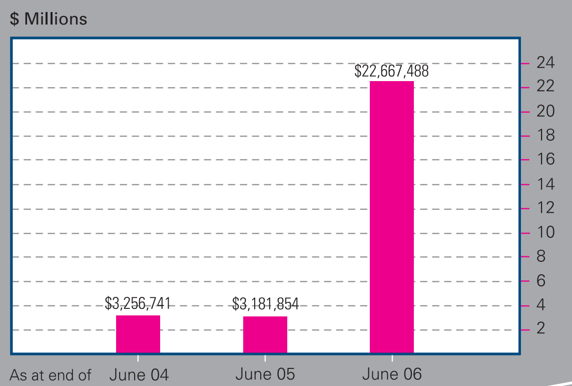
| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $m | $m | $m | $m |
| Revenue | 17.4 | 9.3 | 14 | 15.4 |
| Profit (loss) before Tax | 2.2 | 0.6 | 0.4 | (2.3) |
| Taxation | (0.6) | - | 0.1 | 0.7 |
| Profit/(loss) for the Period | 1.6 | 0.6 | 0.5 | (1.6) |

## Statement of Financial Position
For the year ended 30 June 2006

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $m | $m | $m | $m |
| Current assets | 13.8 | 6.4 | 8.3 | 4.6 |
| Non-current assets | 7.9 | 1.2 | 15.2 | 3.7 |
| Total assets | 21.7 | 7.6 | 23.5 | 8.3 |
| Current liabilities | 6.2 | 1.5 | 2.8 | 2.9 |
| Non-current liabilities | 1.3 | 0.3 | - | 0.9 |
| Total liabilities | 7.5 | 1.8 | 2.8 | 3.8 |
| Shareholders equity | 14.2 | 5.8 | 20.7 | 4.5 |

GIL - GREGORY AUSTRALIA SHARE PRICE


GREGORY - MARKET CAPITALISATION



# Improving performance outcomes
## in a sales aggressive local market

> Chairman's Report

### Results for the Year

Because of the acquisition of PNE and Opentec during the financial year and the application of the requirements of the new international accounting standards (AIFRS), the 2006 and 2005 consolidated results represent a full year's results for PNE and Opentec, and only two months results for Gregory. The 2006 highlights include:

- Revenue for the year of $17.4 million;
- Profit for the year of $1.6 million (Net Profit After Tax); and
- Earnings per share of 3.5 cents per share.

To appreciate the improvement that has occurred in the financial performance of the Group, it is necessary to compare the 2006 consolidated results with those of GIL, the parent company, whose results for 2005 may be summarised as follows:

- Revenue for the year was $15.4 million;
- A loss of $1.6 million; and
- Loss per share of 3.9 cents per share.

Because of this excellent result your directors are recommending that a one-cent per share, fully franked, dividend be paid to the Shareholders of GIL.

Similarly, to appreciate the improvement that has occurred in the financial position of the Group, it is necessary to compare the 2006 consolidated results with those of the parent company results for 2005, in particular:

- Current assets increased from $4.6 million in 2005 to $13.8 million in 2006. This was principally due to the funds raised from the Gregory cash issue and the large cash deposits held by PNE;
- Non current assets rose due to a $1.9 million increase in intangible assets attributable to the acquisition of PNE and a $1.4 million increase attributable to the acquisition of the PNE real estate;
- The increase in current liabilities was due to an increase in the creditors, deferred tax liabilities, and provisions of the enlarged group. Because of the strong cash position of the Group all debt was retired last year;
- Due to the number of additional shares issued last year Net Tangible Asset backing fell from 40.7 cents per share in 2005 to 14 cents per share in 2006.

From the above it may be seen that Gregory is in a much stronger financial position as a result of the initiatives of your directors during the financial year.

### Directors

During the year Mr Peter Gregory and Mr John Scutt resigned as directors of the Company and we thank them both for their contribution to the development of Gregory over their period of service.

I retire by rotation as a director of the Company and being eligible I offer myself for re-election.

### The Way Ahead

Gregory has undergone a major transformation to capitalise on its strengths as an emerging industrial conglomerate with a solid future.

Your Directors are very confident of achieving excellent growth in the various divisions and ensuring that shareholders are rewarded by both capital and revenue growth and this may be seen by the recent increase in the share price from a low of 20 cents to a high of 45 cents and the recommendation by directors to resume the payment of dividends.

The excellent result achieved to date can be attributed to the dedication and effort of the entire Gregory Team and I would like to thank all our staff and management for their outstanding efforts during this financial year.

Richard Sealy
Chairman

# Operational management
## in a dynamically different market

> Managing Director's Report

Tony Noun
Group Managing Director

### Strategic Plan

The last year has been one of the most dynamic years in the history of Gregory. The acquisition of PNE Industries Pty Limited (PNE) and Opentec International Pty Limited (Opentec) was the catalyst for our business to return to profitability and provide the basis for strong future growth.

Operationally, our over-riding objective has been to broaden our customer base, product range, and our future growth potential, while minimising our commercial risk and eliminating points of weakness. This has been achieved through:

- Increases in our engineering and manufacturing capabilities;
- The acquisition of new customers;
- The move into new markets; and
- The acquisition of businesses that met the stated investment criteria of the Company.

These changes result in our business being a more robust and profitable one than in all previous years since incorporation.

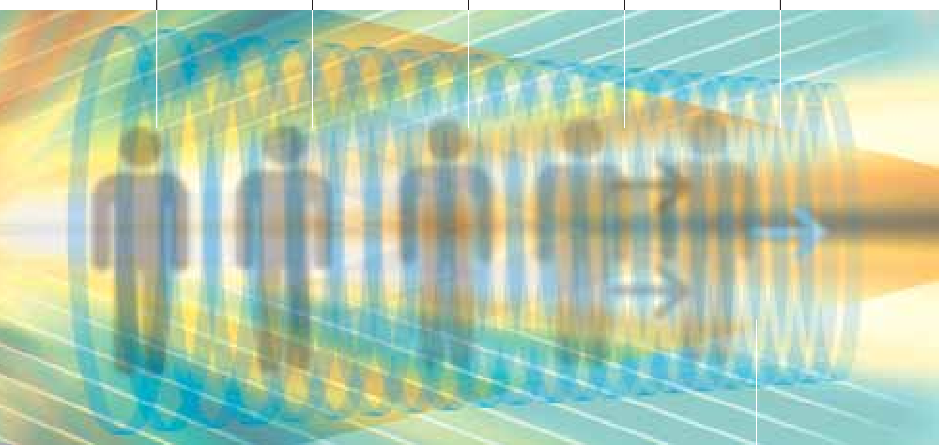
While the businesses Gregory acquired in the financial year under review appear to be different or unrelated, their many synergies are fast becoming apparent:

- They are all strong engineering and manufacturing businesses;
- They all create innovative products that are leaders in their respective markets; and
- They all have IP that provides them with a clear advantage over their competitors.

INNOVATION
PROPELS
PROFITABILITY

### The new competitive edge: Intellectual Property and managed innovation

| Ownership | Validate | Align | Maximise | Prepare | Create |
|---|---|---|---|---|---|
| Of Intellectual Property (IP) | The marketability of innovation | The product with market requirements and expectations | Success by segmenting IP and pursuing multiple revenue streams | The release of new products | Shareholders' wealth |



IP Innovation 'Pipeline'

Gregory capitalising on IP and ideas to create wealth

## The value that we bring to you as our investor

The acquisition of PNE and Opentec was the catalyst for our business to return to profitability and provides the basis for strong future growth.

# Core business activities

## further expansion and organic growth

> Managing Director's Report

### Strategic Plan (cont.)

These synergies have provided Gregory with new opportunities that never existed before and together with the underlying operational changes, are at the heart of the increased value we are now unlocking for our shareholders and customers alike.

Today, Gregory is not only a larger and more diversified business that has spread its risk and significantly improved its revenue and cash flow, but it is also in a position to capitalise on new opportunities and better manage strategic partnerships. Together, these serve to build the fundamental value investors and customers wish to see in a business such as ours.

Whether it is the value that comes from new products and intellectual property; from increased manufacturing and engineering resources; in accessing new customers and profitable new growth markets; in acquiring new lines of business that diversify our product range and spread our risk; our aim is to create lasting shareholder value.

### Corporate Organisation

Following the acquisition of PNE and Opentec we have restructured the business to form three trading divisions:

- Gregory Commercial Furniture: encompassing the commercial furniture business;
- PNE Electronics: encompassing electronics design and distribution; and
- Opentec Solutions: encompassing the computing solutions.

These subsidiaries will provide the vehicles through which the business specific to each division will be conducted. In addition to the above, we have formed a shared services company to provide the Group companies all administration, HR, marketing and other shared resources.

Through the consolidation of administration and information systems we have produced a single information database for managing the business. The combined finance and administration functions are now managed by Robyn Himmelberg (Director of Finance and Administration). Robyn is establishing new performance measures to appraise the performance of products, divisions, and employees.

Managing each of the specific divisions is a management team with an excellent track record in engineering new products to meet market and customer-specific demands and then manage the sales functions to bring those products to market in a timely manner. This management team will drive the Group activities to ensure all Group companies meet the objectives of:

- Delivering new products that grow our market share;
- Developing new business from new markets; and
- Establishing Gregory's reputation as an innovative solutions provider and a supplier of choice.

### Product Development Strategy

Every division designs and manufactures products that are recognised as leaders in their respective market sectors. Each of these products holds a strong position, generally within the top two or three of their market sector. While the product sets are very different, they are all recognised for their innovation, design and the superior value proposition.

- The product development strategy therefore remains in researching and engineering new products that will have unique market appeal and establish themselves in their respective market segments.

### Mergers and Acquisitions

While organic growth through sourcing or creating new products is expected to provide significant income and profit growth in the coming years, acquisitions will form a major part of our expansion into new markets. We will seek out new opportunities that fit the investment criteria of the Company; namely:

- Proven innovation;
- Inspired design; and
- Ownership of intellectual property,

These core values have been selected because we believe that entities possessing these qualities will give Gregory the greatest potential to grow in the coming years and provide the best opportunity to find synergistic products.

Opentec is a good example of a newly acquired business where synergies with other Group members have provided new opportunities for the Company. While Opentec's ruggedised portable computers would seem to have little in common with PNE's custom control electronics, the electronics engineering and production skills within PNE have added considerably to Opentec's ability to research, prototype and deliver new computer and computer peripheral products.

## The value that we bring to you as our investor

New synergies and new opportunities together with operational changes are at the heart of unlocking increased value for our shareholders, customers and employees.

# Strength and breadth of products

## for a diverse customer driven marketplace

> Managing Director's Report

### Gregory Commercial Furniture

Gregory brand chairs set the standard in comfort, design, quality, durability and value. The Dual Density Posture Support System that established Gregory as a leading supplier of ergonomic office furniture has been emulated by many, but never bettered.

The acquisition of Pluto expanded the product range by adding reception, public space and hospitality solutions. The addition of the Atlas health and aged care range, our exclusive agreement with Boss Design, the UK's leading designer and manufacturer of seating for the middle to top end of the commercial seating market and our agreement with SoftCell, an alternative ergonomic seating technology have all reinforced our core value and brand proposition and market leadership position.

Our product range allows us to address a range of markets, from Government, to top 500 Corporations, SMEs, Architects and Designers, Education and Aged and Healthcare customers. A core objective in 2006/2007 will be to introduce innovative new seating and desk solutions that will be of greater appeal to the Government and commercial office fit-out and refurbishment market. A second objective will be to develop the health and aged care product range, and utilise specialist distribution partners to grow our market share.

Over the past 2 years we have significantly improved productivity at our production plants in Bayswater and Wetherill Park by redesigning the layout of the production environment and outsourcing production. This has resulted in improved productivity and production capacity in the expectation of increased sales volumes. Reporting and manufacturing control has been improved by the upgrading of information systems. We now have the ability to measure the profitability of product ranges and to respond to competitor pricing requests more effectively. These initiatives have enabled us to double the production capacity of the commercial furniture business in 2006-7.

The increasing focus on the environment and sustainability has led to our commitment to minimise energy consumption, reduce unnecessary processes and aim to achieve 100% recyclability of products. Over the past few years, Gregory has moved from solvent based to water based gluing in both factories and focused on working with suppliers who have adopted the highest environmental standards.

Our inventory management and cost controls have already delivered significant cost savings in 2006. The continuous improvement programme will target further upgrading of quality component sourcing and investigation of partner options for supply from China. We will also review freight and distribution contracts to ensure optimal pricing and distribution practices.

Gregory moved its commercial furniture operations into a new subsidiary business, named Gregory Commercial Furniture Pty Limited (GCF). The divestment of the commercial furniture into a separate company allows Gregory to better differentiate between the brands.

The addition of Boss Design to the product line up, and the development of a new range of Gregory chairs and desk systems is part of our overall strategy to offer users and specifiers a more comprehensive range of solutions. Boss Design in particular allows us to lift our profile with Architects and Designers, where design issues are paramount. By combining the traditional values associated with Gregory and Pluto, with the aesthetics of Boss, we can broaden our message to one of superior design, ergonomics, comfort, well-being, value, and durability.

The excellent Gregory sales team, supported by an equally able marketing team, will deliver a revitalised message to the market via comprehensive sales, advertising and promotional campaigns.

GREGORY *ergonomic to the core*

GREGORY *style and value*

GREGORY *health and aged care*

GREGORY SOFTCELL® comfort technology

boss design


# Technology platform
## to support R&D operations

> Managing Director's Report

### PNE Electronics

PNE's core business has been in creating innovative electronic control solutions for its customers. These solutions are consistently an intrinsic part of the customers' success. PNE has recently developed two alternate, but related, lines of business:

- Manufacture of self-branded products; and
- Contract electronics manufacturing.

Manufacture of self-branded products involves identifying niche market areas where there is a clear need for a product, then engineering and producing a product that addresses this need. A good example of this strategy is the development of an electric motor 'soft starter'. The soft starter is used with air-conditioning motors, compressor and fan motors to gradually ramp up the motor's start-up speed. This reduces the amount of current drawn, thereby reducing power consumption.

PNE's considerable skills in materials sourcing and electronics manufacturing also provides contract engineering and manufacturing services to designers of electronics systems. As well as freeing up these customers' internal resources, PNE can offer them significant cost savings. The addition of finished goods and contract manufacturing should see significant increases in PNE's overall sales.

PNE has been assessing strategic acquisitions that will build on the synergies developed over the last 12-18 months. In July 2006 it was announced that the Company would acquire all the shares in Impart Special Products Pty Limited (Impart). This acquisition was subject to due diligence which has now been successfully completed, resulting in the acquisition of Impart for $1.7 million.

Impart Special Products, established in 1990, has been designing and manufacturing specialised electronic components and custom designed control circuits for automotive applications for over 15 years. It has established an enviable reputation for innovation, product quality, customer care and after sales service.

Impart's customer base consists primarily of long-term blue chip customers in the Government and private sector and its specialist range of electronic "Emergency Sound and Light" products has become the preferred choice of the emergency vehicle industry, especially the ambulance and fire services throughout Australia.

Impart has considerable synergies with PNE and extends the product range and provides access to a completely new range of customers. Its specialised manufacturing equipment will also extend the existing manufacturing capability of PNE. Impart is expected to produce an EBIT of $600,000 for the financial year ending 30 June 2007.

PNE will ensure its competitiveness by the continual review of products which can be produced offshore - both those designed by PNE and those designed by others and manufactured under contract for them. Fortunately, PNE has an excellent longstanding relationship with a Chinese production facility that delivers top quality sub-assemblies as well as custom engineered plastic housings. The Chinese facility has passed the most stringent quality reviews to ensure that PNE is able to deliver products of a consistently high standard.

# R&D experiencing a transformation

> Managing Director's Report

## Opentec

Opentec's core business is the supply of ruggedised notebooks, tablet PCs and PDAs designed for the serious field-based professional. Opentec's most significant sales successes to date have been with the Australian Armed Forces. The core focus for 2006/2007 is to develop new products that will help generate significant sales in commercial markets where there are far more opportunities for growth. One of these products has been provided through the investment in DataInfoTech Pty Limited (DIT). The company announced in August 2006 that agreement has been reached to acquire 30% of the shares of DIT for the sum of $270,000.

DIT, established in 2005, is a specialist R&D company which developes and commercialises innovative information system data capture and transfer solutions. The applications being developed by DIT are very closely aligned to the development of new products for Opentec.

DIT will concentrate on developing products, which combine electronics, computer hardware and software with a special focus on GPS technologies. Of special interest to Opentec, is the commercialisation of the BULLSEYE system, an innovative, miniaturised, differential GPS data collection device.

The BULLSEYE system, to which the Company has secured the exclusive rights as part of this transaction, incorporates four technologies into one handheld unit:

- A miniature, highly accurate differential GPS unit;
- The ability to collect and combine detailed spatial and environmental data;
- Advanced communications capability; and
- Advanced data capture, synchronisation, storage and analysis features.

