

King Equipment Limited ABN 69 109 947 051

Annual report – 30th June 2005

Contents

Page

Corporate directory	2
Chairman's and Managing Director's Report	3
Directors' Report	4
Corporate Governance Report	9
Financial Report – 30 June 2005	12
Directors' Declaration	33
Independent Audit Report to Members	34
Shareholder Information	35

King Equipment Limited and controlled entities

Corporate directory

Directors	Siegfried Konig Executive Chairman Sean Corbin B.Bus (Acc) G.Dip Man, C.P.A. Non Executive Director William (Ewart) Sylvester Non Executive Director
Company Secretary	Jennifer Thompson
Principal registered office	1808 Ipswich Road Rocklea QLD 4106
Share registry	ASX Perpetual Registrars Limited Level 22 300 Queen Street BRISBANE QLD 4000
Auditor	Pitcher Partners Level 21 300 Queen Street BRISBANE QLD 4000
Solicitors	Hopgood Ganim Lawyers Level 8 1 Eagle Street BRISBANE QLD 4000
Bankers	Westpac Banking Corporation 260 Queen Street BRISBANE QLD 4000
Stock exchange listing	King Equipment Limited shares are listed on the Newcastle Stock Exchange.
Website address	www.kingequipment.com.au

King Equipment Limited

Chairman's and Managing Director's Report

Dear Shareholders

Thank you for your support in the King Equipment Limited (KING) initial public offering where the Company raised \$890,000 in funds from its prospectus offer. The prospectus outlined that the Company's objectives were to establish the two brands of SEM and CCIDC in the marketplace and look for opportunities for growth in complementary heavy machinery products.

To this end we have imported and trialed our initial machinery, taken our first orders, and promoted the equipment in all states of Australia and New Zealand.

In the prospectus we outlined that KING'S business is importing and distributing Construction Machinery manufactured in China for sale in Australia, New Zealand and PNG. Our strengths are our superior pricing structure, experienced management team, the quality and dependability of the products and our strong Exclusive Distribution Agreements with the manufacturers.

These are still KING'S strengths today, but in addition a great deal of work has been done to underpin future growth of the business and to augment our management expertise.

In achieving this, the Directors have been actively seeking and establishing additional business opportunities for KING. Over the period since the IPO the Directors have announced to the Stock Exchange that they have been successful in:

- securing the exclusive distribution rights for track and wheeled excavators with Guizhou Jonyang Machinery Industry Co Ltd (Jonyang) for Australia, New Zealand and PNG, initially for 6 years. The excavators will be jointly branded with the Company's KING brand.
- securing the exclusive distribution rights for the Shanghai Peng Pu range of Bulldozers with Shanghai PengPu Machine Building Plant Co Ltd for Australia and New Zealand initially for 6 years. The bulldozers will be sold under the Company's KING brand.
- appointing Mr Chas Rae as KING's Dealer Manager. Chas has been involved in the heavy equipment industry for over 35 years working within Caterpillar and Komatsu Equipment Distribution and is a qualified Diesel Service Engineer. Chas manages the Company's Distributor Network in Australia, PNG and New Zealand.
- expanding the Australian Distribution Network. In addition to the NSW and WA Dealers detailed in the prospectus, KING has appointed 2 Dealers in Victoria, Dealers in Tasmania and New Zealand and has appointed an in-house salesman in Queensland. KING is currently in discussion with 4 additional Dealers.

This means that KING now has secured Sole and Exclusive Dealerships with 4 of the leading Chinese manufacturers of construction equipment. Their long-established brands are well known throughout China and are synonymous with quality, dependability and warranty support.

The company has now in place the core structure and capacity to meet its objectives, but will need further capital to ensure it can take advantage of the progress and expansion that has been made, which the Directors are actively seeking.

In summary, your Board of Directors are positive, focussed and excited about the progress that the Company has achieved in such a short time since the NSX listing. The Board remains diligent in seeking out opportunities in order to further enhance shareholder value.

Yours sincerely

Siegfried Konig
Chairman

King Equipment Limited

Directors' Report

Your directors present their report on the consolidated entity consisting of King Equipment Limited for the period from the date of incorporation being the 8th July 2004 to 30th June 2005.

Directors

The following persons were directors of King Equipment Limited during the whole of the financial year and up to the date of this report:

S Konig (Chairman)

S Corbin

W Sylvester

Principal activities

During the year the principal continuing activity of the entity was the importation and sale of construction equipment.

Review of operations

The net loss of the consolidated entity for the year after providing for income tax was \$ 964,314 on revenues from ordinary activities of \$132,417.

Dividends

The directors do not recommend the payment of a dividend for this financial year.

Earnings per share

	2005 Cents
Basic earnings per share (loss)	(4.3)
Diluted earnings per share (loss)	(2.7)

Significant changes in the state of affairs

The company was incorporated and listed on the NSX within this financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2005 that has significantly affected, or may significant affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

It is expected that if future earnings are as expected King Equipment will seek admission to the ASX. King Equipment is reviewing opportunities to import other goods from China of high quality to expand the scope of the business.

Environmental Regulation

The company is not subject to any significant environmental regulations in respect of its operations.

