

# King Equipment Limited

ABN 69 109 947 051

## Annual report – 30<sup>th</sup> June 2006

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# **King Equipment Limited and its controlled entities**

## **Corporate Directory**

<b>Directors</b>	Siegfried Konig Executive Chairman
	Robert Oscar Joseph Non- Executive Director
	Sean Craig Corbin B.Bus (Acc), G Dip Man, CPA Non- Executive Director
	Kevin Wunsh Non- Executive Director
<b>Company Secretary</b>	Sean Craig Corbin
<b>Principal registered office</b>	7 Oak Street HAWTHORNE QLD 4171
<b>Share registry</b>	Link Market Services Limited Level 12 300 Queen Street BRISBANE QLD 4000
<b>Auditor</b>	Pitcher Partners Level 21 300 Queen Street BRISBANE QLD 4000
<b>Solicitors</b>	Hopgood Ganim Lawyers Level 8 1 Eagle Street BRISBANE QLD 4000
<b>Bankers</b>	Bank of Queensland 259 Queen Street BRISBANE QLD 4000
<b>Stock exchange listing</b>	King Equipment Limited shares are listed on the Newcastle Stock Exchange
<b>Website address</b>	<a href="http://www.kingequipment.com.au">www.kingequipment.com.au</a>

Dear Shareholders,

Over the past year the company and it's management team have been focussing on the core business and actively seeking and establishing additional business opportunities for KING. During that time the company has been successful in:

- securing the distribution rights for Jonyang track and wheeled excavators for Australia, New Zealand & Papua New Guinea. The excavators are being jointly branded with the company's KING brand. Initial units of excavators are working in Australia and as at the date of this report, more units are being shipped.
- securing the distribution rights for the Shanghai PengPu range of bulldozers for Australia and New Zealand. The bulldozers are branded with the company's own KING brand. We have received the first unit and expect to finalise the sale in the near future.
- securing the distribution rights for the Changlin range of wheel loaders and graders for Australia, New Zealand & Papua New Guinea. The company initially imported SEM brand wheel loaders, however the manufacturer was sold to a competitor of KING. The wheel loaders are sold under the company's KING brand and as at the date of this report, more units are being shipped.
- securing the distribution rights for the NHL Terex range of rigid dump trucks for Australia, New Zealand & Papua New Guinea. The dump trucks will be jointly branded with the company's KING brand.
- expanding the Australian distribution network. The Company now has dealers in NSW, WA, Victoria, Tasmania & Queensland and is in discussions with a number of others.
- Raising \$954,000 in the June 2006 fully underwritten rights issue in June 2006 to be used to build on the core business by providing the funds necessary to market this wider range of machinery, allow further stocks to be held in Australia and allow the Directors to seek out further opportunities to develop the KING range of products.

In summary, the Board of Directors are positive and excited about the progress that the company has achieved to date and are looking forward to further progressing the business over the next year.

Yours sincerely



**Siegfried Konig**  
**Chairman and Managing Director**

## DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of King Equipment Limited ("the company") and the entities it controlled at the end of, or during, the year ended 30<sup>th</sup> June 2006.

### Directors

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

S Konig  
S C Corbin

E Sylvester was a director of the company from the beginning of the year until his resignation on 21 January 2006.

R Joseph was appointed as a director 26 October 2005, and K Wunsh was appointed as a director on 5 June 2006. Both R Joseph and K Wunsh continue in office as at the date of this report.

### 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 \$733,367 (2005: loss of \$964,314) on revenues from ordinary activities of \$630,392 (2005: \$132,417).

### Dividends

No dividends have been paid during the year and the directors do not recommend the payment of a dividend.

### Earnings per share

	2006 Cents	2005 Cents
Basic earnings per share (loss)	(2.7)	(4.3)
Diluted earnings per share (loss)	(2.7)	(4.3)

### Significant changes in the state of affairs

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

	2006 \$
An increase in issued capital as a result of:	
Rights issue	1,107,750
Other placement	6,252
	<hr/>
	1,114,002
Less: Transaction costs arising on share issues	(216,133)
	<hr/>
Net increase in share capital	897,869
	<hr/>

### Matters subsequent to the end of the financial year

There are no significant events subsequent to the year end.

### Likely developments and expected results of operations

The company will continue to import construction equipment and will be seeking to expand its geographic base.

## Information on directors

### Siegfried Konig – age 55, Chairman and Managing Director

Mr Konig is a businessman and founder of the company's operations. Siegfried has over 25 years experience in business management with relationships in the Australian capital markets and public company sector. He has facilitated the listing of a number of public companies on the ASX including Telco Australia Limited, GPS Limited and Integrated Investments Limited.

### Sean Corbin age – age 41, Non-Executive Director

Mr Corbin is a postgraduate trained CPA with a background in operational and financial management. Sean also holds a Bachelor of Business (Accounting) from the University of South Australia and has over 16 years corporate and management experience. Mr Corbin has senior financial and operational management experience in both public companies and the private sector. Mr Corbin is also the Chairman and CEO of ASX listed Future Corporation Australia Limited.

### Robert Oscar Joseph - age 48, Non-Executive Director

Mr Joseph has more than 25 years of sales and business management skills and over 10 years experience in corporate finance. Robert is also a Director of SMA Finance, one of Australia's largest and most profitable brokerages.

### Kevin Wunsh – Non-Executive Director

Mr Wunsh has nearly 12 years experience in Australia, New Zealand, Canada and USA, predominantly in the areas of strategy, mergers and acquisitions, equity raisings and corporate tax. Kevin experience includes senior positions in the strategy practice at an international management consulting company in Sydney and New York and practice as a solicitor in the corporate group of leading national law firm, Freehills. Kevin holds both a Bachelor of Commerce and a Bachelor of Law Degree from the University of New South Wales and has an MBA Essentials Certificate from the University of Michigan Business School.