A provisional patent for the system has been secured by DIT for Australia and the USA and an application for a full patent has been lodged.

Initially, the strategy for Opentec was simply to secure a number of key contracts to re-establish the business as a revitalised and viable entity, capable of fulfilling significant contracts in a timely fashion. Two significant Australian Defence contracts, plus a number of smaller (but nonetheless profitable and significant) commercial contracts, adequately fulfilled that aim.

Since early in 2006, the strategy has been to focus on developing relationships with key industry associations and key industry specifiers, to help position Opentec as a technology leader. From these relationships came leads regarding new products for new applications outside Opentec's traditional focus. The new products being reviewed and released will initially be peripherals for the basic computer range. These include a high-performance barcode scanner for the PDA, which will target markets such as road freight and transport logistics, as well as the Bullseye product which will extend Opentec's capability into surveying, asset mapping and GIS database creation and data dissemination.

# Innovative people

## building innovative companies and products

> Managing Director's Report

### Alpha Aviation Limited

Also in August 2006, Gregory announced that agreement in principle was reached to acquire all the shares on issue in Alpha Aviation Limited (Alpha).

The Agreement is subject to the approval by the Shareholders of Gregory and if approved, the purchase of Alpha will be effected by issuing 27,547,133 ordinary Gregory shares at 40 cents per share to the Alpha Shareholders.

Alpha was established to acquire the designs, jigs and tools for the highly respected Alpha aircraft so that the aircraft could be manufactured in New Zealand and marketed worldwide. Alpha has now completed the start up phase and is in the production phase.

Start up commenced in 2004 with a due diligence to evaluate the feasibility of manufacturing the aircraft in New Zealand. A significant world market was identified and so a business plan was developed and operations commenced with full equity funding.

In January 2005 the assets associated with the Alpha aircraft were relocated from France to Hamilton, New Zealand and the process of translating the drawings and supporting reports justifying the design of the aircraft from French to English commenced.

In the new factory at Hamilton Airport, all the plant and jigs necessary to build the aircraft were installed along with computerised manufacturing systems for traceability of parts and the development of DXF files (the designs converted into computer language) for use by computerised manufacturing equipment in making the component parts.

The New Zealand Civil Aviation Authority approved the prototype aircraft ZKFXY which was audited and flown by the NZCAA test pilot early in 2006. Assembly of the aircraft required the manufacture and testing of over 700 component parts.

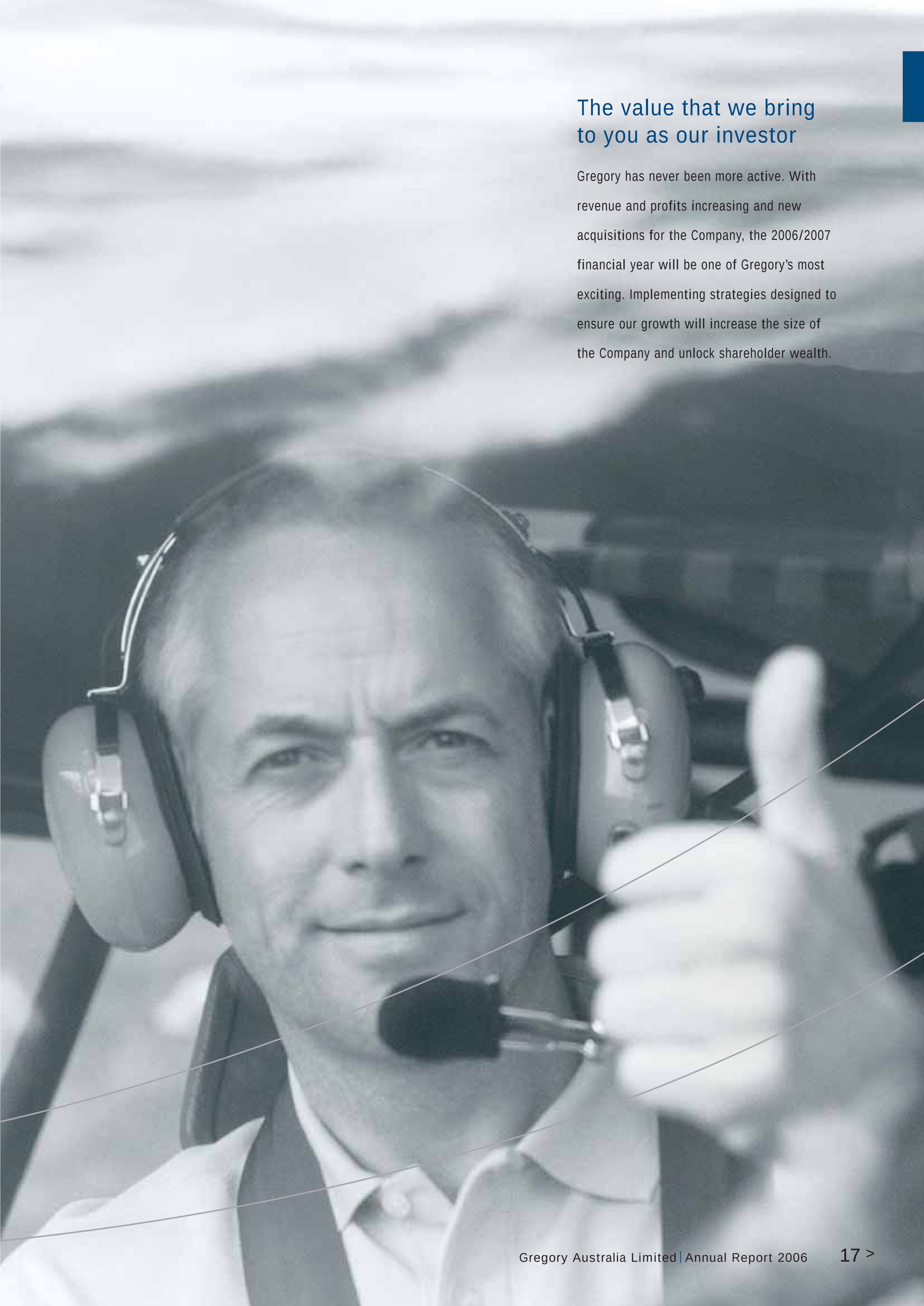
In addition Alpha has obtained all the necessary NZCAA certifications to manufacture and sell the aircraft and most importantly the Type Certificate for the Alpha aircraft, which are rarely issued and enables sales of the aircraft to be made worldwide.

Alpha has 23 confirmed orders and holds options over a further 14 aircraft and is experiencing significant enquiry from all over the world which means that most of the production capacity through to March 2007 is committed. The first aircraft are currently being delivered to aero clubs.

As may be seen from this report, Gregory has never been more active. With revenue and profits increasing and many new exciting acquisitions for the Company, the 2006/2007 financial year will be one of Gregory's most exciting years as the Directors implement strategies designed to increase the size of the Company and unlock shareholder wealth.

Tony Noun
Group Managing Director


ALPHA AVIATION



## The value that we bring to you as our investor

Gregory has never been more active. With revenue and profits increasing and new acquisitions for the Company, the 2006/2007 financial year will be one of Gregory's most exciting. Implementing strategies designed to ensure our growth will increase the size of the Company and unlock shareholder wealth.

# Board of directors

## implementing strategies for growth

Richard Sealy
Chairman
Non-executive Independent Director

Tony Noun
Group Managing Director
Executive Director

Robyn Himmelberg
Chief Financial Officer
Executive Director
Company Secretary

David Richards
Executive Director

**Richard Sealy,** CA, MAICD
Chairman
Non-executive Independent Director

Mr Sealy has over the last 25 years held positions as Financial Director, Managing Director or Chairman of a number of public and private companies in Australia, New Zealand and the United Kingdom. Currently, he is the Managing Director of Alpha Aviation Limited.

Mr Sealy brings to Gregory Australia Limited experience in developing and growing companies by applying good business practices and motivating people so that the companies become successful and profitable. He has an in depth knowledge in the corporate and legal structuring of entities when embarking on fund-raising and acquisition activities and has been instrumental in numerous public and private debt and/or equity issues and mergers and acquisitions.

**Tony Noun,** MBA, FAIM
Group Managing Director
(Appointed 25 September 2006)
Non-executive Director
(Prior to 25 September 2006)

Mr Noun has more than 25 years professional and commercial experience with a proven track record of success in managing start-up operations as well as small, medium and large national and international companies. Mr Noun's commercial experience, from both an investor and management perspective, spans a diverse range of industries including financial services, health care, hospitality, manufacturing as well as sales and marketing. He is presently an active director for a number of national and international companies that cover a broad range of industries and professional disciplines, including Alpha Aviation Limited. Mr Noun brings to the Board extensive financial and corporate expertise.

**Robyn Himmelberg,** NIA, MAIM, MAICD
Chief Financial Officer - Executive Director
(Appointed 28 April 2006)
Company Secretary
(Appointed 21 July, 2006)

Mrs Himmelberg is a founding Director of PNE and has over 25 years experience in electronics engineering and manufacturing, and helped to create and build a sustainable business model through an era of rapid technological and economic change. Mrs Himmelberg's background is in accounting, administration and customer relations, and with a broad knowledge of operations within the manufacturing environment, will help to strengthen the operations and strategic direction of Gregory.

**David Richards,** BSc (Eng), MAIM, MAICD
Executive Director
(Appointed 28 April 2006)

Mr Richards obtained his degree in Electrical Engineering in 1983 and commenced his career as an electronics development engineer with General Electric. He then became Engineering Manager in an associated company set up to undertake design and manufacture of electronic controls in appliances utilising the latest microcomputer technology.

Mr Richards is a founding member of PNE and has been Managing Director since its inception. Mr Richards has many years experience in the design and manufacturing of electronics and electromechanical devices in Australia and overseas, particularly Asia. Mr Richards' highly technical marketing skill secures PNE's opportunities to develop and supply solutions to many top Australia OEM manufacturers. He brings his technical expertise to Gregory in his role as Technical Director.

# Corporate governance statement

The Directors of Gregory Australia Limited are committed to achieving the highest standard of corporate governance. Except where specified in this statement, the Company has adopted the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

## Composition and Role of the Board of Directors

The Board is responsible for ensuring corporate governance standards and practices are maintained, providing guidance and direction to executive management and to set the overall strategic direction of the Company.

- The Board may comprise from three to ten directors in accordance with the Company's constitution and currently consists of one non-executive director and three executive directors.
- The Chairman is an independent director.
- Apart from the Chairman, the Company does not have any independent directors but the Directors are planning to appoint independent directors in near future after the completion of the process of restructuring.
- The skills, experience, expertise and term of office of each director are included in the Directors' Report on pages 23 to 25.
- Directors, in carrying out their duties may after prior consultation with the Chairman, seek independent legal and accounting advice (at the expense of the Company) concerning any aspect of the Company's operations or undertakings.

## Nomination Committee

The Board will appoint a formal Nomination Committee consisting of all independent directors, after the appointment of additional independent directors to the Board. Currently the entire Board is responsible for the appointment and nomination of any directors, CEO and senior management. The Responsibilities of the Committee will be:

- Assessment of competencies of board members;
- Review of board succession plans;
- Evaluation of the Board's performance; and
- Recommendations for the appointment and removal of directors.

The Chairman annually reviews:

- The composition of the Board to ensure that the Board has the appropriate mix of expertise and experience;
- The performance of each director; and
- The approved remuneration levels for directors' fees as set by shareholders and how it is to be divided amongst the directors, currently the Chairman is paid $85,000 per annum.

## Code of Conduct

The role and code of conduct of the Board and senior executives is to:

- Establish the overall internal control framework over financial reporting, quality and integrity of personnel and investment appraisal;
- Establish and maintain appropriate legal and ethical standards in dealings with business associates, advisors and regulators, competitors, employees and any other stakeholders in the Company;
- Identify areas of significant business risk and implementing corrective action as soon as practicable after a risk has been identified;
- Ensure that the Company adheres to the ASX continuous disclosure requirements and rules of compliance.
- Control of the Board and committee meeting agendas is vested in the Chairman of the Board or committee, where appropriate. Prior to each meeting all available information on matters to be discussed is provided to each of the Directors or committee members with advice from external advisors as required.
- The Directors must declare any conflict of interest when it arises and directors' must absent themselves from any discussion pertaining to any matter in which a director has a material personal interest.
- Non-executive Directors are asked to commit no less than 20 days per year preparing and attending Board and committee meetings and performing associated corporate activities. The Directors meet formally at least 11 times a year and at the Chairman's request, informally to discuss specific matters that may arise between scheduled meetings.
- Apart from observing legal requirements, directors inform the Board of any proposed dealing in the Company's shares and are generally required to confine such dealing (if otherwise appropriate) to a two week window following the release of quarterly reports or significant announcements provided that the market has been fully informed of all matters that could affect the price of the securities in the Company.

## Audit Committee

The Board has formally approved the constitution of an Audit Committee comprising all the Directors.

The charter of the Audit Committee is to provide the link between the external auditors and the Board and carry out the following:

- Nominate the external auditors and review the adequacy of the scope and external audit arrangements;
- Review the accounting policies, practices and disclosure;
- Review the accuracy, timeliness and level of disclosure of the Company's published accounts;
- Review compliance with the requirements of regulatory authorities.

# Corporate governance statement

The primary reporting line for the Company's external auditors is to the Chairman of the Audit Committee and currently Mr R Sealy chairs this Committee. The Audit Committee met in September 2005 and February 2006 and all the then members of the Audit Committee attended the meetings.

The Board considers that at this stage of the Company's development it would not be cost effective to have a policy of rotating the auditors of the Company as the appointment of new auditors entails considerable cost and expense while new auditors familiarise themselves with the activities of the Company.

## Disclosure to Shareholders

The Board aims to ensure that the Shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated through the distribution of the annual report; half-yearly report; ASX reporting and calling a vote of shareholders on all proposed major changes in the Company which may impact on share ownership of rights.

In addition, this Corporate Governance Statement and the annual report are posted on the Company's web site www.gregoryaustralia.com.au

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals.

The Board requests the external auditor to be available at the Annual General Meeting to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

## Business Risk Management

The identification and management of risk inherent to the operation of the Company is managed by the Group Managing Director on a day to day basis. Where necessary the Group Managing Director will advise the Chairman of the Board or will, through the forum of regular board meetings bring matters before the Board collectively who will review, evaluate and deal with any matters arising, in a manner that serves the best interest of the Company, its shareholders and stakeholders.

## Remuneration Practices

The Company's policy for determining the nature and amount of emoluments of directors, executive officers and senior executives of the Company and Group is as follows:

- The remuneration is based on a number of factors, including particular experience and performance of the individual concerned and the overall performance of the Company;
- Contracts for service between the Company and the executive officers of the Company and senior executives are on a continuing basis, the terms of which are reviewed regularly by the Board.

The Company seeks to emphasise payments for results through providing various cash bonus reward schemes, especially, the incorporation of incentive payments based on the achievements of agreed Key Performance Indicators. The objective of the reward schemes is to both reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders.

## Remuneration Committee

The Board has formally approved the constitution of the Remuneration Committee. Currently all the Directors are members of the Remunerations Committee.

The charter of the Remuneration Committee is to:

- Set policies for senior officers remuneration;
- Set policies for directors' remuneration; the Executive Directors set policies for Non-executive Director's remuneration and Non-executive Directors set policies for Executive Directors' remuneration;
- Make recommendations to the Board on remuneration for senior officers;
- Set terms and conditions of employment of the Group Managing Director; and
- Undertake the detailed review of the Group Managing Director's performance at least annually and set the KPI's for the coming year.

The Remuneration of each director is shown in the Remuneration Report contained within the Directors' Report.

## Executive Verifications

Mr Tony Noun (Group Managing Director) and Mrs Robyn Himmelberg (CFO) have stated in writing to the Board that:

- The Company's financial reports present a true and fair view, in all material respects of the Company's financial condition, and operational results are in accordance with relevant accounting standards;
- The statement given above is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and controls system is operating efficiently and effectively in all material respects.

This financial report covers both Gregory Australia Limited as an individual entity and the consolidated entity consisting of Gregory Australia Limited and its subsidiaries. The financial report is presented in the Australian currency.

Gregory Australia Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Gregory Australia Limited
125-131 Cowpasture Road
Wetherill Park NSW 2164

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Chairman's Report which is not part of this financial report.

The financial report was authorised for issue by the Directors on 28th September 2006. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.gregoryaustralia.com.au

# Financial Statements

# Directors' Report

For the year ended 30 June 2006

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Gregory Australia Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

## Directors

The following persons were directors of Gregory Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Richard Sealy
Peter Gregory (Resigned 15 July 2006)
Bruce Hansen (Resigned 28 April 2006)
Robyn Himmelberg (Appointed 28 April 2006)
Tony Noun
David Richards (Appointed 28 April 2006)
Janet Sayer (Resigned 28 April 2006)
John Scutt (Resigned 31 July 2006)

## Principal activities

During the year the Group significantly expanded its activities to include the manufacturing and marketing of electronic products. The principal activities of the Group also continued to consist of the marketing and manufacture of commercial furniture.