King Equipment Limited

Directors' Report (continued)

Information on directors

Siegfried Konig – Chief Executive Officer and Chairman

Siegfried is a businessman and entrepreneur with exceptional drive and determination. He is well known in the corporate and financial markets in Brisbane and Sydney and has over 25 years experience in business management and the public company sector. He has a strong track record in building and managing businesses based on marketing and sales with in-depth experience in the public company sector and due diligence of potential target businesses. He has facilitated the listing of a member of public companies on the ASX including Telco Australia Limited, a company he founded in 1992 which successfully completed its Initial Public Offering in 1998, GPS Online Limited and Integrated Investments Limited.

Sean Corbin – Non Executive Director B.Bus (Acc) G Dip Man C.P.A M.A.I.C.D

Sean is a postgraduate trained CPA accountant with a background in operational and financial management and has over 17 years corporate and management experience. Sean has broad senior management experience and this experience includes roles as Financial Controller at Adelaide Brighton Limited and Managing Director of Practel International Limited. Sean is currently Chairman and CEO of ASX Listed Future Corporation Australia Limited.

William (Ewart) Sylvester – Executive Director M.A.I.C.D

Ewart is the co-founder of the company and has experience and expertise in the areas of sales management, distribution and agribusiness. Since 1994 he has focused on business management of growing companies and company structuring to maximise investor returns.

Information on Company Secretary

Jennifer Thompson

Jennifer has significant company secretarial and office administrator experience within public companies since 1999 as well as the oversight of regulatory requirements of subsidiaries and acquired companies. Jennifer is currently finalising her Graduate Diploma in Company Secretarial Practice with the Institute of Chartered Secretaries of Australia.

Retirement, election and continuation in office of directors

All three Directors Siegfried Konig, Sean Corbin and Ewart Sylvester have been on the board since inception. In accordance with the constitution Mr. Ewart Sylvester will retire as a director at the Annual General Meeting and being eligible will offer himself for re-election.

Particulars of directors' interests in shares and options

The interests of each director in the share capital of the Company at the date of this report are as follows:

Director	Shares	Options
Siegfried Konig	6,342,500	6,810,000
Ewart Sylvester	2,723,750	1,963,750
Sean Corbin	90,000	90,000

Meetings of directors

The numbers of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each director were:

	Full Meetings of Directors	
	A	B
Siegfried Konig	4	4
Ewart Sylvester	4	4
Sean Corbin	4	4

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

King Equipment Limited

Directors' Report (continued)

Remuneration report

Principles used to determine the nature and amount of remuneration

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

Directors' fees

The Chairman's remuneration is inclusive of committee fees while non-executive directors who chair a committee receive additional yearly fees and additional fees are also payable to directors for their membership on subsidiary boards.

Executive pay

The executive pay and reward framework has two components:

- base pay and benefits
- other remuneration such as superannuation

The combination of these comprises the executive's total remuneration.

Details of the nature and amount of each element of the emoluments of each director of King Equipment and each of the officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables.

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the consolidated entity's diverse operations and achieving the company's strategic objectives.

Details of remuneration

Details of the nature and amount of each element of the emoluments of each director of King Equipment Limited for the year ended 30 June 2005 are set out in the following table.

Non-executive directors of King Equipment Limited

Name	Directors' base fee \$	Superannuation \$	Other \$	Total \$
Sean Corbin	22,00	-	-	22,000
Total	22,00	-	-	22,000

Executive directors of King Equipment Limited

Name	Cash salary and fees \$	Allowances \$	Superannuation \$	Reimbursement payments \$	Termination \$	Total \$
Siegfried Konig		61		91,393		336,544
Ewart Sylvester		23		14,563	9	239,212
Total		85	1	105,956	9	

Executives of King Equipment Limited

Name	Executives base Wage \$	Superannuation \$	Other \$	Total \$
Jennifer Thompson	4,97	-	6,751	11,726
Total	4,97	-	6,751	11,726

King Equipment does not have five other executives employed within the consolidated entity.

King Equipment Limited Directors' Report (continued)

Share options granted to directors and specified executives

There were no options over unissued ordinary shares of King Equipment Limited granted during or since the end of the financial year to any of the directors or the five most highly remunerated officers of the consolidated entity.

Shares under option

Unissued ordinary shares of King Equipment under option at the balance sheet are as follows:

	Number	Issue price of shares	Expiry date
Listed options	19,504,375	25 cents	30/6/09

Options are convertible to ordinary shares at the exercise prices and prior to the expiry dates detailed above. No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Shares issued on the exercise of options

There have been no shares issued on exercise of options.

Insurance of officers

During the financial year, King Equipment Limited did not hold insurance for the directors and secretaries of the company.

Proceedings on behalf of company

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.

Auditor Independence

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Non Audit Services

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

The following non-audit services were provided by the entity's auditor, Pitcher Partners. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporation Act 2001. The nature and scope of each type of non-audit service provided means that the auditor independence was not compromised.

Pitcher Partners received the following amounts for the provision of non-audit services:

Initial Public Offering due diligence:\$16,000.



Siegfried Konig
Chairman

Brisbane
30 September 2005



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

Level 21
300 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 35
Brisbane Qld 4001
Australia

Tel: 07 3228 4000
Fax: 07 3221 6420

www.pitcher.com.au
info@pitcherqld.com.au

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL - OFFICES THROUGHOUT THE WORLD

Auditor's Independence Declaration To the Directors of King Equipment Limited

In relation to our audit of the financial report of King Equipment Limited for the financial period ended 30 June 2005, to the best of my knowledge and belief, there has been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PITCHER PARTNERS

R C Brown
Partner

Brisbane, 30 September 2005

King Equipment Limited and controlled entities

Corporate Governance Report

This documents sets out the principles of governance of King Equipment Limited and the conduct of the Board. The Company adopted a corporate governance policy at a board meeting held in February 2005 and complies with the NSX Corporate Governance Councils Principles of Good Corporate Governance and Best Practice Recommendations which are considered appropriate to their circumstances given the size and maturity of the Company.

King's corporate governance policies are supported by the following specific charters, codes, and policies which are available on our website at www.kingequipment.com.au

Code of Conduct
Continuous Disclosure Policy
Securities Trading Policy
Risk Management Policy

Commitment

The Company and the Board are committed to the achievement of high standards of integrity and governance in all aspects of King's activities. The principal obligation of King is to its shareholders through increasing shareholder wealth, and this is sought to be met while commensurately recognising the interests of employees, customers, creditors, the communities in which King operates, and other stakeholders.

Role of the Board

The key responsibilities of the Board are to:

- Review, advance and approve King's:
 - objectives and strategies, and
 - capital management.
- Monitor King's businesses, financial performance, and corporate governance.
- Oversee the financial position of King.
- Report to shareholders.
- Ensure effective control systems are in place.
- Establish a culture of high ethical, environmental, health and safety standards.
- Ensure the Board is effective.

Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- within the last three years, not have been employed in an executive capacity by the company or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional advisor or a material consultant to the company, or an employee materially associated with the service provided
- not be a material supplier or customer of the company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have not material contractual relationship with the company other than as a director
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Role of Management

The management of the business of King is conducted by the Executive Director, as appointed by the Board, and by those other officers and employees to whom the management function is properly designated by the Executive Director.

The Board sets authorities for the Executive Director which are reviewed and updated as required.

A position description for the Executive Director, and any other executive Director, is developed and agreed between the Board and Executive Director, along with periodic statements of the objectives of the Executive Director.

King Equipment Limited and controlled entities

Corporate Governance Report

Board Membership

The following principles have been adopted for the membership of the Board:

- As required by law, the term of each Director (except the Executive Director) is limited to three years, with one-third of the Board being subject to re-election by shareholders at each Annual General Meeting.

Board Nomination

Nominations for the Board are considered by the Board as a whole. The Board aims to ensure that it always has an appropriate diversity of qualifications, experience and expertise, consistent with the objectives of King.

- Suitable candidates for the Board are identified for appointment having regard to the skills desired and skills represented.
- A formal letter of appointment is issued to all Directors.
- Annually the Chairman conducts a performance review of the Board focused on:
 - the overall effectiveness and competencies of the Board,
 - the availability and contribution of each individual Director,
 - effectiveness of Directors' training and orientation, and
 - succession planning.

Board Procedures

- Each Director is expected to declare any actual or potential conflict of interest.
- Where conflicts may arise, affected Directors absent themselves from Board deliberation and decisions.
- Where reasonably necessary, Directors may obtain independent advice with prior notification to the Chairman.
- Directors are expected to be familiar with King's strategy, operations, financing and risks; King must arrange suitable orientation and training.
- Directors may access continuing education to ensure their skills and knowledge are up to date.
- Directors have a right to expect all information relevant to King's business and performance to be presented at Board meetings, and can access further information on request.
- Directors must maintain confidentiality of information learned by virtue of their position as Director.
- Non-Executive Directors must confirm they are able to devote such time as is necessary to carry out their duties on the Board.
- Directors advise the Chairman prior to accepting new appointments.

Company Secretary

In recognition of the key role played by the Company Secretary:

- The appointment of the Company Secretary must be approved by the Board.
- All Directors have direct access to the Company Secretary.
- The Company Secretary is expected to monitor King's corporate governance procedures, and advise of possible improvements.

Standards and Code of Conduct

It is the objective of the Board to foster a culture of high ethical and compliance standards. To this end:

- Directors must act honestly, in good faith, with high standards of care, diligence and enquiry, and in the best interests of King as a whole.
- All Directors and employees must abide by King's Code of Conduct.
- Directors and senior management must not use their position to trade in King's securities, with all transactions being in accordance with King's Securities Trading Policy.

Financial Standards

King is committed to high standards of financial integrity and reporting.

- Financial reports are required to present a true and fair view, in all material respects, of King's financial condition and operating results.
- A sound and effective system of risk management and internal control is required, consistent with King's Risk Management Policy.
- King does not have a formally appointed Audit Committee rather the functions of the audit committee are performed by the board as a whole.

King Equipment Limited and controlled entities

Corporate Governance Report

Remuneration Standards

King's overriding remuneration principle is to provide a fair and sufficient incentive to attract, motivate and retain a high quality Board and management team, based upon rewarding performance which enhances shareholder value.