## Dividends

Dividends paid to members during the financial year were as follows:

| | Parent Entity | |
|---|---|---|
| | 2006 | 2005 |
| | $'000 | $'000 |
| No dividend paid during the year ended 30 June 2006<br>(2005: 1 cent per fully paid share paid on 10 October 2005) | - | 125,259 |

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of $657,029 (1 cent per fully paid share) to be paid on 16 October 2006 out of retained profits at 30 June 2006.

## Review of operations

A full review of operations may be found in the Chairman's Report attached.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

### Acquisitions

During the year Gregory Australia Limited acquired the following companies:

- PNE Electronics Pty Limited (formerly PNE Industries Pty Limited);
- Opentec Solutions Pty Limited (formerly Opentec International Pty Limited);
- Real Credentials Pty Limited (formerly Intercard Systems International Pty Limited); and
- Inventis Pty Limited.

### Corporate restructure

During June 2006 the Group restructured its operations as follows:

- the furniture manufacturing business owned by Gregory Australia Limited was transferred to a newly incorporated, 100% owned subsidiary, Gregory Commercial Furniture Pty Limited; and
- the shares in Opentec Solutions Pty Limited, Real Credentials Pty Limited and Inventis Pty Limited were transferred from PNE Electronics Pty Limited to Gregory Australia Limited.

### One off expenses

The Group incurred one off expenditure of $207,595 in relation to the following items:

- Boss Design product launch - $49,489; and
- Corporate restructure implemented in June 2006 - $158,106.

Refer to Note 22 of the financial report for details of share movements during the year.

## Likely developments and expected results of operations

Except for the commentary in the Managing Director's Report, information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

## Matters subsequent to the end of the financial year

### Acquisitions

Since balance date the Group has announced a number of acquisitions to the market:

- PNE Electronics completed the purchase of Impart Special Products Pty Limited on 6th September 2006 for cash consideration of $1,672,890.
- Gregory has reached agreement in principle to acquire all the shares in Alpha Aviation Limited. Total purchase price being $11,018,853 which is to be settled by issuing 27,547,133 ordinary Gregory shares at 40 cents per share to the Alpha Shareholders. Agreement is subject to execution of a share sale agreement, due diligence, regulatory approvals and the approval by members of Alpha and Gregory.
- Gregory reached an agreement to acquire up to 30% of the shares in DataInfoTech Pty Limited for $270,000. A Letter of Intent has been executed and the final agreement is subject to valuation and due diligence.

### Legal

Gregory has received notice of an alleged claim against it by a licensee of a design in relation to the Company's actions in promoting that design. The Directors have sought legal advice and the Gregory lawyers' opinion based on the information available is that there is no reason to believe that the claim has merit or will succeed if it was to become a litigious matter or that the letter and claim is material or requires disclosure to the ASX under the ASX listing rules. So far as the Directors are aware, no proceedings have been instituted at the date of this report.

Except for the information discussed above, no other matter or circumstance has arisen since 30 June 2006 that has significantly affected or may significantly affect:

(i) the Group's operations in future financial years; or

(ii) the results of those operations in future financial years; or

(iii) the Group's state of affairs in future financial years.

## Environmental regulation

The Group is not subject to significant environmental regulation.

## Information on Directors

Richard Sealy, CA, MAICD
Chairman and Non-executive Independent Director

Mr Sealy has over the last 25 years held positions as Financial Director, Managing Director or Chairman of a number of public and private companies in Australia, New Zealand and the United Kingdom. Currently, he is the Managing Director of Alpha Aviation Limited.

Mr Sealy brings to Gregory Australia Limited experience in developing and growing companies by applying good business practices and motivating people so that the companies become successful and profitable. He has an in depth knowledge in the corporate and legal structuring of entities when embarking on fund-raising and acquisition activities and has been instrumental in numerous public and private debt and/or equity issues and mergers and acquisitions.

Directorships held in other listed entities in the last 3 years – nil.

# Directors' Report

For the year ended 30 June 2006

## Information on Directors (cont.)

Tony Noun, MBA, FAIM
Group Managing Director – Appointed 25 September 2006
Non-executive Director – Prior to 25 September 2006

Mr Noun has more than 25 years professional and commercial experience with a proven track record of success in managing start-up operations as well as small, medium and large national and international companies. Mr Noun's commercial experience, from both an investor and management perspective, spans a diverse range of industries including financial services, health care, hospitality, manufacturing as well as sales and marketing. He is presently an active director for a number of national and international companies that cover a broad range of industries and professional disciplines, including Alpha Aviation Limited. Mr Noun brings to the Board extensive financial and corporate expertise.

Directorships held in other listed entities in the last 3 years – nil.

Peter Gregory, BSc Dip Phyt
Non-executive Director – Resigned 15 July 2006

Mr Gregory, a qualified physiotherapist and original founder of Gregory Australia, has valuable experience and expertise gained over many years in the Company's core business of designing, manufacturing and distributing commercial furniture and in particular our well known range of ergonomic chairs.

Directorships held in other listed entities in the last 3 years – nil.

Bruce Hansen, Mechanical Engineering (Diploma)
Non-executive Director – Resigned 28 April 2006

Mr Hansen has had a long association with both the Company and its products. Mr Hansen has over 25 years experience in engineering, manufacturing and project managing of products used for the military environments. Currently managing a number of projects for a multinational organisation, Mr Hansen has worked for companies such as BAE Systems, GEC Marconi Australia, Plessey Australia and Amalgamated Wireless Australia (AWA).

Directorships held in other listed entities in the last 3 years – nil.

Janet Sayer, MBA, MAICD, MAITT
Non-executive Director – Resigned 28 April 2006

Ms Sayer has a strong background and understanding of integrated business strategies and has held a number of senior positions including Managing Director of Telstra Payphone and Card Services and Managing Director of GTECH Australasia Corporation. She has held senior executive and board positions within the hotel and travel industries.

Directorships held in other listed entities in the last 3 years – nil.

John Scutt, BComm (hons) Newcastle, FAICD, FCPA, FAIM
Chief Executive Officer - Executive Director – Resigned 31 July 2006

Mr Scutt joined Gregory Australia Limited in May 2004 and has over 30 years of strong business building skills with particular emphasis on sales and finance. Prior to joining Gregory Australia Mr Scutt worked for large Australian and multinational organisations including Austen & Butta Limited, Young & Rubicam Australia Pty Limited, DFS Australia Pty Limited, Allders International Pty Limited, TVSN Limited, Ezishop.net.au Limited (own company) and CiTR Pty Limited.

Directorships held in other listed entities in the last 3 years – nil.

Robyn Himmelberg, NIA, MAIM, MAICD
Chief Financial Officer - Executive Director – Appointed 28 April 2006
Company Secretary – Appointed 21 July 2006

Mrs Himmelberg is a founding director of PNE and has over 25 years experience in electronics engineering and manufacturing, and helped to create and build a sustainable business model through an era of rapid technological and economic change. Mrs Himmelberg's background is in accounting, administration and customer relations, and with a broad knowledge of operations within the manufacturing environment, will help to strengthen the operations and strategic direction of Gregory.

Directorships held in other listed entities in the last 3 years – nil.

# Directors' Report

For the year ended 30 June 2006

## Information on Directors (cont.)

David Richards, BSc(Eng), MAIM, MAICD
Executive Director – Appointed 28 April 2006

Mr Richards obtained his degree in Electrical Engineering in 1983 and commenced his career as an electronics development engineer with General Electric. He then became Engineering Manager in an associated company set up to undertake design and manufacture of electronic controls in appliances utilising the latest microcomputer technology.

Mr Richards is a founding member of PNE and has been Managing Director since its inception. Mr Richards has many years experience in the design and manufacturing of electronics and electromechanical devices in Australia and overseas, particularly Asia. Mr Richards' highly technical marketing skill secures PNE's opportunities to develop and supply solutions to many top Australia OEM manufacturers. He brings his technical expertise to Gregory in his role as Technical Director.

Directorships held in other listed entities in the last 3 years – nil.

Greg Lewis, FPNA
Chief Financial Officer and Company Secretary – Resigned 11 October 2005

Mr Lewis joined Gregory Australia Limited in April 2005 as Chief Financial Officer and Company Secretary. Mr Lewis has extensive experience in a wide variety of manufacturing and distribution industries, having held senior financial positions and directorships within international companies.

Ross Carman, CA
Company Secretary – Appointed 28 April 2006, resigned 21 July 2006

Mr Carman has over 20 years experience in taxation, accounting and business advisory services. Mr Carman is a Fellow of the Institute of Chartered Accountants in Australia and is currently the Principal of Carmans Chartered Accountants, a firm which caters for the financial needs of small, medium, large and international companies over a diverse range of industries including manufacturing, engineering, pharmaceutical and commodities.

## Meetings of Directors

The number of directors' meetings (including meeting of committees of directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

| | Board Meetings | | Audit Committee Meetings | | Nomination and Remuneration Committee | |
|---|---|---|---|---|---|---|
| Directors | Attended | Available to Attend | Attended | Available to Attend | Attended | Available to Attend |
| R Sealy* | 13 | 14 | 1 | 1 | 1 | 1 |
| P Gregory | 12 | 14 | 1 | 1 | - | 1 |
| B Hansen | 10 | 12 | 1 | 1 | - | 1 |
| J Sayer | 10 | 12 | 1 | 1 | - | 1 |
| T Noun | 12 | 14 | 1 | 1 | 1 | 1 |
| J Scutt | 14 | 14 | 1 | 1 | 1 | 1 |
| D Richards | 2 | 3 | - | - | - | - |
| R Himmelberg | 2 | 3 | - | - | - | - |

* R Sealy is the Chairman of all of the above mentioned committees.

## Retirement, election and continuation in office of directors

Richard Sealy will be retiring and being eligible puts himself forward for re-election at the next AGM.

## Directors' interests in shares and options

Details of equity instruments including options and rights held directly, indirectly or beneficially by directors and their related parties are as follows:

| Name | Balance at 1 July 2005 | Granted as Compensation | Received on Exercise of Options or Rights | Acquisitions/ (Disposals) | Balance at 30 June 2006 | Balance Held Nominally |
|---|---|---|---|---|---|---|
| Mr P Gregory | 4,300,000 | - | - | 500,000 | 4,800,000 | 4,800,000 |
| Mr R M Sealy | 1,038,150 | - | 100,000 | 750,000 | 1,888,150 | 1,888,150 |
| Mr J A Scutt | 296,000 | - | - | 722,000 | 1,018,000 | 1,018,000 |
| Mr B Hansen | 22,863 | - | - | (22,863) | - | - |
| Mr T Noun | - | - | - | 11,265,833 | 11,265,833 | 11,265,833 |
| Mrs R Himmelberg | - | - | - | 9,466,666 | 9,466,666 | 3,216,666 |
| Mr D Richards | - | - | - | 9,466,666 | 9,466,666 | 3,216,666 |
| Total | 5,657,013 | - | 100,000 | 32,148,302 | 37,905,315 | 25,405,315 |

## Remuneration Report

The Remuneration Report is set out under the following main headings:

A. Principles used to determine the nature and amount of remuneration (audited)
B. Details of remuneration (audited)
C. Service agreements (audited)
D. Share-based compensation (unaudited)

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124-Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section D are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

### A. Principles used to determine the nature and amount of remuneration (audited)

The remuneration policy of the Group has been designed to align director and executive objectives with shareholders and business objectives by providing a fixed remuneration component and offering incentives based on key performance areas affecting the Group's financial results. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group, as well as create goal congruence between directors, executives and shareholders. The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

The remuneration policy, setting terms and conditions for the Executive Directors and other senior executives, was developed by the Remuneration Committee and approved by the Board. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits and performance incentives. The Remuneration Committee reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise at its discretion in relation to approving incentives and bonuses and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

#### Non-executive Directors

The Board policy is to remunerate Non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Executive Directors' determine payments to the Non-executive Directors and review their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought where required. Fees for Non-executive Directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Group.

#### Directors' fees

The current base remuneration was last reviewed with effect from 1st July, 2006.

All remuneration paid to directors is valued at the cost to the Group and expensed.

## Remuneration Report (cont.)

### A. Principles used to determine the nature and amount of remuneration (audited) (cont.)

#### Retirement allowances for directors

No retirement allowances exist for directors.

#### Executive pay

The executive pay and reward framework has three components:

- base pay and benefits
- short-term performance incentives
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration. The Group intends to revisit its long-term equity linked performance incentives specifically for executives during the year ending 30 June 2007.

#### Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

#### Benefits

Executives receive benefits including car allowances.

#### Retirement benefits

The Directors and executives receive a superannuation guarantee contribution required by government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

#### Short-term incentives

If the Group achieves a pre-determined profit target set by the Remuneration Committee, a short-term incentive (STI) pool is available to executives during the annual review. Cash incentives (bonuses) are payable on 30 September each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executives to out-perform.

The Group has a bonus incentive scheme for individual management employees. This is broadly based on the achievement of the Group profit objectives and the achievements of the individual's KPIs.

### B. Details of remuneration (audited)

#### Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel of Gregory Australia Limited are set out in the following tables.

The key management personnel of the Group include the Directors as per page 22 and the following executive officers, which are also the highest paid executives of the entity:

#### Consolidated Entity

- Bruce Lehmann – Group Marketing Manager
- Jules Res – Group Engineering and Quality Assurance Manager

#### Parent Entity

- Greg Lewis – CFO – resigned 11/10/05

# Directors' Report

For the year ended 30 June 2006

## Remuneration Report (cont.)

### B. Details of remuneration (audited) (cont.)

Key management personnel of Parent Entity and Group

| 2006 | Primary Benefits<br>Salary/Fees | Non-cash Benefits | Post Employment Benefits<br>Bonus | Superannuation | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Directors** | | | | | |
| R Sealy* | 87,100 | - | - | 7,300 | 94,400 |
| P Gregory | 39,999 | - | - | 4,125 | 44,124 |
| B Hansen | 33,332 | - | - | 3,000 | 36,332 |
| T Noun** | 65,443 | - | - | 5,889 | 71,332 |
| J Sayer | 33,322 | - | - | 3,000 | 36,322 |
| J Scutt | 148,292 | 4,440 | 10,000 | 65,180*** | 227,912 |
| D Richards | 140,848 | 8,978 | 35,000 | 15,750 | 200,576 |
| R Himmelberg | 121,373 | 10,961 | 30,000 | 13,500 | 175,834 |
| R Carman | 32,110 | - | - | 2,889 | 34,999 |
| | 701,819 | 24,379 | 75,000 | 120,633 | 921,831 |
| **Executives** | | | | | |
| Greg Lewis | 43,506 | - | - | 3,915 | 47,421 |
| Bruce Lehmann | 115,604 | - | 14,486 | 9,000 | 139,090 |
| Jules Res | 50,241 | - | - | 3,923 | 54,164 |
| | 209,351 | - | 14,486 | 16,838 | 240,675 |

* Includes $32,110 fees and $2,900 superannuation paid by PNE Industries Pty Limited
** Includes $33,333 fees and $3,000 superannuation paid by PNE Industries Pty Limited
*** Includes $20,000 salary sacrifice bonus.

Key management personnel of Parent Entity

| 2005 | Primary Benefits<br>Salary/Fees | Non-cash Benefits | Post Employment Benefits<br>Bonus | Superannuation | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Directors** | | | | | |
| R Sealy | 85,000 | - | - | 4,500 | 89,500 |
| P Gregory | 105,920 | - | - | 6,331 | 112,251 |
| B Hansen | 40,000 | - | | 3,600 | 43,600 |
| J Sayer | 40,000 | - | - | 3,600 | 43,600 |
| J Scutt | 138,463 | 18,109 | - | 40,000 | 196,572 |
| | 409,383 | 18,109 | - | 58,301 | 485,523 |
| **Executives** | | | | | |
| J D Maguire | 73,194 | - | - | 6,137 | 79,331 |
| K Pitt | 81,115 | - | - | 6,222 | 87,337 |
| G Lewis | 29,816 | - | - | 2,683 | 32,499 |
| | 184,125 | - | - | 15,042 | 199,167 |

## Remuneration Report (cont.)

### B. Details of remuneration (audited) (cont.)

Key management personnel of Group

| | Primary Benefits | | Post Employment Benefits | | |
|---|---|---|---|---|---|
| 2005 | Salary/Fees | Non-cash Benefits | Bonus | Superannuation | Total |
| | $ | $ | $ | $ | $ |
| Directors | | | | | |
| D Richards | 140,350 | 11,889 | 35,000 | 15,750 | 202,989 |
| R Himmelberg | 121,403 | 12,235 | 30,000 | 13,500 | 177,138 |
| R Sealy | 25,688 | - | - | 2,312 | 28,000 |
| T Noun | 38,532 | - | - | 3,468 | 42,000 |
| R Carman | 38,532 | - | - | 3,468 | 42,000 |
| | 364,505 | 24,124 | 65,000 | 38,498 | 492,127 |
| Executives | | | | | |
| B Lehmann | 83,300 | - | - | 6,519 | 89,819 |
| M Jones | 69,673 | - | - | 5,350 | 75,023 |
| N Vincent | 86,500 | - | - | 7,785 | 94,285 |
| | 239,473 | - | - | 19,654 | 259,127 |

### C. Service agreements (audited)

No service agreements are in place for directors or executives.