- The remuneration of the senior management team may contain the following components:
 - fixed salary and benefits,
 - a short term incentive based on individual performance, and
 - a long term incentive derived from consideration of the performance of both King and the individual.
- The remuneration of Non-Executive Directors consists solely of fixed fees.
- King's Annual Report discloses all components of the remuneration of Directors, including advice of any discretionary incentive payments, and the remuneration of executives in accordance with prevailing applicable rules.

Market Disclosure

In accordance with its obligations under relevant legislation:

- King keeps the market fully informed of information which may have a material effect of the price of King's shares.
- Disclosures are to be:
 - timely;
 - factual;
 - comprehensive; and
 - understandable
- King's Continuous Disclosure Policy sets the standards and procedures for information disclosure.

Shareholder Communications

King aims to ensure that shareholders are well informed of all major developments affecting King. This programme includes:

- Included in King's website:
 - Annual and half yearly reports and accounts
 - Notices of general meetings
 - All media and stock exchange releases
 - Key policies
 - General King background
- Facilitating the full participation by shareholders at King's Annual General Meeting.
- Requiring the attendance of King's external auditor at the Annual General Meeting.

King Equipment Limited

Financial report – 30th June 2005

Contents

	Page
Financial report – 30 th June 2005	
Statement of financial performance	13
Statement of financial position	14
Statement of cash flows	15
Notes to the financial statements	16
Directors' declaration	33
Independent audit report to members	34

This financial report covers King Equipment Limited.

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

1808 Ipswich Road
Rocklea Qld 4106

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations in the directors' report on pages 4-8.

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 statements and other information are available at our Shareholders' Centre on our website: <http://www.kingequipment.com.au>.

For queries in relation to our reporting please e-mail jthompson@Kingequipment.com.au

King Equipment Limited
Statement of financial performance
For the year ended 30th June 2005

	Notes	2005 \$
Revenue from ordinary activities	3	132,417
Cost of goods sold		(101,705)
Employee benefits expense		(46,357)
Depreciation and amortisation expenses	4	(21,834)
Borrowing costs expense	4	(5,800)
Consultancy and management expenses		(623,117)
Rental expense relating to operating leases	4	(53,956)
Other expenses from ordinary activities		<u>(243,962)</u>
(Loss) from ordinary activities before related income tax expense		(964,314)
Income tax benefit/(expense)	5	<u>-</u>
(Loss) from ordinary activities after related income tax expense		<u>(964,314)</u>
Net (loss) attributable to members of King Equipment Limited		<u>(964,314)</u>
Total changes in equity attributable to members of King Equipment other than those resulting from transactions with owners as owners	17	<u><u>(964,314)</u></u>
		Cents
Basic earnings per share (loss)	30	(4.3)
Diluted earnings per shares (loss)	30	(2.7)

The Statement of Financial Performance should be read in conjunction with the notes to the financial statement.

King Equipment Limited
Statement of financial position
As at 30th June 2005

	Notes	2005 \$
Current assets		
Cash assets	6	-
Receivables	7	18,061
Inventories	8	495,008
Other financial assets	9	33,821
Total current assets		<u>546,890</u>
Non-current assets		
Receivables		
Other financial assets	10	-
Property, plant and equipment	11	112,394
Intangible assets	12	4,050
Total non-current assets		<u>116,444</u>
Total assets		<u>663,334</u>
Current liabilities		
Payables	13	252,851
Interest bearing liabilities	14	109,430
Provisions		-
Total current liabilities		<u>362,281</u>
Non-current liabilities		
Interest bearing liabilities	15	78,880
Provisions		-
Deferred tax liabilities		-
Total non-current liabilities		<u>78,880</u>
Total liabilities		<u>441,161</u>
Net assets		<u>222,173</u>
Equity		
Parent entity interest		
Contributed equity	16	1,186,487
Retained (losses)/profits	17	(964,314)
Total parent entity interest		<u>222,173</u>
Outside equity interest in controlled entities		<u>-</u>
Total equity	18	<u>222,173</u>

The Statement of Financial Position should be read in conjunction with the notes to the financial statement.

King Equipment Limited
Statement of cash flows
For the year ended 30th June 2005

	Notes	2005 \$
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)		135,258
Payments to suppliers and employees (inclusive of goods and services tax)		(1,277,769)
		(1,142,511)
Interest received		7,992
Borrowing costs		(5,800)
Net cash (outflow) from operating activities	28	(1,140,319)
Cash flows from investing activities		
Payments for property, plant and equipment		(4,109)
Payments for Intangibles		(4,050)
Net cash (outflow)/inflow from investing activities		(8,159)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities		1,335,775
Payment of share issue costs		(245,488)
Proceeds from borrowings		53,562
Loans advanced/repayment of borrowings		(19,881)
Net cash inflows from financing activities		1,123,968
Net increase/(decrease) in cash held		(24,510)
Cash at the beginning of the financial year		-
Cash at the end of the financial year	14	(24,510)
Financing arrangements	14	
Non-cash financing and investing activities	29	

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note	Contents	Page
1	Summary of significant accounting policies	17
2	Segment information	21
3	Revenue	21
4	Profit/(loss) from ordinary activities	21
5	Income tax	21
	Current assets	
6	Cash assets	22
7	Receivables	22
8	Inventories	22
9	Other financial assets	23
	Non-current assets	
10	Other financial assets	23
11	Property, plant and equipment	23
12	Intangible assets	23
	Current liabilities	
13	Payables	23
14	Interest bearing liabilities	24
	Non-current liabilities	
15	Interest bearing liabilities	24
	Total equity	
16	Contributed equity	25
17	Retained (losses)/profits	25
18	Equity	25
19	Financial Instruments	26
20	Directors and executives disclosures	27
21	Remuneration of auditors	29
22	Contingent liabilities	29
23	Commitments for expenditure	29
24	Employee benefits	30
25	Related parties	30
26	Investments in controlled entities	30
27	Events occurring after reporting date	30
28	Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities	30
29	Non-cash financing and investing activities	31
30	Earnings per share	31
31	International Financial Reporting Standards	32

Note 1 Summary of significant accounting policies

(a) Basis of preparation of the financial report

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issue Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by King Equipment Limited as at 30th June 2005 and the results of all controlled entities for the year then ended. King Equipment Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

(c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(d) Foreign currency translation

Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

Note 1 Summary of significant accounting policies (continued)

(e) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing the recorded amounts of the non-monetary assets acquired to zero, a discount balance remains it is recognised as revenue in the statement of financial performance.

(f) Revenue recognition

Revenue from the sale of goods and services is recognised (net of returns, discounts and allowances, and duties and taxes paid) when the control of goods passes to the customer or services are provided.

(g) Receivables

All trade debtors are recognised at the amounts receivable.

Collection of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 90 days overdue.

(h) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values.

(i) Inventories

Finished goods are stated at the lower of cost and net realisable value.

(j) Investments

Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at the lower of cost and net realisable value and dividend income is recognised in the statement of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in note 1(b).

(k) Depreciation of plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost of each item of plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The depreciation rate for each class of depreciable asset are:

Class of depreciable asset	Depreciation rate
Plant and equipment	8%-30%
Leased plant and equipment	8%-30%

Note 1 Summary of significant accounting policies (continued)

(l) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(m) Warranties

Provision is made for the Company's estimated liability on all products still under warranty and includes claims already received. The estimate is based on the Company's warranty cost experience.

(n) Intangible assets

Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over a period of 20 years. The cost of acquisition is discounted as described in note 1(e) where settlement of any part of cash consideration is deferred.

The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

(o) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(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 the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in 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 up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 1 Summary of significant accounting policies (continued)

(r) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings; and
- finance lease charges.

(s) Cash

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit/(loss) after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Comparative Information

The financial statements reflect the financial performance and position of the consolidated entity, as represented by its operations and cash flows, for the financial period from the date of incorporation being 8 July 2004, until 30 June 2005. As such there is no comparative information.

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 2 Segment information

During this period King Equipment operated in a single segment being the Australian equipment market.

Note 3 Revenue

	2005 \$
Revenue from operating activities	
Revenue from sales of goods	121,225
Revenue from services	-
	<u>121,225</u>
Revenue from outside the operating activities	
Interest	7,992
Other	3,200
	<u>11,192</u>
	<u>132,417</u>

Note 4 Profit/(loss) from ordinary activities

Expenses	
Cost of sales of goods	101,705
Depreciation	
Plant and equipment	228
Total depreciation	<u>228</u>
Amortisation	
Plant and equipment under finance leases	21,606
Total amortisation	<u>21,606</u>
 Borrowing costs	
Interest and finance charges paid/payable	<u>5,800</u>
 Other provisions	
Employee entitlements	<u>-</u>
 Rental expense relating to operating leases	
Minimum lease payments	<u>53,956</u>

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 5 Income tax

(a) The income tax expense for the financial year differs from the amount calculated on the (loss). The differences are reconciled as follows:

(Loss) from ordinary activities before income tax expense	(964,314)
	<hr/>
Income tax calculated at 30%	289,294
Tax effect of permanent differences:	
Tax losses not recognised	(289,294)
	<hr/>
Income tax adjusted for permanent differences	-
Other timing differences written-off	-
	<hr/>
Aggregate income tax expense/(benefit)	-
	<hr/> <hr/>

(b) The directors estimate that the potential future income tax benefit at 30th June 2005 in respect of tax losses not brought to account is

289,294

This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the losses are transferred to an eligible entity in the consolidated entity, and
- (iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Note 6 Current assets – Cash assets

2005
\$

Cash at bank and on hand

-

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	-
Less: Bank overdrafts (note 14)	(24,510)
Balances per statement of cash flows	(24,510)
	<hr/> <hr/>

Note 7 Current assets – Receivables

2005
\$

Trade debtors

-

Less: Provision for doubtful debts

-

Other debtors

18,061

18,061

Note 8 Current assets – Inventories

2005
\$

Finished goods – at cost

495,008

Less: Provision for obsolescence

-

495,008

- 22 -

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 9 Other Financial Assets

	2005 \$
Equipment deposits	33,821
	<u>33,821</u>

Note 10 Non-current assets – Other financial assets

	2005 \$
Other (non-traded) investments	
Shares in controlled entities – at cost (Note 26)	-
Shares in other corporations	-
Total non-traded shares	<u>-</u>
Total Investments	<u>-</u>

Note 11 Non-current assets – Property, plant and equipment

	2005 \$
Plant and equipment	
At cost	4,110
Less: Accumulated depreciation	<u>228</u>
	<u>3,882</u>
Plant and equipment under lease	130,118
Less: Accumulated depreciation	<u>21,606</u>
	<u>108,512</u>
Total plant and equipment	<u>112,394</u>

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial period are set out below.