### D. Additional information - unaudited

Principles used to determine the nature and amount of remuneration (audited): relationship between remuneration and company performance

Refer section A page 26.

Details of remuneration: cash bonuses and options

For each cash bonus the table below shows the percentage of the available bonus in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria. No part of the bonuses are payable in future years.

| | Cash Bonus | | | Options | |
|---|---|---|---|---|---|
| Name | Paid | Forfeited | Year Granted | Vested | Forfeited |
| | % | % | | % | % |
| R Sealy | NIL | - | - | - | - |
| P Gregory | NIL | - | - | - | - |
| B Hansen | NIL | - | - | - | - |
| T Noun | NIL | - | - | - | - |
| J Sayer | NIL | - | - | - | - |
| J Scutt | 60 | 40 | - | - | - |
| D Richards | 100 | - | - | - | - |
| R Himmelberg | 100 | - | - | - | - |

## Loans to directors and executives

There are no loans to directors and executives at balance date. Mr Peter Gregory, a director during the year, repaid a loan of $9,921 owing as at the end of June 2005.

# Directors' Report

For the year ended 30 June 2006

The following paragraphs do not form part of the Remuneration Report.

## Insurance of officers

During the financial year, Gregory Australia Limited paid a premium of $21,308 to insure the Directors and secretaries of the Company and its controlled entities, and the general managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Share options

No options over issued shares of interests in the Company or a controlled entity were granted during or since the end of the financial year, and there were no options outstanding at the date of the report.

### Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (BDO) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

# Directors' Report

For the year ended 30 June 2006

## Remuneration of Auditors

| | Notes | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| (a) Assurance services | | | | | |
| Audit services | | | | | |
| PricewaterhouseCoopers: | | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | | 48,500 | 20,000 | - | - |
| BDO: | | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | | 11,829* | - | 122,954 | 68,225 |
| Total remuneration for audit services | | 60,329 | 20,000 | 122,954 | 68,225 |
| Other assurance services | | | | | |
| BDO: | | | | | |
| Due diligence services | | -* | - | 50,170 | - |
| IFRS advice | | 700* | - | 700 | - |
| Total remuneration for other assurance services | | 700 | - | 50,870 | - |
| Total remuneration for assurance services | | 61,029 | 20,000 | 173,824 | 68,225 |

* These costs relate to the period 29 April 2006 to 30 June 2006 only. Due to the accounting for the business combination the full year costs are reflected in the Parent Entity disclosure.

| | | | | | |
|---|---|---|---|---|---|
| (b) Taxation services | | | | | |
| BDO: | | | | | |
| Accounting and tax advice on royalties | | - | - | - | 3,029 |
| Total remuneration for taxation services | | - | - | - | 3,029 |

## Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 32.

## Auditor

BDO continues in office in accordance with section 327 of the Corporations Act 2001. This report is made in accordance with a resolution of Directors.

Richard Sealy
Chairman

Tony Noun
Director

Sydney, 28th September 2006

BDO
Chartered Accountants
& Advisers

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**www.bdo.com.au**

DECLARATION OF INDEPENDENCE BY MELISSA ALEXANDER
TO THE DIRECTORS OF GREGORY AUSTRALIA LIMITED

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Melissa Alexander

Melissa Alexander
Partner

BDO
Chartered Accountants

Dated Sydney this 28th day of September 2006

# Income Statements

For the year ended 30 June 2006

| | Notes | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Revenue from continuing operations | 5 | 17,400,188 | 9,372,145 | 14,095,898 | 15,388,500 |
| Cost of sales | | (11,419,770) | (6,306,351) | (7,670,119) | (8,739,225) |
| Gross Profit | | 5,980,418 | 3,065,794 | 6,425,779 | 6,649,275 |
| Other income | 6 | 68,802 | - | 908,748 | - |
| Distribution expenses | | (161,411) | (246,535) | (640,865) | (654,672) |
| Marketing expenses | | (338,278) | (51,620) | (485,875) | (2,117,507) |
| Occupancy expenses | | (155,726) | (183,050) | (590,177) | (567,406) |
| Administration expenses | | (3,220,085) | (1,989,963) | (5,149,019) | (5,445,252) |
| Finance costs | 8 | - | - | (60,966) | (117,515) |
| Profit/(loss) before income tax | | 2,173,720 | 594,626 | 407,625 | (2,253,077) |
| Income tax (expense)/ benefit | 9 | (613,393) | (34,636) | 135,819 | 668,016 |
| Profit/(loss) attributable to members of Gregory Australia Limited | | 1,560,327 | 559,990 | 543,444 | (1,585,061) |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | | | |
| Basic and diluted earnings per share | 34 | 3.5 cents | 1.4 cents | | |

The above Income Statements should be read in conjunction with the accompanying notes.

# Balance Sheets

As at 30 June 2006

| | Notes | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 10 | 5,040,718 | 3,605,417 | 2,139,084 | 29,911 |
| Trade and other receivables | 11 | 5,296,805 | 1,444,958 | 6,155,580 | 3,185,869 |
| Inventories | 12 | 3,427,570 | 1,161,362 | - | 1,372,525 |
| Current tax assets | 15 | - | 194,559 | - | 46,999 |
| Total current assets | | 13,765,093 | 6,406,296 | 8,294,664 | 4,635,304 |
| **Non-current assets** | | | | | |
| Other financial assets | 13 | - | 122,500 | 14,686,568 | - |
| Property, plant and equipment | 14 | 2,124,640 | 856,806 | - | 751,173 |
| Deferred tax assets | 15 | 1,312,506 | 172,895 | 510,389 | 830,281 |
| Intangible assets | 16 | 4,469,397 | - | - | 2,151,277 |
| Total non-current assets | | 7,906,543 | 1,152,201 | 15,196,957 | 3,732,731 |
| Total assets | | 21,671,636 | 7,558,497 | 23,491,621 | 8,368,035 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 17 | 5,257,625 | 1,433,748 | 2,759,929 | 2,419,944 |
| Interest-bearing liabilities | 18 | 10,510 | - | - | 243,152 |
| Current tax liabilities | 21 | 98,204 | - | 64,928 | 15,792 |
| Provisions | 19 | 778,362 | 84,000 | - | 201,608 |
| Total current liabilities | | 6,144,701 | 1,517,748 | 2,824,857 | 2,880,496 |
| **Non-current liabilities** | | | | | |
| Interest-bearing liabilities | 20 | 33,352 | - | - | 787,659 |
| Deferred tax liabilities | 21 | 987,198 | 77,400 | - | 44,667 |
| Provisions | 19 | 298,687 | 183,392 | - | 64,835 |
| Total non-current liabilities | | 1,319,237 | 260,792 | - | 897,161 |
| Total liabilities | | 7,463,938 | 1,778,540 | 2,824,857 | 3,777,657 |
| Net assets | | 14,207,698 | 5,779,957 | 20,666,764 | 4,590,378 |
| **EQUITY** | | | | | |
| **Contributed equity** | 22 | 11,545,683 | 3,768,000 | 20,482,112 | 4,949,170 |
| Reserves | 23 | 403,918 | 208,549 | - | - |
| Retained profits/(accumulated losses) | 23 | 2,258,097 | 1,803,408 | 184,652 | (358,792) |
| Total equity | | 14,207,698 | 5,779,957 | 20,666,764 | 4,590,378 |

The above Balance Sheets should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

For the year ended 30 June 2006

| | Notes | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| Total equity at the beginning of the financial year | | 5,779,957 | 3,204,967 | 4,590,378 | 5,672,347 |
| Gain on revaluation of land and buildings, net of tax | 23 | 223,318 | - | - | - |
| Net income recognised directly in equity | | 223,318 | - | - | - |
| Profit/(loss) for the year | | 1,560,327 | 559,990 | 543,444 | (1,585,061) |
| Total recognised income and expense for the year | | 1,783,645 | 559,990 | 543,444 | (1,585,061) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Contributions of equity, net of transaction costs | 22 | 7,777,683 | 2,975,000 | 15,532,942 | 628,351 |
| Dividends provided for or paid | 23 | (1,133,587) | (960,000) | - | (125,259) |
| Transfer out of capital profits reserve | 23 | (27,949) | - | - | - |
| Transfer into retained earnings | 23 | 27,949 | - | - | - |
| Total transactions with equity holding | | 6,644,096 | 2,015,000 | 15,532,942 | 503,092 |
| Total equity at the end of the financial year | | 14,207,698 | 5,779,957 | 20,666,764 | 4,590,378 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Cash Flow Statements

For the year ended 30 June 2006

| | Notes | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | 20,474,243 | 10,381,886 | 15,647,346 | 16,569,458 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (18,067,854) | (9,793,196) | (15,107,817) | (16,881,982) |
| Dividends received | | 115 | - | - | - |
| Interest received | | 156,764 | 71,970 | 51,795 | 12,676 |
| Other income | | 66,776 | 46,157 | 90,474 | - |
| Interest paid | | - | - | (60,966) | (117,515) |
| Income taxes paid | | (732,356) | (423,521) | (1,835) | (194,690) |
| Net cash inflow/(outflow) from operating activities | 33 | 1,897,688 | 283,296 | 618,997 | (612,053) |
| **Cash flows from investing activities** | | | | | |
| Net cash acquired on purchase of business | 30 | 866,203 | - | - | - |
| Payments for property, plant and equipment | | (272,067) | (73,115) | (206,622) | (237,697) |
| Payments for other financial assets | | - | - | (341,564) | - |
| Proceeds from/(payments for) other financial assets | | 122,500 | (180,000) | - | - |
| Proceeds from sale of fixed assets | | 7,142 | - | 19,228 | 51,363 |
| Net cash inflow/(outflow) from investing activities | | 723,778 | (253,115) | (528,958) | (186,334) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issues of shares (net of transaction costs) | | - | 2,975,000 | 2,987,015 | 592,351 |
| Proceeds from exercise of share options | | 36,000 | - | 36,000 | 36,000 |
| Repayment of borrowings | | (5,188) | - | (1,003,881) | (302,787) |
| Dividends paid to shareholders | | (1,216,977) | (876,000) | - | (125,259) |
| Net cash (outflow)/inflow from financing activities | | (1,186,165) | 2,099,000 | 2,019,134 | 200,305 |
| Net increase/(decrease) in cash and cash equivalents | | 1,435,301 | 2,129,181 | 2,109,173 | (598,082) |
| Cash and cash equivalents at the beginning of the financial year | | 3,605,417 | 1,476,236 | 29,911 | 627,993 |
| Cash and cash equivalents at the end of the year | 10 | 5,040,718 | 3,605,417 | 2,139,084 | 29,911 |

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Contents of the notes to the financial statements

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Gregory Australia Limited as an individual entity and the consolidated entity consisting of Gregory Australia Limited and its subsidiaries.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### Compliance with IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Gregory Australia Limited comply with International Financial Reporting Standards (IFRSs).

#### Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Gregory Australia Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Gregory Australia Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Gregory Australia Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 35.

The Group has elected not to early adopt any accounting standards not mandatory for the year ended 30 June 2006. In addition the Group has reviewed proposed accounting standards and the impact of adoption is also not likely to be material.

### (b) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

Significant assumptions used in preparation of the financial reports are:

(i) Valuation of Identifiable Intangibles – “Customer Relationships” - *this has been valued on a discounted cashflow basis, taking into account future revenues and likely “churn” rates in customer turnover. The discount rate has been based on a weighted average cost of capital for the Company.*

(ii) Valuation of Intellectual Property – this has been based on a discounted cashflow of future notional royalties. The royalty has been assessed by reference to other comparable transactions and the discount rate takes into account risks and benefits associated with the intellectual property.

(iii) Trademarks and Brand names – these have also been valued on a notional royalty basis and have been discounted using a weighted average cost of capital.

### (c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Gregory Australia Limited (''Company'' or ''Parent Entity'') as at 30 June 2006 and the results of all subsidiaries for the year then ended. Gregory Australia Limited and its subsidiaries together are referred to in this financial report as the Group or the Consolidated Entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(d)).

## Note 1: Summary of significant accounting policies (cont.)

### (c) Principles of consolidation (cont.)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (d) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. On 28 April 2006, Gregory Australia Limited acquired 100% of PNE Industries Pty Limited and payment was made by way of exchange of shares in Gregory Australia Limited, in exchange for all PNE Industries Pty Limited shares. The initial accounting for this business combination has been determined provisionally as permitted by AASB 3 Business Combinations.

The acquirer in a business combination is identified as the entity that obtains control of the combining entities. Control is the power to govern the financial and operating policies of the combined entity. In a business combination achieved via exchange of equity interests, when the legal subsidiary is identified as the acquirer rather than the legal parent, the business combination is accounted for as if the legal subsidiary has obtained control of the legal parent (a reverse acquisition). The legal subsidiary recognises its cost of investment and the fair values of the legal parent's identifiable net assets at the date of the combination, at their fair values.

Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. In the Director's opinion, as at the date of completing the acquisition of PNE Industries Pty Limited, shares listed on the Australian Stock Exchange for Gregory Australia Limited were considered to be illiquid. Accordingly, for the purposes of assessing the value of the cost of business combination, a "fair market value" assessment of the shares in PNE Industries Pty Limited as at the date of acquisition has been undertaken. Transaction costs arising on the issue of equity instruments arising from the acquisition of PNE Industries Pty Limited have been included as part of the cost of the business combination.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(o)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

#### Issued capital

Issued capital is shown on the basis that the acquisition of PNE Industries Pty Limited at 28 April 2006 by Gregory Australia Limited is being accounted for as a reverse acquisition. Issued share capital comprises the share capital of PNE Industries Pty Limited prior to the reverse acquisition, the share capital deemed to be issued as a result of the acquisition, and the share capital issued by Gregory Australia Limited to outside shareholders after the date of the acquisition, net of costs relating to capital raising activities.

### (e) Revenue recognition

A sale is recorded when the goods have been delivered to the customer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Interest income is recognised on a time proportion basis using the effective interest method.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

## Note 1: Summary of significant accounting policies (cont.)

### (f) Income tax (cont.)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### Tax consolidation legislation

Gregory Australia Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 28 April 2006.

The head entity, Gregory Australia Limited, and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a separate taxpayer in its own right.

In addition to its own current and deferred tax amounts, Gregory Australia Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Note 9.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

### (g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill, that suffered an impairment, are reviewed for possible reversal of the impairment at each reporting date.

### (i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 1: Summary of significant accounting policies (cont.)

### (j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

### (k) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (l) Investments and other financial assets

From 1 July 2004 to 30 June 2005

The Group had taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group had applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Taking the exemption did not have a material impact upon the financial statements.

Adjustments on transition date: 1 July 2005

No material adjustments were required on transition to AASB 132 and AASB 139.

### (m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

### (n) Property, plant and equipment

Land and Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | | | |
|---|---|---|---|
| • Leasehold improvements | 2.5% | • Vehicles | 22.5% |
| • Plant and equipment | 9%-50% | • Leased plant and equipment | 20%-33% |
| • Furniture, fittings and equipment | 11.25%-40% | | |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(h)).

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 1: Summary of significant accounting policies (cont.)

### (n) Property, plant and equipment (cont.)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

### (o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Intellectual property, customer lists and brands

Intellectual property, customer lists and brands have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over their estimated useful lives, which vary from 2 to 6 years.

### (p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

### (q) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of balance sheet date are recognised in respect of employees' services rendered up to balance sheet date and measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries are included as part of Other Payables and liabilities for annual leave are included as part of Employee Benefit Provisions.

(ii) Profit sharing and bonus plans

The Group recognises an expense and a liability for bonuses and profit-sharing based when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation.

(iii) Long service leave

Liabilities for long service leave are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the balance sheet date. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at balance sheet date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### (r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (s) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

### (t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to members of Gregory Australia Limited by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 1: Summary of significant accounting policies (cont.)

### (u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### (v) Foreign currency transactions

Transactions and balances

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### (w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) UIG 4 Determining whether an Asset Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

(iii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 20059 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, Gregory Australia Limited, does not currently subject to a deed of cross-guarantee in respect of amounts payable by wholly-owned subsidiaries, or any third parties. The amendments will therefore have no impact on the Group's financial statements.

(iv) AASB 7 Financial Instruments: Disclosures and AASB 200510 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 200510 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(v) UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

UIG 6 is applicable to annual reporting periods beginning on or after 1 December 2006. The Group has not sold any electronic or electrical equipment on the European market and has not incurred any associated liabilities. This interpretation will not affect the Group's financial statements.