	Plant & equipment \$
Consolidated	
Carrying amount at 8 July 2004	-
Additions	134,228
Depreciation/amortisation expense (note 4)	<u>(21,834)</u>
Carrying amount at 30 June 2005	<u>112,394</u>

Note 12 Intangible Assets

	2005 \$
Trademark	<u>4,050</u>

Note 13 Current liabilities – Payables

	2005 \$
Trade creditors	<u>252,851</u>
	<u>252,851</u>

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 14 Current liabilities – Interest bearing liabilities

	2005
	\$
Secured	
Bank overdrafts	24,510
Lease liabilities (note 23)	31,358
	<hr/> 55,868
Unsecured	
Directors Loans	53,562
	<hr/> 109,430 <hr/>
Financing arrangements	2005
	\$
Unrestricted access was available at balance date to the following lines of credit:	
Credit standby arrangements	
Total facilities – Bank overdraft	20,000
Used at balance date	<hr/> (24,510)
Unused at balance date	<hr/> (4,510) <hr/>

The bank overdraft facilities may be drawn at any time.

Note 15 Non-current liabilities – Interest bearing liabilities

	2005
	\$
Secured	
Lease liabilities (note 23)	78,880
Bank loan	-
	<hr/> 78,880 <hr/>

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Financing arrangements have been detailed in Note 14.

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 16 Contributed equity

	Notes	2005 Shares	Parent entity 2005 \$
(a) Share capital			
Ordinary shares			
Fully paid	(c)	22,726,000	1,186,487

(b) Movements in ordinary share capital:

Date	Details	Number of Shares	Issue price	\$
31 st August 2004	Founding Shareholders	2,600,000	.0001 cents	260
31 st August 2004	Seed Capital Shareholders	536,000	50 cents	268,000
31 st August 2004	Seed Capital Shareholders	100,000	\$1.00	100,000
31 st August 2004	Share Reconstruction – 5 for 1 split.	12,944,000		-
27 th September 2004	Investor's	770,000	\$0.10	77,000
8 th February 2005	Pursuant to Initial Prospectus Offer	4,452,575	\$0.20	890,515
8 th February 2005	Pursuant to Initial Prospectus Offer	583,425	\$0.20	116,685
30 th June 2005	Shares Issued Pursuant E.G.M.	740,000	\$0.13	96,200
	Share issue expenses			(362,173)
30 June 2005	Balance	22,726,000		1,186,487

(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) Options

There are 19,504,375 listed options able to be converted to shares at a price of 25 cents up to the 30th June 2009. These option holders have no voting rights at a meeting of the company.

Note 17 Retained Losses and Profits

	2005 \$
Accumulated losses	
Accumulated losses at the beginning of the financial year	-
Net loss attributable to members of King	(964,314)
Accumulated losses at the end of the financial year	(964,314)

Note 18 Equity

	2005 \$
Total equity at the beginning of the financial year	
Total changes in equity recognised in the statement of financial performance	(964,314)
Transactions with owners as owners:	
Contributions of equity net of transaction costs	1,186,487
Total changes in outside equity interest	
Total equity at the end of the financial year	222,173

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 19 Financial instruments

(a) Credit risk exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

2005			Fixed interest maturing in:				
	Notes	Floating interest rate \$	1 year or less \$	Over 1 to 5 years \$	More than 5 years \$	Non- interest bearing \$	Total \$
Financial assets							
Cash and deposits	6	-	-	-	-	-	-
Receivables	7	-	-	-	-	18,061	18,061
Other financial assets	9	-	-	-	-	33,821	33,821
		-	-	-	-	51,882	51,882
Weighted average interest rate							
		-	-	-	-	-	
Financial liabilities							
Trade and other creditors	13	-	-	-	-	252,851	252,851
Bank overdraft and bank loans	14,15	24,510	31,358	78,880	-	-	134,748
Other loans	14	53,562	-	-	-	-	53,562
		78,072	31,358	78,880	-	252,851	441,161
Weighted average interest rate							
		8%	8%	8%	-	-	
Net financial assets/(liabilities)		(78,072)	(31,358)	(78,880)	-	(200,969)	(389,279)

(c) Net fair value of financial assets and liabilities

(i) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

The net fair value of all financial assets and liabilities at 30 June 2005 are considered to be their respective carrying values.

Note 20 Director and executive disclosures

Directors

The following persons were directors of King Equipment Limited during the financial year:

Chairman – Executive

Siegfried Konig

Non-executive directors

Sean Corbin

William Sylvester

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

Executive remuneration and other terms of employment are reviewed annually by the remuneration committee having regard to performance, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits.

Remuneration packages are set at levels that are intended to attract and retain first class executives capable of managing the consolidated entity's diverse operations and achieving the company's strategic objectives.