(vi) AASB 2005-6 Amendments to Australian Accounting Standards [AASB 121]

AASB 20056 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Gregory Australia Limited does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the Group's financial statements.

## Note 2: Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by senior executives under policies approved by the Board of Directors.

### (a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's electronic products division both purchases and sells internationally in $US. International sales and purchases are operated through $US bank accounts. This provides a natural hedge against foreign exchange risk. The Group's commercial furniture business has not (until balance date) operated internationally and thus has had minimal exposure to foreign exchange risk. On balance date however, the Group's commercial furniture division made a significant purchase from an international supplier which was unhedged. Given the expected increase in international dealings in the commercial furniture business, the Group has, since balance date set up a foreign exchange risk management arrangement with a financial institution to assist in the management of this risk going forward.

(ii) Fair value interest rate risk

Refer to (d) below.

### (b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group holds Credit Risk insurance to limit the exposure to any customer and provide protection against bad debts.

### (c) Liquidity risk

The Group maintains sufficient cash, and the availability of funding through an adequate amount of committed credit facilities.

### (d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are not materially exposed to changes in market interest rates as the carrying amounts of cash and non interest-bearing monetary assets and liabilities (eg, receivables and payables) approximate their net fair value.

## Note 3: Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1 (o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 16 (b) and (c) for details of these assumptions and the potential impact of changes to the assumptions.

### (b) Critical judgements in applying the entity's accounting policies

Refer to Note 1 (b) for details of identifiable intangible asset valuations.

## Note 4: Segment information

### (a) Description of segments

The Group's primary reporting format is business segments and its secondary reporting format is geographical segments.

Business segments

The consolidated entity is organised into the following divisions by product and service type:

- Marketing and manufacture of office furniture
- Design and manufacture of electronic components

The Group operates in one geographical area being Australia.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 4: Segment information (cont.)

### (a) Description of segments (cont.)

| | Office Furniture | Electronic Products | Intersegment Eliminations/ Unallocated | Consolidated |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **2006** | | | | |
| Sales to external customers | 3,167,160 | 14,009,373 | - | 17,176,533 |
| Intersegment sales | - | - | - | - |
| Total sales revenue | 3,167,160 | 14,009,373 | - | 17,176,533 |
| Other revenue | 68,711 | 154,944 | - | 223,655 |
| Total segment revenue | 3,235,871 | 14,164,317 | - | 17,400,188 |
| **Result** | | | | |
| Segment result | 85,497 | 2,490,413 | - | 2,575,910 |
| Unallocated expense | - | - | (402,190) | (402,190) |
| Profit before income tax | 85,497 | 2,490,413 | (402,190) | 2,173,720 |
| Income tax (expense)/benefit | - | - | (613,393) | (613,393) |
| Net profit for the year | 85,497 | 2,490,413 | (1,015,583) | 1,560,327 |
| Segment assets | 12,505,175 | 9,166,462 | - | 21,671,636 |
| Unallocated assets | - | - | - | - |
| | 12,505,175 | 9,166,462 | - | 21,671,636 |
| Segment liabilities | 4,974,534 | 2,489,404 | - | 7,463,938 |
| Depreciation and amortisation | 101,982 | 64,564 | - | 166,546 |
| Acquisition of property, plant and equipment, intangibles and other non-current segment assets | 3,971,749 | 1,527,761 | - | 5,499,510 |
| **2005** | | | | |
| Sales to external customers | - | 9,215,312 | - | 9,215,312 |
| Intersegment sales | - | - | - | - |
| Total sales revenue | - | 9,215,312 | - | 9,215,312 |
| Other revenue | - | 156,833 | - | 156,833 |
| Total segment revenue | - | 9,372,145 | - | 9,372,145 |
| **Result** | | | | |
| Segment result | - | 594,626 | - | 594,626 |
| Unallocated expense | - | - | - | - |
| Profit before income tax | - | 594,626 | - | 594,626 |
| Income tax (expense)/benefit | - | (34,636) | - | (34,636) |
| Net profit for the year | - | 559,990 | - | 559,990 |
| Segment assets | - | 7,558,497 | - | 7,558,497 |
| Unallocated assets | - | - | - | - |
| | - | 7,558,497 | - | 7,558,497 |
| Segment liabilities | - | 1,778,540 | - | 1,778,540 |
| Depreciation and amortisation | - | 50,046 | - | 50,046 |
| Acquisition of property, plant and equipment, intangibles and other non-current segment assets | - | 73,115 | - | 73,115 |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 4: Segment information (cont.)

### (a) Description of segments (cont.)

In 2005 the Group operated predominately in one business and geographical segment being the manufacture and sale of electronic controls throughout Australia.

### (b) Notes to and forming part of the segment information

Segment information is prepared in conformity with the accounting policies of the Group as disclosed in note 1 and accounting standard AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors and employee benefits provisions.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 5: Revenue** | | | | |
| From continuing operations | | | | |
| Sales revenue | | | | |
| Sale of goods | 17,176,533 | 9,215,312 | 13,953,629 | 15,368,721 |
| Rendering of services | - | 46,157 | - | - |
| Other revenue | 66,776 | - | 90,474 | 7,103 |
| Interest | 156,764 | 110,676 | 51,795 | 12,676 |
| Dividends | 115 | - | - | - |
| Revenue from continuing operations | 17,400,188 | 9,372,145 | 14,095,898 | 15,388,500 |
| **Note 6: Other income** | | | | |
| Net gain on disposal of property, plant and equipment | - | - | 5,024 | - |
| Net gain on sale of business | 57,500 | - | 903,724 | - |
| Foreign exchange gain | 11,302 | - | - | - |
| Other income | 68,802 | - | 908,748 | - |

## Note 7: Correction of error, revision of estimates and variation from preliminary report

There are no material errors, estimate revisions and or variations from the Appendix 4E (Rule 4.3A). Preliminary Report lodged with the Australian Stock Exchange and this Financial Report.

However, the following reclassifications were performed:

(a) A reallocation of interest income to revenue from continuing operations. The adjustment to the financial statements was an increase in revenue from continuing operations of $223,655 and a reduction in other income of $223,655.

(b) A reallocation of stock obsolescence provision from provisions to inventory. The adjustment to the financial statements was a decrease in inventory of $30,000 and an increase in non current provisions of $30,000.

# Notes to the Financial Statements

For the year ended 30 June 2006

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 8: Expenses** | | | | |
| Profit/(loss) before income tax includes the following specific expenses: | | | | |
| **Depreciation** | | | | |
| Leasehold improvements | 2,867 | 1,105 | - | - |
| Plant and equipment | 49,374 | 32,054 | 171,402 | 174,164 |
| Furniture and fittings | 12,961 | 6,424 | - | - |
| Motor vehicles | 8,106 | 10,463 | - | - |
| Leased plant and equipment | 2,238 | - | 40,474 | 68,914 |
| Total depreciation | 75,546 | 50,046 | 211,876 | 243,078 |
| **Amortisation** | | | | |
| Patents and trademarks | 65,000 | - | 13,392 | 13,392 |
| Brands | 26,000 | - | - | - |
| Total amortisation | 91,000 | - | 13,392 | 13,392 |
| **Research and development** | 1,052,597 | 1,271,837 | 74,975 | 37,230 |
| **Rental expense on operating leases** | | | | |
| Minimum lease payments | 218,917 | 183,050 | 585,093 | 500,145 |
| **Net (profit)/loss on disposal of non-current assets** | | | | |
| Plant and equipment | (1,153) | 128 | (5,024) | 95,118 |
| **Defined contribution superannuation expense** | 294,423 | 216,685 | 314,290 | 264,365 |
| **Finance costs** | | | | |
| Interest and finance charges paid/payable | - | - | 60,966 | 117,515 |
| **Significant expenses** | | | | |
| Bayswater and senior management redundancies and reorganisation | - | - | - | 428,683 |
| Information systems upgrade | - | - | - | 332,610 |
| Write off obsolete inventory and brochures | - | - | - | 560,000 |
| Write off prepaid royalties | - | - | - | 1,168,750 |

# Notes to the Financial Statements

For the year ended 30 June 2006

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 9: Income tax expense/(benefit)** | | | | |
| **(a) Income tax expense/(benefit)** | | | | |
| Current tax | 829,359 | 53,684 | (163,902) | 26,596 |
| Deferred tax | (212,033) | (19,048) | 28,053 | (694,612) |
| (Over)/under provided in prior years | (3,933) | - | 30 | - |
| | 613,393 | 34,636 | (135,819) | (668,016) |
| Income tax expense is attributable to: | | | | |
| Profit from continuing operations | 613,393 | 34,636 | (135,819) | (668,016) |
| Aggregate income tax expense | 613,393 | 34,636 | (135,819) | (668,016) |
| Deferred income tax (benefit)/expense included in income tax expense comprises: | | | | |
| (Increase)/decrease in deferred tax assets (Note 15) | (216,937) | (19,048) | 27,585 | (670,323) |
| (Increase)/decrease in deferred tax liabilities (Note 21) | 4,904 | - | 468 | (24,289) |
| | (212,033) | (19,048) | 28,053 | (694,612) |
| **(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable** | | | | |
| Profit/(loss) from continuing operations before income tax expense | 2,173,720 | 594,626 | 407,625 | (2,253,077) |
| Tax at the Australian tax rate of 30% (2005: 30%) | 652,116 | 178,388 | 122,288 | (675,923) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| Research and development | (78,945) | (194,562) | (12,900) | - |
| Amortisation of non-deductibles | - | - | - | 4,018 |
| Entertainment | 2,240 | - | 4,052 | - |
| Non-taxable sale of assets | - | - | (270,994) | - |
| Provision for diminution of interests | - | 17,250 | | - |
| Sundry items | 41,975 | 33,560 | 40,850 | 3,889 |
| Under/(over) provision in prior years | (3,993) | - | 30 | - |
| Prior year tax losses now recognised | - | - | (19,145) | - |
| Income tax expense/(benefit) | 613,393 | 34,636 | (135,819) | (668,016) |
| **(c) Amounts recognised directly in equity** | | | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | | | |
| Current tax-credited directly to equity | 104,484 | - | 9,927 | - |
| | 104,484 | - | 9,927 | - |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 9: Income tax expense/(benefit) (cont.)

### (d) Tax consolidation legislation

Gregory Australia Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 29 April 2006. The accounting policy in relation to this legislation is set out in Note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated Group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Gregory Australia Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Gregory Australia Limited for any current tax payable assumed and are compensated by Gregory Australia Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Gregory Australia Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the Parent Entity, which is issued as soon as practicable after the end of each financial year. The Parent Entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter-company receivables or payables.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 10: Current assets - Cash and cash equivalents** | | | | |
| Cash at bank and in hand | 5,040,718 | 3,605,417 | 2,139,084 | 29,911 |
| **Note 11: Current assets - Trade and other receivables** | | | | |
| Trade receivables | 4,824,583 | 1,409,035 | - | 3,022,659 |
| Provision for doubtful receivables | (16,917) | (11,661) | - | (79,000) |
| | 4,807,666 | 1,397,374 | - | 2,943,659 |
| Other receivables | 348,226 | - | 334,987 | - |
| Accrued Interest | | 43,220 | - | - |
| Loans to director related entities | - | - | - | 9,921 |
| Inter-company loans | - | - | 5,820,593 | - |
| Prepayments | 140,913 | 4,364 | - | 232,289 |
| Trade and other receivables | 5,296,805 | 1,444,958 | 6,155,580 | 3,185,869 |

### (a) Bad and doubtful trade receivables

The Group has recognised a loss of $6,781 (2005: nil) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in 'administration expenses' in the Income Statement.

### (b) Other receivables

These amounts primarily comprise GST recoverable and certain balances generally arising from transactions outside the usual operating activities of the Group. Interest and/or security is not normally obtained.

### (c) Effective interest rates and credit risk

Information concerning the credit risk of current receivables is set out in Note 2 (b). The Group has cash on deposit which earns interest at the rate of 5.5%. Inter-company receivables are interest free and repayable in cash at call. Other receivables are non interest-bearing.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |

## Note 12: Current assets - Inventories

| | | | | |
|---|---|---|---|---|
| At cost: | | | | |
| Work in progress | 468,736 | 473,210 | - | 182,310 |
| Finished goods | 257,144 | 578,920 | - | - |
| Stock in transit | 354,368 | 109,232 | - | - |
| | 1,080,248 | 1,161,362 | - | 182,310 |
| At net realisable value: | | | | |
| Raw materials and stores | 2,347,322 | - | - | 916,817 |
| Finished goods | - | - | - | 273,398 |
| | 2,347,322 | - | - | 1,190,215 |
| Total Inventories | 3,427,570 | 1,161,362 | - | 1,372,525 |

### (a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2006 amounted to $65,000 (2005: nil). The expense has been taken to cost of sales.

## Note 13: Non-current assets - Other financial assets

| | | | | |
|---|---|---|---|---|
| Shares in subsidiaries (Note 31) – at cost | - | - | 14,686,568 | - |
| Other listed securities – at net realisable value | - | 122,500 | - | - |
| | - | 122,500 | 14,686,568 | - |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 14: Non-current assets - Property, plant and equipment

| Consolidated | Land & Buildings | Leasehold Improvements | Plant & Equipment | Furniture & Fittings | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| At 1 July 2004 | | | | | | |
| Cost or fair value | 555,974 | 39,806 | 316,212 | 69,378 | 250,871 | 1,232,241 |
| Accumulated depreciation | - | (6,257) | (224,914) | (48,290) | (118,915) | (398,376) |
| Net book amount | 555,974 | 33,549 | 91,298 | 21,088 | 131,956 | 833,865 |
| Year ended 30 June 2005 | | | | | | |
| Opening net book amount | 555,974 | 33,549 | 91,298 | 21,088 | 131,956 | 833,865 |
| Additions | - | 12,833 | 44,237 | 16,045 | - | 73,115 |
| Disposals | - | - | (39) | (89) | - | (128) |
| Depreciation charge | - | (1,105) | (32,054) | (6,424) | (10,463) | (50,046) |
| Closing net book amount | 555,974 | 45,277 | 103,442 | 30,620 | 121,493 | 856,806 |
| At 30 June 2005 | | | | | | |
| Cost or fair value | 555,974 | 52,639 | 360,410 | 85,334 | 250,871 | 1,287,363 |
| Accumulated depreciation | - | (7,362) | (256,968) | (54,714) | (129,378) | (430,557) |
| Net book amount | 555,974 | 45,277 | 103,442 | 30,620 | 121,493 | 856,806 |

## Note 14: Non-current assets - Property, plant and equipment (cont.)

| Consolidated | Land & Buildings | Leasehold Improvements | Plant & Equipment | Furniture & Fittings | Motor Vehicles | Leased Plant & Equipment | Total |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| **Year ended 30 June 2006** | | | | | | | |
| Opening net book amount | 555,974 | 45,277 | 103,442 | 30,620 | 121,493 | - | 856,806 |
| Revaluation surplus (a) | 319,026 | - | - | - | - | - | 319,026 |
| Acquisition through business combinations | - | - | 716,385 | - | - | 26,306 | 742,691 |
| Additions | - | 155,564 | 91,594 | 23,332 | - | 16,932 | 287,422 |
| Disposals | - | - | (3,137) | - | - | (4,005) | (7,142) |
| Other | - | - | 1,383 | - | - | - | 1,383 |
| Depreciation charge | - | (2,867) | (49,374) | (12,961) | (8,106) | (2,238) | (75,546) |
| Closing net book amount | 875,000 | 197,974 | 860,293 | 40,991 | 113,387 | 36,995 | 2,124,640 |
| **At 30 June 2006** | | | | | | | |
| Cost or fair value | 875,000 | 208,203 | 1,166,635 | 108,666 | 250,871 | 39,233 | 2,630,743 |
| Accumulated depreciation | - | (10,229) | (306,342) | (67,675) | (137,484) | (2,238) | (506,103) |
| Net book amount | 875,000 | 197,974 | 860,293 | 40,991 | 113,387 | 36,995 | 2,124,640 |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 14: Non-current assets - Property, plant and equipment (cont.)

| Parent Entity | Plant & Equipment | Leased Plant & Equipment | Total |
|---|---|---|---|
| | $ | $ | $ |
| **At 1 July 2004** | | | |
| Cost or fair value | 1,422,625 | 309,088 | 1,731,713 |
| Accumulated depreciation | (746,017) | (82,660) | (828,677) |
| Net book amount | 676,608 | 226,428 | 903,036 |
| **Year ended 30 June 2005** | | | |
| Opening net book amount | 676,608 | 226,428 | 903,036 |
| Additions | 237,697 | - | 237,697 |
| Disposals | (109,657) | (36,825) | (146,482) |
| Depreciation charge | (174,164) | (68,914) | (243,078) |
| Closing net book amount | 630,484 | 120,689 | 751,173 |
| **At 30 June 2005** | | | |
| Cost or fair value | 1,550,665 | 272,263 | 1,822,928 |
| Accumulated depreciation | (920,181) | (151,574) | (1,071,755) |
| Net book amount | 630,484 | 120,689 | 751,173 |
| **Year ended 30 June 2006** | | | |
| Opening net book amount | 630,484 | 120,689 | 751,173 |
| Additions | 245,756 | 16,932 | 262,688 |
| Disposals | (704,838) | (97,147) | (801,985) |
| Depreciation charge | (171,402) | (40,474) | (211,876) |
| Closing net book amount | - | - | - |
| **At 30 June 2006** | | | |
| Cost or fair value | - | - | - |
| Accumulated depreciation | - | - | - |
| Net book amount | - | - | - |

### (a) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arms length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2006 revaluation was based on an independent valuation of the property performed by Macquarie Bell Pty Limited registered property valuers dated 25 January 2006. The value of the property as at 30 June 2005 was determined by the Directors based on a similar independent assessment performed by the same property valuer.

The revaluation surplus net of applicable deferred income taxes was credited to other reserves in shareholders' equity (Note 23).

# Notes to the Financial Statements

For the year ended 30 June 2006

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 15: Tax assets** | | | | |
| **Current tax assets** | | | | |
| Tax Receivable | - | 194,559 | - | 46,999 |
| **Deferred tax assets** | | | | |
| The balance comprises temporary differences attributable to: | | | | |
| **Amounts recognised in profit or loss** | | | | |
| Doubtful debts | 5,075 | 3,498 | - | 23,700 |
| Employee benefits | 310,698 | 169,443 | - | 76,666 |
| Intellectual property | 228,481 | - | - | 391,370 |
| Retirement benefit obligations | 9,279 | - | - | 3,270 |
| Provision for stock | 46,500 | - | - | 75,000 |
| Accruals | 194,000 | - | 93,178 | 20,812 |
| Provisions for bonus | 11,400 | - | - | 16,800 |
| Depreciation | 89,862 | - | - | - |
| Unrealised exchange loss | - | (46) | - | - |
| Tax losses* | 407,284 | - | 407,284 | 222,663 |
| | 1,302,579 | 172,895 | 500,462 | 830,281 |
| **Amounts recognised directly in equity** | | | | |
| Capital raising costs | 9,927 | - | 9,927 | - |
| | 9,927 | - | 9,927 | - |
| Net deferred tax assets | 1,312,506 | 172,895 | 510,389 | 830,281 |
| Movements: | | | | |
| Opening balance at 1 July | 172,895 | 153,847 | 830,281 | 159,958 |
| Transfer to subsidiary on business combination | - | - | (302,234) | - |
| Credited/(charged) to the income statement (Note 9) | 216,937 | 19,048 | (27,585) | 670,323 |
| Credited/(charged) to equity | (551) | - | 9,927 | - |
| Acquisition of subsidiary | 923,225 | - | - | - |
| Closing balance at 30 June | 1,312,506 | 172,895 | 510,389 | 830,281 |
| Deferred tax assets to be recovered after more than 12 months | 735,491 | - | 417,211 | 222,663 |
| Deferred tax assets to be recovered within 12 months | 577,015 | 172,895 | 93,178 | 607,618 |
| | 1,312,506 | 172,895 | 510,389 | 830,281 |

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 16: Non-current assets - Intangible assets

| | Goodwill | Patents & Trademarks | Brands | Customer Relationships | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Consolidated | | | | | |
| Year ended 30 June 2006 | | | | | |
| Opening net book amount | - | - | - | - | - |
| Additions | - | - | - | - | - |
| Acquisition through business combinations | 1,908,290 | 1,288,984 | 923,000 | 440,123 | 4,560,397 |
| Amortisation charge* | - | (65,000) | (26,000) | - | (91,000) |
| Closing net book amount | 1,908,290 | 1,223,984 | 897,000 | 440,123 | 4,469,397 |
| At 30 June 2006 | | | | | |
| Cost | 1,908,290 | 1,288,984 | 923,000 | 440,123 | 4,560,397 |
| Accumulated amortisation and impairment | - | (65,000) | (26,000) | - | (91,000) |
| Net book amount | 1,908,290 | 1,223,984 | 897,000 | 440,123 | 4,469,397 |
| Parent 2006 | | | | | |
| Year ended 30 June 2006 | | | | | |
| Net book amount | 2,124,488 | 26,789 | - | - | 2,151,277 |
| Additions | | (13,392) | | | (13,392) |
| Transferred to related entity | (2,124,488) | (13,397) | | | (2,137,885) |
| Net book amount | - | - | - | - | - |
| Parent 2005 | | | | | |
| Year ended 30 June 2005 | | | | | |
| Net book amount | 2,124,488 | 40,181 | - | - | 2,164,669 |
| Amortisation charge | - | (13,392) | - | - | (13,392) |
| Closing net book amount | (2,124,488) | 26,789 | - | - | (2,151,227) |
| At 30 June 2005 | | | | | |
| Cost | 2,124,488 | 100,000 | - | - | 24,488 |
| Accumulated amortisation and impairment | - | (73,211) | - | - | (73,211) |
| Net book amount | 2,124,488 | 26,789 | - | - | 2,151,277 |

* Amortisation of $91,000 (2005: nil) is included in administration expense in the Income Statement.

### (a) Significant intangible assets

The carrying amount of ‘Patents and Trademarks’ of $1,223,984 (2005: nil) will be fully amortised in 6 years (2005: N/A).

The carrying amount of ‘Brands’ of $897,000 (2005: nil) will be fully amortised in 6 years (2005: N/A).

The carrying amount of ‘Customer Relationships’ of $440,123 (2005: nil) will be fully amortised in 6 years (2005: N/A).

## Note 16: Non-current assets - Intangible assets (cont.)

### (b) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGU) identified according to business segment. For impairment testing purposes goodwill has been allocated to two cash generating units being the entire business of Gregory Commercial Furniture Pty Limited and Opentec Solutions Pty Limited, both being business segments operating in Australia. This is because substantially the entire product list of each entity is available for sale to, and is being sold to, substantially the entire customer base of the entity.

A segment level summary of goodwill allocation is presented below:

| | Consolidated Entity | |
|---|---|---|
| | 2006 | 2005 |
| | $ | $ |
| Electronics products | 286,232 | - |
| Office furniture | 1,622,058 | - |
| | 1,908,290 | - |

The recoverable amount of the cash-generating units are determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by the Board covering a 5-year period and a terminal value based on an extrapolation of cash flows beyond the 5-year period using the estimated growth rate of 2.5% pa. The growth rate does not exceed the long-term average growth rate for the business in which the cash-generating unit operates.

### (c) Key assumptions used for value-in-use calculations

The key assumptions used in the value-in-use calculation for the cash-generating unit are as follows:

- sales are expected to grow significantly in FY2007 as a result of the introduction of new products and subsequently over the remainder of the forecast period at 3.0% pa. This is based on past experience and managements' expectations based on past experience and industry trends;
- a gross margin of approximately 45% over the forecast period is expected. This is based on average gross margins achieved in the period before the forecast period and managements' expectations;
- operating expenses are expected to grow in FY2007 as a result of the introduction of the new products and then increase steadily over the remainder of the forecast period, but at a rate lower than the sales growth;
- in performing the value-in-use calculations, the Company has applied post-tax discount rates to discount the forecast future attributable post tax cash flows. The equivalent pre-tax discount rate is approximately 24.5% p.a. (2005: 0% p.a.).

### (d) Impact of possible changes in key assumptions

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

# Notes to the Financial Statements

For the year ended 30 June 2006

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 17: Current liabilities - Trade and other payables** | | | | |
| Trade payables | 3,287,800 | 871,225 | - | 1,917,619 |
| Other payables | 126,871 | - | - | - |
| Other creditor and accruals | 1,777,532 | 490,653 | 844,310 | 484,927 |
| GST payable | 65,422 | 71,870 | - | - |
| Amounts payable to: | | | | |
| Director – related entities | - | - | - | 17,398 |
| Inter-company loans | - | - | 1,915,619 | - |
| Trade and other payables | 5,257,625 | 1,433,748 | 2,759,929 | 2,419,944 |
| **Note 18: Current liabilities – Interest-bearing liabilities** | | | | |
| Secured | | | | |
| Bank loans | - | - | - | 200,000 |
| Lease liabilities (note 28) | 10,510 | - | - | 43,152 |
| Total secured current interest-bearing liabilities | 10,510 | - | - | 243,152 |
| Total current interest-bearing liabilities | 10,510 | - | - | 243,152 |
| Refer to Note 20 for details of security. | | | | |
| **Note 19: Current and non-current liabilities - Provisions** | | | | |
| Current | | | | |
| Employee benefits | 778,362 | - | - | 201,608 |
| Dividends declared | - | 84,000 | - | - |
| Total current provisions | 778,362 | 84,000 | - | 201,608 |
| Non-Current | | | | |
| Employee benefits | 298,687 | 183,392 | - | 64,835 |

### (a) Retirement benefit obligations - Superannuation plan

The Group makes contributions to superannuation plans nominated by employees in accordance with the Superannuation Guarantee and related legislation.

### (b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

| Consolidated 2006 | Dividend |
|---|---|
| | $'000 |
| Current | |
| Carrying amount at start of year | 84,000 |
| Additional provisions recognised | - |
| Amount paid | (84,000) |
| Carrying amount at end of year | - |

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 20: Non-current liabilities – Interest-bearing liabilities** | | | | |
| **Secured** | | | | |
| Bank loans | - | - | - | 681,334 |
| Lease liabilities (Note 28) | 33,352 | - | - | 106,325 |
| Total secured non-current interest-bearing liabilities | 33,352 | - | - | 787,659 |
| Total non-current interest-bearing liabilities | 33,352 | - | - | 787,659 |
| **(a) Total secured liabilities** | | | | |
| The total secured liabilities (current and non-current) are as follows: | | | | |
| Bank loans | - | - | - | 881,334 |
| Lease liabilities | 43,862 | - | - | 149,477 |
| Total secured liabilities | 43,862 | - | - | 1,030,811 |

### (b) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. Bank loans are secured over the assets by way of a first registered fixed and floating debenture charge over the assets, undertakings and uncalled capital of the parent entity.

### (c) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

| | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|
| **Credit standby arrangements** | | | | |
| Total facilities | | | | |
| Bank overdrafts | 200,000 | - | - | 350,000 |
| Unused at balance date | | | | |
| Bank overdrafts | 200,000 | - | - | 350,000 |
| **Bank loan facilities** | | | | |
| Total facilities | - | - | - | 1,081,333 |
| Used at balance date | - | - | - | 881,333 |
| Unused at balance date | - | - | - | 200,000 |

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.

The interest rate at balance date for the bank overdraft was 9.95%.

### (d) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

## Note 20: Non-current liabilities – Interest-bearing liabilities (cont.)

### (d) Interest rate risk exposures (cont.)

| | Floating Interest Rate | Fixed Interest Rate 1 Year or Less | Over 1 to 2 Years | Over 3 to 3 Years | Over 3 to 4 Years | Over 4 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| 2006 | | | | | | | | |
| Bank overdrafts and loans | - | - | - | - | - | - | - | - |
| Lease liabilities (Note 28) | - | 10,510 | 33,352 | - | - | - | - | 43,862 |
| | - | 10,510 | 33,352 | - | - | - | - | 43,862 |
| Weighted average interest rate | 9.95% | 9.26% | 9.26% | -% | -% | -% | -% | |
| 2005 | | | | | | | | |
| Bank overdrafts and loans | - | - | - | - | - | - | - | - |
| Lease liabilities (Note 28) | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - |
| Weighted average interest rate | -% | -% | -% | -% | -% | -% | -% | |

### (e) Fair value

The carrying amounts and fair values of borrowings at balance date are:

| | 2006 Carring Amount | 2006 Fair Value | 2005 Carring Amount | 2005 Fair Value |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| On-balance sheet | | | | |
| Non-traded financial liabilities | | | | |
| Lease liabilities | 43,862 | 43,862 | - | - |

No classes of borrowings are readily traded on organised markets in standardised form.

Fair value is inclusive of costs which would be incurred on settlement of a liability.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 21: Tax liabilities** | | | | |
| Current tax liabilities | 98,204 | - | 64,928 | 15,792 |
| **Deferred tax liabilities** | | | | |
| The balance comprises temporary differences attributable to: | | | | |
| Amounts recognised in profit or loss | | | | |
| Prepayments | - | - | - | 5,510 |
| Patents | - | - | - | 3,915 |
| Sundry | 555 | - | - | - |
| Depreciation | 45,203 | - | - | 35,242 |
| | 45,758 | - | - | 44,667 |
| Amounts recognised directly in equity | | | | |
| Revaluation of property, plant and equipment | 173,108 | 77,400 | - | - |
| Amounts recognised on acquisition of subsidiary: | | | | |
| Intellectual property | 768,332 | - | - | - |
| | 941,440 | - | - | - |
| Total deferred tax liabilities | 987,198 | 77,400 | - | 44,667 |
| Movements: | | | | |
| Opening balance at 1 July | 77,400 | - | 44,667 | 68,956 |
| Transfer to subsidiary on business combination | - | - | (45,135) | - |
| Charged/(credited) to the income statement (Note 9) | 4,904 | - | 468 | (24,289) |
| Charged/(credited) to equity | 95,708 | 77,400 | - | - |
| Acquisition of subsidiary | 809,186 | - | - | - |
| Closing balance at 30 June | 987,198 | 77,400 | - | 44,667 |
| Deferred tax liabilities to be settled after more than 12 months | 986,643 | - | - | 44,667 |
| Deferred tax liabilities to be settled within 12 months | 555 | 77,400 | - | - |
| | 987,198 | 77,400 | - | 44,667 |

# Notes to the Financial Statements

For the year ended 30 June 2006

| | Notes | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|---|
| | | Shares | Shares | $ | $ |
| **Note 22: Contributed equity** | | | | | |
| (a) Share capital | | | | | |
| Ordinary shares | (b),(c) | | | | |
| Fully paid, no par value | | 65,702,865 | 14,375,926 | 20,482,112 | 4,979,170 |
| | | $ | $ | | |
| Contributed equity | | 11,545,683 | 3,768,000 | | |

### (b) Movements in ordinary share capital of the Parent Entity:

| Date | Details | Notes | Number of Shares | Issue Price | $ |
|---|---|---|---|---|---|
| 1 July 2004 | Opening balance | | 12,525,926 | | 4,320,819 |
| | Shares issued during the year | | 1,850,000 | 0.35 | 647,500 |
| | Costs associated from shares issue | | - | | (55,149) |
| | Proceeds banked 30 June 2005 from exercise of share options due 1 July 2005 | | - | | 36,000 |
| 30 June 2005 | Balance | | 14,375,926 | | 4,949,170 |
| | Shares issued during the year | | | | |
| | - 1 July 2005* | | 200,000 | 0.18 | - |
| | - 24 November 2005 | | 2,745,606 | 0.30 | 823,682 |
| | - 20 February 2006 | | 7,764,666 | 0.30 | 2,329,400 |
| | - 28 April 2006 | | 40,416,667 | 0.31 | 12,500,000 |
| | - 30 June 2006 | | 200,000 | 0.18 | 36,000 |
| | Less: transaction costs arising on shares issued | | - | | (156,140) |
| 30 June 2006 | Balance | | 65,702,865 | | 20,482,112 |

* Proceeds of $36,000 were banked on the 30 June 2005 from the exercise of these share options.

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Movement in share capital of the consolidated entity

Refer to Note 1(d) for a discussion of issued capital for the Group.

| | 2006 |
|---|---|
| | $ |
| Opening ordinary share capital (PNE Industries Pty Limited) | 3,768,000 |
| Cost of business combination | 7,758,000 |
| Shares issued | 36,000 |
| Share issue costs | (16,317) |
| Closing ordinary share capital | 11,545,683 |

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |

## Note 23: Reserves and retained profits/(accumulated losses)

### (a) Reserves

| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
|---|---|---|---|---|
| Asset revaluation reserve | 403,918 | 180,600 | - | - |
| Capital profits reserve | - | 27,949 | - | - |
| Reserves | 403,918 | 208,549 | - | - |
| Movements: | | | | |
| **Asset revaluation reserve** | | | | |
| Balance 1 July | 180,600 | 258,000 | - | - |
| Revaluation gross | 319,026 | - | - | - |
| Deferred tax | (95,708) | (77,400) | - | - |
| Balance 30 June | 403,918 | 180,600 | - | - |
| **Capital profits reserve** | | | | |
| Balance 1 July | 27,949 | 27,949 | - | - |
| Transfer to retained earnings | (27,949) | - | - | - |
| Balance 30 June | - | 27,949 | - | - |

### (b) Retained profits/(accumulated losses)

Movements in retained profits/(accumulated losses) were as follows:

| | 2006 $ | 2005 $ | 2006 $ | 2005 $ |
|---|---|---|---|---|
| Balance 1 July | 1,803,408 | 2,203,418 | (358,792) | 1,351,528 |
| Net profit for the year | 1,560,327 | 559,990 | 543,444 | (1,585,061) |
| Dividends | (1,133,587) | (960,000) | - | (125,259) |
| Transfer from capital profits reserve | 27,949 | - | - | - |
| Balance 30 June | 2,258,097 | 1,803,408 | 184,652 | (358,792) |

### (c) Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(n).

| | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|
| | $ | $ |
| **Note 24: Dividends** | | |
| **(a) Ordinary shares** | | |
| Dividend declared after 30 June 2004 and paid during the 2005 financial year (2005: 1 cent per fully paid share paid on 10 October 2005) Fully franked based on tax paid @ 30% | - | 125,259 |
| **(b) Dividends not recognised at year end** | | |
| In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 1 cent per fully paid ordinary share, (2005: 1 cent) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 16 October 2006 out of retained profits at 30 June 2006, but not recognised as a liability at year end, is | 657,029 | - |

PNE Industries Pty Limited has paid dividends during the year, however, PNE has not paid dividends to the shareholders of Gregory Australia Limited.