Remuneration and other terms of employment for the Managing Director and certain other senior executives are formalised in service agreements.

Remuneration of non-executive directors is determined by the Board.

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 20 Director and executive disclosures (continued)

Details of remuneration

Details of the remuneration of each director of King Equipment Limited, including their personally-related entities, are set out in the following table.

Directors of King Equipment Limited

Name	Cash salary and fees \$	Allowances \$	Superannuation \$	Reimbursement payments \$	Termination \$	Total \$
Siegfried Konig		61		91,393		336,544
Ewart Sylvester		23		14,563	9	239,212
Sean Corbin				-		22,000
Total		85	1	105,956	9	

Specified Executives of King Equipment Limited

Name	Position	Executives base wage \$	Superannuation \$	Other \$	Total \$
Jennifer Thompson	Company S	4,975		6,751	11,726
Total		4,975		6,751	11,726

Equity instrument disclosures relating to directors and specified executives

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Future Corporation Australia Limited, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of King Equipment Limited						
Siegfried Konig	-	-	-	6,810,000	6,810,000	6,810,000
Ewart Sylvester	-	-	-	1,963,750	1,963,750	1,963,750
Sean Corbin	-	-	-	-	-	-

No options are vested and unexercisable at the end of the year.

Share holdings

The numbers of shares in the company held during the financial year by each director of King Equipment Limited, including their personally-related entities, is set out below.

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of King Equipment Australia Limited				
Ordinary shares				
Siegfried Konig	-	-	6,342,500	6,342,500
Ewart Sylvester	-	-	2,723,750	2,723,750
Sean Corbin	-	-	90,000	90,000

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 21 Remuneration of auditors

2005
\$

Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:

Auditor of the parent entity – Pitcher Partners

10,000

Remuneration for other assurance services – Independent Accountants Report

Auditor of the parent entity – Pitcher Partners

16,000

Note 22 Contingent liabilities

There are no contingent liabilities.

Note 23 Commitments for expenditure

2005
\$

Lease commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

Within one year

73,312

Later than one year but not later than 5 years

18,802

Later than 5 years

-

92,114

Representing:

Non-cancellable operating leases

75,539

Future finance charges on finance leases

16,575

92,114

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year

64,747

Later than one year but not later than 5 years

10,792

Later than 5 years

-

75,539

Less: Liability recognised for surplus leased space under non-cancellable operating leases

-

Commitments not recognised in the financial statements

75,539

Finance leases

Commitments in relation to finance leases are payable as follows:

Within one year

37,524

Later than one year but not later than 5 years

89,289

Later than 5 years

-

126,813

Minimum lease payments

16,575

Less: Future finance charges

110,238

Recognised as a liability

-

Add: Lease incentives on non-cancellable operating leases included in lease liabilities

110,238

Total lease liabilities

Representing lease liabilities:

Current (note 14)

31,358

Non- current (note 15)

78,880

110,238

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 24 Employee benefits

	2005 \$
Employee benefit and related on-costs liabilities	
Included in other creditors – current (note 13)	-
Provision for employee benefits	-
Aggregate employee benefit and related on-costs liabilities	<u>-</u>
 Employee numbers	
Average number of employees during the financial year	<u>4</u>

Note 25 Related parties

Directors and specified executives

Disclosures relating to directors and specified executives are set out in note 20.

Disclosures relating to controlled entities are set out in note 26.

Note 26 Investments in controlled entities

Name of entity	Country of incorporation	Class of shares	Ownership 2005 %	Investment 2005 \$
Tian Gong Pty Ltd	Australia	Ordinary	100	1,350
SEM Australasia Pty Ltd	Australia	Ordinary	100	1,350
Jonyang Pty Ltd	Australia	Ordinary	100	<u>1,350</u>
				<u>4,050</u>

The controlled entities listed above have not traded during the period. Their collective net assets of \$4,050 have been disclosed in the financial statements as Intangibles – Trademarks.

Note 27 Event occurring after reporting date

There have been no significant events since balance date.

Note 28 Reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities

	2005 \$
(Loss)/profit from ordinary activities after income tax	(964,314)
Depreciation and amortisation (note 4)	21,834
Expenses paid through issue of shares	96,200
Change in operating assets and liabilities, net of effects from sale of controlled entity	
(Increase)/decrease in inventories	(495,008)
(Increase)/decrease in other operating assets	(51,882)
Increase/(decrease) in trade creditors	252,851
(Decrease)/increase in other operating liabilities	-
(Decrease)/increase in other provisions	-
Net cash outflow from operating activities	<u>(1,140,319)</u>

King Equipment Limited
Notes to the financial statements
For the year ended 30th June 2005

Note 29 Non-cash financing and investing activities

	2005
	\$
Acquisition of plant and equipment by means of finance lease	130,119
Payment for remuneration and services by means of issue of ordinary shares	212,885
	<u>343,004</u>

Note 30 Earnings per share

	2005
	Cents
Basic earnings per share (loss)	(4.3)
Diluted earnings per share (loss)	(2.7)
	Number
Weighted average number of shares used as the denominator	
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>21,986,000</u>
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<u>35,128,375</u>
	2005
	\$
Reconciliations of earnings used in calculating earnings per share	
Basic and diluted earnings per share	
Net (loss) for the period attributable to members	<u>(964,314)</u>

Note 31 International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has appointed the CEO to manage the transition to Australian equivalents to IFRS, including training of staff and systems and internal control changes necessary to gather all the required financial information. To date he has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under pending accounting standard AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

(i) *Income tax*

Under the Australian equivalent to IAS 12 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax effected if they are included in the determination of pre-tax accounting profit or loss and / or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

(ii) *Financial Instruments*

Under the Australian equivalent to IAS 39 *Financial Instruments: Recognition and Measurement* there may be major impacts as a result of financial assets held by the consolidated entity being subject to classification as either held for trading, held to maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost. The most likely accounting change is that investments in equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

King Equipment Limited and controlled entities Directors' declaration

The directors declare that the financial statements and notes set out on pages 13 to 32:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; 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.

This declaration has been made after receiving the declarations to be made to the Directors by the Managing Director and Company Secretary in accordance with Section 295 A of the Corporations Act 2001 for the year ended 30 June 2005.

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

A handwritten signature in black ink, appearing to be 'S Konig', is written over a horizontal line. To the right of the signature, there are two small dots, one above the other, separated by a vertical line.

S Konig
Director

Brisbane
30 September 2005



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

Level 21
300 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 35
Brisbane Qld 4001
Australia

Tel: 07 3228 4000
Fax: 07 3221 6420

www.pitcher.com.au
info@pitcherqld.com.au

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL - OFFICES THROUGHOUT THE WORLD

Independent audit report to the members of King Equipment Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for King Equipment Limited for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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.

Audit approach

We 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. The nature of the audit is influenced by factors such as the use of professional judgement, 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, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of their performance as represented by the results of their operations and cash flows.

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
- 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.

Audit Opinion

In our opinion, the financial report of King Equipment Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of King Equipment Limited as at 30 June 2005 and of its performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001

PITCHER PARTNERS

R C Brown
Partner

Brisbane, 30 September 2005

King Equipment Limited Shareholder Information

The shareholder information set out below was applicable at 27th September 2005.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding.

1	–	1,000
1,001	–	5,000
5,001	–	10,000
10,001	–	100,000
100,001	and over	

Class of Equity Security	
Shares	Options
0	0
1	84
57	31
104	50
29	27
191	192

B. Equity security holders

Twenty largest quoted equity security holders

Shares

The names of the twenty largest holders of quoted ordinary shares as at 30 September 2005 are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Jennifer Thompson (Konig FT A/C)	3,652,500	16.62%
Petra Winkelman	1,150,000	5.23%
Soquos Pty Ltd	1,072,500	4.88%
Farwest Equities Pty Ltd	1,000,000	4.55%
Hecado Pty Ltd	1,000,000	4.55%
Erro One Limited	783,750	3.57%
Heinz Schorpp (Sepp A/C)	782,500	3.56%
Niels J Kjellerup (Technology Innovation P/L)	770,000	3.50%
Sandra Konig (Konig – Lawrence A/C)	760,000	3.46%
Logical Technologies Pty Ltd	673,750	3.07%
Kalonda Pty Ltd (Leobowitz Super Fund A/C)	662,500	3.01%
UAS Holdings Ltd	600,000	2.73%
RB Production House Pty Ltd	515,000	2.34%
Ernst Rack & Hannelore Rack	500,000	2.27%
David Alan Stern	500,000	2.27%
Red Boulder Pty Ltd	400,000	1.82%
First Choice Unit Investments Pty Ltd	390,000	1.77%
Sylvestabri Pty Ltd (Sylvester Farming A/C)	300,000	1.36%
Siegfried Konig (Tara Konig A/C)	210,000	0.96%
Siegfried Konig (Mia Konig A/C)	210,000	0.96%
	15,932,500	72.49%

Options

The names of the twenty largest holders of quoted options as at 30 September 2005 are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Jennifer Thompson (Konig FT A/C)	4,152,500	21.29%
Petra Winklemann	1,150,000	5.90%
Soquos Pty Ltd	1,072,500	5.50%
Farwest Equities Pty Ltd	1,000,000	5.13%
Hecado Pty Ltd	1,000,000	5.13%
Erro One Limited	783,750	4.02%
Heinz Schorpp (Sepp A/C)	782,500	4.01%
Niels J Kjellerup (Technology Innovation A/C)	770,000	3.95%
Sandra Konig (Konig – Lawrence A/C)	760,000	3.90%
Logical Technologies Pty Ltd	673,750	3.45%
UAS Holdings Ltd	600,000	3.08%
Red Boulder Pty Ltd	521,875	2.68%
RB Production House Pty Ltd	515,000	2.64%
Ernst & Hannelore Rack	500,000	2.56%
David Alan Stern	500,000	2.56%
First Choice Unit Investments Pty Ltd	390,000	2.00%
Sylvestabri Pty Ltd (Sylvester Farming A/C)	300,000	1.54%
Siegfried Konig (Tara Konig A/C)	210,000	1.08%
Siegfried Konig (Mia Konig A/C)	210,000	1.08%
Siegfried Konig (Matt Dieter Konig A/C)	210,000	1.08%
	16,101,875	82.56%

C. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.