### (c) Franked dividends

The franked portions of the dividends recommended after 30 June 2006 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2006.

| | Consolidated Entity 2006 | Consolidated Entity 2005 | Parent Entity 2006 | Parent Entity 2005 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%) | 1,603,941 | 144,780 | 1,603,941 | 772,477 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(i) franking credits that will arise from the payment of the amount of the provision for income tax

(ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $281,584 (2005: $nil).

## Note 25: Key management personnel disclosures

### (a) Directors

The following persons were directors of Gregory Australia Limited during the financial year:

| Name | Position Held | |
|---|---|---|
| **Directors** | | |
| Mr R M Sealy | Chairman - Non-executive Director | |
| Mr P G Gregory | Non-executive Director | Resigned as a Director 15/07/06 |
| Mr D Richards | Executive Director | Appointed 28/4/06 |
| Mrs R Himmelberg | Executive Director | Appointed 28/4/06 |
| Mr B C Hansen | Non-executive Director | Resigned as a Director 28/04/06 |
| Ms J C Sayer | Non-executive Director | Resigned as a Director 28/04/06 |
| Mr T Noun | Non-executive Director | |
| Mr J A Scutt | Chief Executive Officer - Executive Director | Resigned as a Director 31/7/06 |
| **Other key management personnel:** | | |
| Mr G Lewis | Company Secretary/Chief Financial Officer | Ceased to be employed 11/10/05 |
| Mr B Lehmann | Group Marketing Manager | |
| Mr J Res | Group Engineering and Quality Assurance Manager | |

| | Consolidated and Parent 2006 | Consolidated 2005 | Parent 2005 |
|---|---|---|---|
| | $ | $ | $ |
| **Directors** | | | |
| *Primary benefits* | | | |
| Salary/fees | 701,819 | 364,505 | 409,383 |
| Non-monetary benefits | 24,379 | 24,124 | 18,109 |
| Other short-term employee benefits | 75,000 | 65,000 | - |
| *Post-employment benefits* | | | |
| Pension and superannuation | 120,633 | 38,498 | 58,301 |
| Other post-employment | - | - | - |
| Total | 921,831 | 492,127 | 485,523 |
| **Other key management personnel** | | | |
| *Primary benefits* | | | |
| Cash salary | 209,351 | 239,473 | 184,125 |
| Non-monetary benefits | - | - | - |
| Other short-term employee benefits | 14,486 | - | - |
| *Post-employment benefits* | | | |
| Pension and superannuation | 16,838 | 19,654 | 15,042 |
| Other post-employment | - | - | - |
| Total | 240,675 | 259,127 | 199,167 |

The Company has taken advantage of the relief provided by ASIC Class Order 06/05 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A - C of the Remuneration Report on pages 26 to 29 included in the Directors' Report.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 25: Key management personnel disclosures (cont.)

### (b) Options and rights holdings

Details of options and rights held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

| Name | Balance at 1 July 2005 | Options Exercised | Other Changes | Balance at 30 June 2006 | Total Vested at 30 June 2006 | Total Vested & Exercisable at 30 June 2006 | Total Vested & Unexercisable at 30 June 2006 |
|---|---|---|---|---|---|---|---|
| Mr R M Sealy | 200,000* | 200,000* | - | - | - | - | - |
| Total | 200,000 | 200,000 | - | - | - | - | - |

| Name | Balance at 1 July 2004 | Options Exercised | Other Changes | Balance at 30 June 2005 | Total Vested at 30 June 2005 | Total Vested & Exercisable at 30 June 2005 | Total Vested & Unexercisable at 30 June 2005 |
|---|---|---|---|---|---|---|---|
| Mr R M Sealy | 200,000 | - | - | 200,000 | - | - | - |
| Total | 200,000 | - | - | 200,000 | - | - | - |

* The options owned by Mr R Sealy were purchased, and not issued as part of his remuneration.

### (c) Shareholdings

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

| Name | Balance at 1 July 2005 | Received on Exercise of Options or Rights | Acquisitions/ (Disposals) | Balance at 30 June 2006 | Balance Held Nominally |
|---|---|---|---|---|---|
| Mr P Gregory | 4,300,000 | - | 500,000 | 4,800,000 | 4,800,000 |
| Mr R M Sealy | 1,038,150 | 100,000 | 750,000 | 1,888,150 | 1,888,150 |
| Mr J A Scutt | 296,000 | - | 722,000 | 1,018,000 | 1,018,000 |
| Mr B Hansen | 22,863 | - | (22,863) | - | - |
| Mr T Noun | - | - | 11,265,833 | 11,265,833 | 11,265,833 |
| Mrs R Himmelberg | - | - | 9,466,666 | 9,466,666 | 3,216,666 |
| Mr D Richards | - | - | 9,466,666 | 9,466,666 | 3,216,666 |
| Total | 5,657,013 | 100,000 | 32,148,302 | 37,905,315 | 25,405,315 |

| Name | Balance at 1 July 2005 | Received on Exercise of Options or Rights | Acquisitions/ (Disposals) | Balance at 30 June 2005 | Balance Held Nominally |
|---|---|---|---|---|---|
| Mr P Gregory | 4,300,000 | | - | 4,300,000 | 4,300,000 |
| Mr R M Sealy | 1,574,448 | - | (536,298) | 1,038,150 | 1,038,150 |
| Mr J A Scutt | 250,000 | - | 46,000 | 296,000 | 296,000 |
| Mr B Hansen | - | - | 22,863 | 22,863 | - |
| Total | 6,124,448 | - | (467,435) | 5,657,013 | 5,634,150 |

# Notes to the Financial Statements

For the year ended 30 June 2006

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 26: Remuneration of auditors** | | | | |
| During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms: | | | | |
| (a) Assurance services | | | | |
| Audit services | | | | |
| PricewaterhouseCoopers, an Australian firm: | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 48,500 | 20,000 | - | - |
| BDO, an Australian firm: | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 11,829* | - | 122,954 | 68,225 |
| Total remuneration for audit services | 60,329 | 20,000 | 122,954 | 68,225 |
| Other assurance services | | | | |
| BDO, an Australian firm: | | | | |
| Due diligence services | -* | - | 50,170 | - |
| IFRS advice | 700* | - | 700 | - |
| Total remuneration for other assurance services | 700 | - | 50,870 | - |
| Total remuneration for assurance services | 61,029 | 20,000 | 173,824 | 68,225 |

* These costs relate to the period 29 April 2006 to 30 June 2006 only. Due to the accounting for the business combination the full year costs are reflected in the Parent Entity disclosure.

(b) Taxation services

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| BDO, an Australian firm | | | | |
| Accounting and tax advice on royalties | - | - | - | 3,029 |
| Total remuneration for taxation services | - | - | - | 3,029 |

## Note 27: Contingencies

There are no known material contingent liabilities known to the Directors.

## Note 28: Commitments

### (a) Capital commitments

Capital commitment of $21,863 exists for Gregory Australia Limited.

Refer to Note 32 for details of Company acquisitions subsequent to year end.

## Note 28: Commitments (cont.)

### (b) Lease commitments

(i) Operating leases

The Group leases various offices and warehouses under non-cancellable operating leases expiring within one to four years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| Within one year | 573,602 | 96,000 | - | 542,212 |
| Later than one year but not later than five years | 1,099,704 | 384,000 | - | 1,319,169 |
| | 1,673,306 | 480,000 | - | 1,861,381 |

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $36,695 (2005: nil) under finance leases expiring within three years. Under the terms of the leases, the Group has the option to acquire the leased assets for between a nominal value and 20% of the agreed fair value on expiry of the leases.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| Commitments in relation to finance leases are payable as follows: | | | | |
| Within one year | 14,213 | - | - | 56,509 |
| Later than one year but not later than five years | 38,072 | - | - | 118,086 |
| Minimum lease payments | 52,285 | - | - | 174,595 |
| Future finance charges | (8,423) | - | - | (25,118) |
| Total lease liabilities | 43,862 | - | - | 149,477 |
| Representing lease liabilities: | | | | |
| Current (Note 18) | 10,510 | - | - | 43,152 |
| Non-current (Note 20) | 33,352 | - | - | 106,325 |
| | 43,862 | - | - | 149,477 |

The weighted average interest rate implicit in the leases is approximately 9.25% (2005: 9.25%).

## Note 29: Related party transactions

### (a) Parent entities

Gregory Australia Limited is the Parent Entity of the Group.

### (b) Subsidiaries

Interests in subsidiaries are set out in Note 31.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in the Directors' Report.

Included in Note 25 are details of share capital movements related to transactions with the Directors. The issue of shares to the Directors relates to the acquisition of PNE Industries Pty Limited. Further details of this transaction have been set out in the detailed Information Memorandum sent to the non associated shareholders of Gregory Australia Limited and such details can be found on the Australian Stock Exchange website.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 29: Related party transactions (cont.)** | | | | |
| **(d) Transactions with related parties** | | | | |
| The following transactions occurred with related parties: | | | | |
| **Tax consolidation legislation** | | | | |
| Current tax payable assumed from wholly-owned tax consolidated entities | | | 36,481 | |
| Represented by: | | | | |
| - PNE | - | - | 65,723 | - |
| - Opentec | - | - | (29,242) | - |
| **Other transactions** | | | | |
| Sale of commercial furniture business to wholly-owned subsidiary | - | - | 5,746,315 | - |
| Purchase of subsidiaries from related company | - | - | 1,845,002 | - |
| **Director related entities** | | | | |
| Rent paid to entities associated with Mr Peter Gregory for land and buildings in relation to the Sydney operations of the commercial furniture business | 317,506 | - | 317,506 | 307,660 |
| Rent paid to entities associated with Mr David Richards and Mrs Robyn Himmelberg for land and buildings in relation to the Sydney operations of the electronic products business | 166,000 | 185,000 | - | - |
| Licence fees paid to entities associated with Mr Peter Gregory | - | - | - | 8,164 |
| Consulting fees payable to Mr Peter Gregory | - | - | - | 31,818 |
| Consulting fees payable to Mr Richard Sealy | - | - | - | 30,000 |
| **(e) Loans to/from related parties** | | | | |
| **Loans to subsidiaries** | | | | |
| Receivables: | | | | |
| - Gregory Commercial Furniture | - | - | 5,746,315 | - |
| - PNE | - | - | 65,723 | - |
| - Opentec | - | - | 8,555 | - |
| | - | - | 5,820,593 | - |
| Payables: | | | | |
| - PNE | - | - | 1,886,377 | - |
| - Opentec | - | - | 29,242 | - |
| | - | - | 1,915,619 | - |
| **Loans to director related entity** | - | - | | |
| Beginning of the year | - | - | 9,921 | 9,921 |
| Loan repayments received | - | - | (9,921) | - |
| End of year | - | - | - | 9,921 |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 29: Related party transactions (cont.)

### (f) Terms and conditions

The sale of the commercial office furniture business and the shares in subsidiaries were undertaken at fair market value, as supported by independent valuations, prepared by PKF Corporate Advisory Services (NSW) Pty Limited.

The terms and conditions of the tax funding agreement are set out in Note 9 (d).

All other transactions were made on normal commercial terms and conditions and at market rates, except that there was no interest charged on the loan to Mr Peter Gregory or loans to subsidiaries.

Outstanding balances are unsecured and are repayable in cash at call.

## Note 30: Business combination

### (a) PNE Industries Pty Limited

On 28 April 2006, the Parent Entity acquired 100% of the issued share capital of PNE Industries Pty Ltd and its wholly-owned subsidiaries.

As set out in Note 1(d), PNE Industries Pty Limited obtained control of Gregory Australia Limited as part of the above business combination. Accordingly, the acquired business (that is, Gregory Australia Limited) contributed revenues of $3,304,673 and net profit of $85,497 to the Group for the period from 29 April 2006 to 30 June 2006. If the acquisition had occurred on 1 July 2005, consolidated revenue and consolidated profit for the year ended 30 June 2006 would have been $27,981,198 and $478,540 respectively. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2005, together with the consequential tax effects.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash paid | - |
| Cost of business combination | 7,758,000 |
| Direct costs relating to the acquisition | 17,074 |
| Total purchase consideration | 7,775,074 |
| Fair value of net identifiable assets acquired (refer below) | (6,153,016) |
| Goodwill | 1,622,058 |

The goodwill is attributable to Gregory Australia Limited's strong position and future profitability in trading in the office furniture and equipment market and corporate cost synergies expected to arise after the business combination.

### Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

| | Fair Value | Acquiree's Carrying Amount |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 1,837,203 | 1,837,203 |
| Property, plant and equipment | 742,726 | 742,726 |
| Patents | 775,000 | - |
| Brands | 923,000 | - |
| Inventories | 1,493,345 | 1,493,345 |
| Receivables | 2,655,680 | 2,655,680 |
| Payables | (2,077,990) | (2,077,990) |
| Employee benefit liabilities, including superannuation | (378,673) | 378,673) |
| Borrowings | (182,490) | (182,490) |
| Net deferred tax assets | 365,215 | 882,371 |
| Net identifiable assets acquired | 6,153,016 | 4,972,172 |

## Note 30: Business combination (cont.)

### (b) Opentec Solutions Pty Limited

On 3 March 2006, PNE Industries Pty Limited acquired the business of Opentec, via its wholly subsidiary, Opentec Solutions Pty Limited.

The acquired business contributed revenues of $1,553,147 and net profit of $681,181 to the Group for the period from 3 March 2006 to 30 June 2006. No details are available in relation what the contribution to profit would have been if the acquisition had occurred on 1 July 2005.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

| | $ |
|---|---|
| **Purchase consideration** | |
| Cash paid | 971,180 |
| Net deferred tax liabilities on assets acquired | 286,232 |
| Total purchase consideration | 1,257,412 |
| Fair value of net identifiable assets acquired (refer below) | (971,180) |
| Goodwill | 286,232 |

The goodwill is attributable to Opentec's strong position and future profitability in trading in the electronic products market and corporate cost synergies expected to arise after the business combination.

### Purchase consideration

The purchase consideration is comprised as follows:

| | $ |
|---|---|
| Patents | 513,984 |
| Customer relationships | 440,123 |
| Other net assets | 17,070 |
| Net identifiable assets acquired | 971,180 |

### (c) Summary of net cash acquired from business combinations

| | $ |
|---|---|
| Payment made for the acquisition of Gregory Australia Limited | - |
| Less cash acquired on acquisition of Gregory Australia Limited | 1,837,203 |
| Net cash inflow | 1,837,203 |
| Payment made for the acquisition of the Opentec business | (971,180) |
| Net cash acquired from business combinations | 866,203 |

## Note 31: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c):

| Name of Entity | Country of Incorporation | Class of Shares | Equity Holding* 2006 | Equity Holding* 2005 |
|---|---|---|---|---|
| | | | % | % |
| PNE Electronics Pty Limited | Australia | Ordinary | 100 | 0 |
| Opentec Solutions Pty Limited | Australia | Ordinary | 100 | 0 |
| Real Credentials Pty Limited | Australia | Ordinary | 100 | 0 |
| Inventis Pty Limited | Australia | Ordinary | 100 | 0 |
| Gregory Commercial Furniture Pty Limited | Australia | Ordinary | 100 | 0 |

* The proportion of ownership interest is equal to the proportion of voting power held.

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 32: Events occurring after the balance sheet date

### (a) Acquisition of Impart Special Products Pty Limited

PNE Electronics Pty Ltd purchase of Impart Special Products Pty Limited on 6th September 2006 for cash consideration of $1,672,890.

Details of net assets acquired and goodwill are as follows:

| | $ |
|---|---|
| Purchase consideration | 1,672,890 |
| Fair value of net identifiable assets acquired (refer below) | 336,155 |
| Goodwill | 1,336,735 |

The goodwill is attributable to Impart Special Products Pty Limited's strong position and profitability in trading in the electronics, and in particular, specialty control system market and synergies expected to arise after the Company's acquisition of the new subsidiary.

#### Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

| | Fair Value | Acquiree's Carrying Amount |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 137,475 | 137,475 |
| Property, plant and equipment | 81,585 | 81,585 |
| Inventories | 249,294 | 249,294 |
| Receivables | 343,181 | 343,181 |
| Payables | (196,121) | (196,121) |
| Employee benefit liabilities, including superannuation | (222,321) | (222,321) |
| Net deferred tax assets | (56,938) | (56,938) |
| Net identifiable assets acquired | 336,155 | 336,155 |

The financial effects of the above transaction have not been brought to account at 30 June 2006. The operating results and assets and liabilities of the Company will be consolidated from 6 September 2006.

### (b) Acquisition of Alpha Aviation Limited

Gregory reached agreement in principle to acquire all the shares on issue in Alpha Aviation Limited.

Total purchase price being $11,018,853 which is to be settled by issuing 27,547,133 ordinary Gregory shares at 40 cents per share to the Alpha shareholders. Disclosure of the information required by paragraph 67 of AASB 3 "Business Combinations" is impractical at this point in time as the agreement is subject to execution of a share sale agreement, due diligence, regulatory approvals and the approval by members of Alpha and Gregory.

### (c) Acquisition of Data Info Tech Pty Limited

Gregory reached agreement in principle to acquire up to 30% of the shares in Data Info Tech Pty Ltd for $270,000. A letter of intent has been executed.

Disclosure of the information required by paragraph 67 of AASB 3 "Business Combinations" is impractical at this point in time as final agreement is subject to valuation and due diligence.

### (d) Legal claim

Gregory has received notice of an alleged claim against it by a licensee of a design in relation to the Company's actions in promoting that design. The Directors have sought legal advice and the Gregory lawyers' opinion based on the information available is that there is no reason to believe that the claim has merit or will succeed if it was to become a litigious matter or that the letter and claim is material or requires disclosure to the ASX under the ASX listing rules. So far as the Directors are aware, no proceedings have been instituted at the date of this report.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | $ | $ | $ | $ |
| **Note 33: Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities** | | | | |
| Profit/(loss) for the year | 1,560,327 | 559,990 | 543,444 | (1,585,061) |
| Depreciation and amortisation | 166,546 | 50,046 | 225,268 | 256,470 |
| Fair value adjustment on investments | - | 57,500 | - | - |
| Net (gain)/loss on sale of non-current assets | (1,153) | 128 | (5,024) | 95,118 |
| Post acquisition float expenses | (16,317) | - | - | - |
| Gain on sale of business | - | - | (903,724) | - |
| Change in operating assets and liabilities, net of effects business combinations: | | | | |
| (Increase)/decrease in trade debtors and other receivables | (1,030,980) | 201,973 | 359,114 | 993,717 |
| (Increase)/decrease in inventories | (773,654) | (218,930) | (606,387) | 69,803 |
| (Increase)/decrease in future income tax assets | (397,251) | (19,048) | 23,906 | (717,322) |
| Increase/(decrease) in provision for income taxes payable | 127,577 | (369,838) | (168,737) | (121,095) |
| Increase/(decrease) in provision for deferred income tax | 150,711 | - | 10,846 | (24,289) |
| Increase/(decrease) in provisions | 514,983 | 63,006 | 79,269 | (60,680) |
| Increase/(decrease) in trade creditors and accruals | 1,596,899 | (41,531) | 1,061,022 | 481,286 |
| Net cash inflow/(outflow) from operating activities | 1,897,688 | 283,296 | 618,997 | (612,053) |

## Note 34: Earnings per share

| | Consolidated Entity | |
|---|---|---|
| | 2006 | 2005 |
| | cents | cents |
| (a) Basic and diluted earnings per share | 3.5 | 1.4 |

| | Consolidated Entity | |
|---|---|---|
| | 2006 | 2005 |
| | $ | $ |
| (b) Reconciliations of earnings used in calculating earnings per share | | |
| Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share | 1,560,327 | 559,990 |

| | Consolidated Entity | |
|---|---|---|
| | 2006 | 2005 |
| | Number | Number |
| (c) Weighted average number of shares used as the denominator | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share | 44,926,056 | 40,416,667 |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 35: Explanation of transition to Australian equivalents to IFRSs

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

### (a) At the date of transition to AIFRS: 1 July 2004

| | | Consolidated Entity | | | Parent Entity | | |
|---|---|---|---|---|---|---|---|
| | Notes | Previous AGAAP | Effect of Transition to AIFRS | AIFRS | Previous AGAAP | Effect of Transition to AIFRS | AIFRS |
| | | $ | $ | $ | $ | $ | $ |
| **ASSETS** | | | | | | | |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | | 1,476,236 | - | 1,476,236 | 627,993 | - | 627,993 |
| Trade and other receivables | | 1,646,931 | - | 1,646,931 | 3,010,836 | - | 3,010,836 |
| Inventories | | 942,432 | - | 942,432 | 1,442,328 | - | 1,442,328 |
| Total current assets | | 4,065,599 | - | 4,065,599 | 5,081,157 | - | 5,081,157 |
| **Non-current assets** | | | | | | | |
| Other financial assets | | - | - | - | 1,168,750 | - | 1,168,750 |
| Property, plant and equipment | | 833,865 | - | 833,865 | 903,036 | - | 903,036 |
| Deferred tax assets | | 153,847 | - | 153,847 | 159,958 | - | 159,958 |
| Intangible assets | | - | - | - | 2,164,669 | - | 2,164,669 |
| Total non-current assets | | 987,712 | - | 987,712 | 4,396,413 | - | 4,396,413 |
| Total assets | | 5,053,311 | - | 5,053,311 | 9,477,570 | - | 9,477,570 |
| **LIABILITIES** | | | | | | | |
| **Current liabilities** | | | | | | | |
| Trade and other payables | | 1,405,754 | - | 1,405,754 | 1,938,658 | - | 1,938,658 |
| Borrowings | | - | - | - | 268,912 | - | 268,912 |
| Current tax liabilities | | 175,279 | - | 175,279 | 136,887 | - | 136,887 |
| Provisions | | - | - | - | 250,242 | - | 250,242 |
| Total current liabilities | | 1,581,033 | - | 1,581,033 | 2,594,699 | - | 2,594,699 |
| **Non-current liabilities** | | | | | | | |
| Borrowings | | - | - | - | 1,064,687 | - | 1,064,687 |
| Deferred tax liabilities | (a) | - | 77,400 | 77,400 | 68,956 | - | 68,956 |
| Provisions | | 189,911 | - | 189,911 | 76,881 | - | 76,881 |
| Total non-current liabilities | | 189,911 | 77,400 | 267,311 | 1,210,524 | - | 1,210,524 |
| Total liabilities | | 1,770,944 | 77,400 | 1,848,344 | 3,805,223 | - | 3,805,223 |
| Net assets | | 3,282,367 | (77,400) | 3,204,967 | 5,672,347 | - | 5,672,347 |
| **EQUITY** | | | | | | | |
| Contributed equity | | 793,000 | - | 793,000 | 4,320,819 | - | 4,320,819 |
| Reserves | (a) | 285,949 | (105,349) | 208,549 | - | - | - |
| Retained earnings | | 2,203,418 | 27,949 | 2,203,418 | 1,351,528 | - | 1,351,528 |
| Total equity | | 3,282,367 | (77,400) | 3,204,967 | 5,672,347 | - | 5,672,347 |

## Note 35: Explanation of transition to Australian equivalents to IFRSs (cont.)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

| | | Consolidated Entity | | | Parent Entity | | |
|---|---|---|---|---|---|---|---|
| | Notes | Previous AGAAP | Effect of Transition to AIFRS | AIFRS | Previous AGAAP | Effect of Transition to AIFRS | AIFRS |
| | | $ | $ | $ | $ | $ | $ |
| ASSETS | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | | 3,605,417 | - | 3,605,417 | 29,911 | - | 29,911 |
| Trade and other receivables | | 1,444,958 | - | 1,444,958 | 3,185,869 | - | 3,185,869 |
| Current tax receivables | | 194,559 | - | 194,559 | 46,999 | - | 46,999 |
| Inventories | | 1,161,362 | - | 1,161,362 | 1,372,525 | - | 1,372,525 |
| Total current assets | | 6,406,296 | - | 6,406,296 | 4,635,304 | - | 4,635,304 |
| Non-current assets | | | | | | | |
| Other financial assets | | 122,500 | - | 122,500 | - | - | - |
| Property, plant and equipment | | 856,806 | - | 856,806 | 751,173 | - | 751,173 |
| Deferred tax assets | | 172,895 | - | 172,895 | 830,281 | - | 830,281 |
| Intangible assets | (b) | - | - | - | 2,011,847 | 139,430 | 2,151,177 |
| Total non-current assets | | 1,152,201 | - | 1,152,201 | 3,593,301 | 139,430 | 3,732,731 |
| Total assets | | 7,558,497 | - | 7,558,497 | 8,228,605 | 139,430 | 8,368,035 |
| LIABILITIES | | | | | | | |
| Current liabilities | | | | | | | |
| Trade and other payables | | 1,433,748 | - | 1,433,748 | 2,419,944 | - | 2,419,944 |
| Borrowings | | - | - | - | 243,152 | - | 243,152 |
| Current tax liabilities | | - | - | - | 15,792 | - | 15,792 |
| Provisions | | 84,000 | - | 84,000 | 201,608 | - | 201,608 |
| Total current liabilities | | 1,517,748 | - | 1,517,748 | 2,880,496 | - | 2,880,496 |
| Non-current liabilities | | | | | | | |
| Borrowings | | - | - | - | 787,659 | - | 787,659 |
| Deferred tax liabilities | (a) | - | 77,400 | 7,400 | 44,667 | - | 44,667 |
| Provisions | | 183,392 | - | 183,392 | 64,835 | - | 64,835 |
| Total non-current liabilities | | 183,392 | 77,400 | 260,792 | 897,161 | - | 897,161 |
| Total liabilities | | 1,701,140 | 77,400 | 1,778,540 | 3,777,657 | - | 3,777,657 |
| Net assets | | 5,857,357 | (77,400) | 5,779,957 | 4,450,948 | 139,430 | 4,590,378 |
| EQUITY | | | | | | | |
| Contributed equity | | 3,768,000 | - | 3,768,000 | 4,949,170 | - | 4,949,170 |
| Reserves | (a) | 285,949 | (105,349) | 208,549 | - | - | - |
| Retained earnings | (b) | 1,803,408 | 27,949 | 1,803,408 | (498,222) | 139,430 | (358,792) |
| Total equity | | 5,857,357 | (77,400) | 5,779,957 | 4,450,948 | 139,430 | 4,590,378 |

# Notes to the Financial Statements

For the year ended 30 June 2006

## Note 35: Explanation of transition to Australian equivalents to IFRSs (cont.)

### (2) Reconciliation of profit for the year ended 30 June 2005

The adoption of AIFRSs has resulted in a decrease in the loss of the Parent Entity of $139,430 due to write back of goodwill amortisation (refer Note 4(b) below).

### (3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

### (4) Notes to the reconciliations

#### (a) Deferred tax asset and deferred tax liability

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 112 *Income Taxes* has resulted in the recognition of deferred tax liabilities on revaluations of non-current assets as well as deferred tax balances arising during the year in relation to fair value adjustments on the acquisition of a controlled entity, retirement benefit obligations and the equity component of convertible notes issued.

The effect of this change is also fully reflected in the Asset Revaluation Reserve.

#### (b) Goodwill

Under previous AGAAP goodwill was required to be amortised. Under AIFRS goodwill is not amortised, but is subject to impairment testing. An assessment of the carrying value of the goodwill as at 30 June 2005 found that the goodwill was not impaired, therefore goodwill amortisation has been written back.

# Directors' Declaration

For the year ended 30 June 2006

In the Directors' opinion:

(a) the financial statements and notes set out on pages 33 to 75 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

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

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

(c) the audited remuneration disclosures set out on pages 26 to 29 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Richard Sealy
Chairman

Tony Noun
Director

Sydney, 28th September 2006

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# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GREGORY AUSTRALIA LIMITED

## Scope

### The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the Directors' declaration for both Gregory Australia Limited (the Company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the Company and the entities it controlled during that year.

The Company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration Report" in pages 26 to 29 of the Directors' Report as permitted by the *Corporations Regulations 2001*.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the preparation and presentation of the compensation disclosures contained in the Directors' Report.

### Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the compensation disclosures in the Directors' Report comply with Accounting Standard AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and compensation disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

The independence declaration given to the Directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

## Audit Opinion

In our opinion:

(1) the financial report of Gregory Australia Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

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

(ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia; and

(2) the compensation disclosures that are contained in pages 26 to 29 of the Directors' Report comply with Accounting Standard AASB 124 and the *Corporations Regulations 2001*.

BDO
BDO
Chartered Accountants

Melissa Alexander
Melissa Alexander
Partner

ISO 9001 Quality Endorsed Company Lic 8463/CS Standards Australia

Liability limited by the Accountants' Scheme, approved under the Professional Standards Act 1994 (NSW)

Dated Sydney this 28th day of September 2006

# ASX Additional Shareholder Information

### (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding as at 15 September 2006:

| | Ordinary Shares |
|---|---|
| 0 to 1,000 | 23 |
| 1,001 to 5,000 | 155 |
| 5,001 to 10,000 | 61 |
| 10,001 to 100,000 | 83 |
| 100,001 and above | 43 |
| | 365 |

### (b) 20 largest shareholders – ordinary shares

The names of the twenty largest holders of equity securities as at 15 September 2006 are listed below:

| | Ordinary Shares | |
|---|---|---|
| Name of Holder | Number Held | % of Issued Shares |
| REN Nominees Pty Limited | 10,033,333 | 15.28 |
| Mr William Jon Drayton | 6,250,000 | 9.51 |
| Ms Robyn Himmelberg | 6,250,000 | 9.51 |
| Mr David Alexander Richards | 6,250,000 | 9.51 |
| Bungan Nominees Pty Limited | 4,800,000 | 7.31 |
| Colman Securities Limited | 3,333,000 | 5.07 |
| Mozart Nominees Limited | 3,068,866 | 4.67 |
| Draycom Investments Pty Limited | 2,965,783 | 4.51 |
| Baldman Investments Pty Limited | 2,674,243 | 4.07 |
| Himmelberg Investments Pty Limited | 2,674,233 | 4.07 |
| Mrs Debra Ann Noun | 1,057,500 | 1.61 |
| Sealy Investments Pty Limited | 951,667 | 1.45 |
| Hammersmith Holdings Limited | 836,483 | 1.27 |
| Izard Investments Limited | 800,000 | 1.22 |
| Rimelton Pty Limited | 752,650 | 1.15 |
| The Lindfield Partners Pty Limited | 600,000 | 0.91 |
| Mr David Richards, Mrs Penelope Richards & Mr Gunter Himmelberg | 583,090 | 0.89 |
| Carman Nominees Pty Limited | 543,667 | 0.83 |
| Mr and Mrs Michael Liley | 518,149 | 0.79 |
| | 54,942,664 | 83.63 |

# ASX Additional Shareholder Information

### (c) 20 largest shareholders – ordinary shares

| | Number on Issue | Number of Holders |
|---|---|---|
| Unquoted equity securities | - | - |
| Options on issue | - | - |

### (d) Substantial holdings

The names of the substantial shareholders listed in the Company's register as at 15 September 2006 are:

| | Ordinary Shares |
|---|---|
| REN Nominees Pty Limited | 10,033,333 |
| Mr William Jon Drayton | 6,250,000 |
| Ms Robyn Himmelberg | 6,250,000 |
| Mr David Alexander Richards | 6,250,000 |
| Bungan Nominees Pty Limited | 4,800,000 |
| Colman Securities Limited | 3,333,000 |

### (e) Voting rights

Every ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

### (f) Restricted securities

The Company has no restrictions on any of its securities as at 20 June 2006.

### (g) Company Secretary

The name of the Company Secretary is Robyn Himmelberg.

### (h) Stock Exchange Listing

Quotation has been granted for all ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

# Corporate directory

## Registered Office

125-131 Cowpasture Road
Wetherill Park NSW 2164

## Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000

## Auditors

BDO Chartered Accountants & Advisors
Level 19, 2 Market Street
Sydney NSW 2000

## Auditors of Controlled Entities

PriceWaterhouseCoopers
Darling Park
Tower 2, 201 Sussex Street
Sydney NSW 2000

## Solicitors

Philips Fox
201 Elizabeth Street
Sydney NSW 2000

‘Those with the patience and dedication to stay the course discover that scaling seemingly insurmountable business challengers and the creation of shareholder value often begins with understanding the most basic investment strategies and having a vision for growth.’

Designed by: Pat and Mouse Computer Graphics t. 02 9599 6213