### 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:

	Shares	Options
Siegfried Konig	20,837,500	6,810,000
Sean Corbin	270,000	90,000
Robert Joseph	120,238	25,000
Kevin Wunsh	1,690,476	-

### Meetings of directors

The numbers of meetings of the company's Board of directors held during the year ended 30 June 2006, and the numbers of meetings attended by each director were:

	Meetings of Directors	
	A	B
Siegfried Konig	5	5
Sean Corbin	5	5
Robert Joseph	3	3
Ewart Sylvester	1	2
Kevin Wunsh	-	-

A = Number of meetings attended

B = Number of meetings held during the time the director held office

### Retirement, election and continuation in office of directors

In accordance with the constitution Mr Sean Corbin retires as a Director at the Annual General Meeting.

## 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 the company 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 the company for the year ended 30 June 2006 are set out in the following table.

#### *Non-executive directors of King Equipment Limited*

<i>Name</i>	<i>Directors' base fee</i> \$	<i>Superannuation</i> \$	<i>Other</i> \$	<i>Total</i> \$
Sean Corbin	22,000	-	-	22,000
Robert Joseph	12,000	-	-	12,000
Ewart Sylvester	-	-	-	-
Kevin Wunsh	-	-	-	-
<b>Total</b>	<b>34,000</b>	<b>-</b>	<b>-</b>	<b>34,000</b>

#### *Executive directors of King Equipment Limited*

<i>Name</i>	<i>Primary</i>		<i>Post-employment</i>		<i>Equity</i>	
	<i>Cash salary and fees</i> \$	<i>Allowances</i> \$	<i>Super-annuation</i> \$	<i>Termination payments</i> \$	<i>Options</i> \$	<i>Total</i> \$
Siegfried Konig	163,340	17,620	4,185	-	-	185,145
<b>Total</b>	<b>163,340</b>	<b>17,620</b>	<b>4,185</b>	<b>-</b>	<b>-</b>	<b>185,145</b>

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

**Non-executive directors of King Equipment Limited**

<i>Name</i>	<i>Directors' base fee</i> \$	<i>Superannuation</i> \$	<i>Other</i> \$	<i>Total</i> \$
Sean Corbin	22,000	-	-	22,000
Total	22,000	-	-	22,000

**Executive directors of King Equipment Limited**

<i>Name</i>	<i>Primary</i>		<i>Post-employment</i>		<i>Equity</i>	
	<i>Cash salary and fees</i> \$	<i>Allowances</i> \$	<i>Super-annuation</i> \$	<i>Termination payments</i> \$	<i>Options</i> \$	<i>Total</i> \$
Siegfried Konig	174,822	61,911	8,418	-	91,393	336,544
Ewart Sylvester	100,800	23,691	3,958	96,200	14,563	239,212
Total	275,622	85,602	12,376	96,200	105,956	575,756

The company does not have any other executives.

**Share options granted to directors**

There were no options over unissued ordinary shares of the company 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 the company under option at the balance date are as follows:

	<i>Number</i>	<i>Issue price of shares</i>	<i>Expiry date</i>
Listed options	19,504,375	25 cents	30 June 2009

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.

**Environmental Matters**

The company is not subject to any significant environmental legislation.

**Insurance of officers**

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

**Auditors Independence Declaration**

The Auditors Independence Declaration forms part of the Directors' Report and can be found on page 8.

**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.



Siegfried Konig  
Chairman and Managing Director

Brisbane, 4 October 2006



PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF KING EQUIPMENT LIMITED**

In relation to our audit of the financial report of King Equipment Limited and its controlled entities for the year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PITCHER PARTNERS

S A Green  
Partner

Brisbane, 4 October 2006



## CORPORATE GOVERNANCE STATEMENT

This documents sets out the principles of governance of King Equipment Limited (“the company”) and the conduct of the Board. The company adopted a corporate governance policy at a Board meeting held on 4 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.

The company’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](http://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 the company’s activities. The principal obligation of the company is to its shareholders through increasing shareholder wealth, and this is sought to be while commensurately recognising the interests of employees, customers, creditors, the communities in which the company operates, and other stakeholders.

### Role of the Board

The key responsibilities of the Board are to:

- Review, advance and approve the company’s:
  - objectives and strategies, and
  - capital management.
- Monitor the company’s businesses, financial performance, and corporate governance.
- Oversee the financial position of the company.
- 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 the company 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.

## **Board Membership**

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

- The Board has a majority of Non-Executive Directors.
- 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 the company. As such:

- 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.
- Non-Executive Directors regularly meet in private.
- Where reasonably necessary, Directors may obtain independent advice with prior notification to the Chairman.
- Directors are expected to be familiar with the company's strategy, operations, financing and risks; the company 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 the company'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 the company'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 the company as a whole.
- All Directors and employees must abide by the company's Code of Conduct.
- Directors and senior management must not use their position to trade in the company's securities, with all transactions being in accordance with the company's Securities Trading Policy.

## **Financial Standards**

The company 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 the company's financial condition and operating results.
- A sound and effective system of risk management and internal control is required, consistent with the company's Risk Management Policy.
- The company does not have a formally appointed Audit Committee rather the functions of the audit committee are performed by the Board as a whole.

## **Remuneration Standards**

The company'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 the company and the individual.
- The remuneration of Non-Executive Directors consists solely of fixed fees.
- The company'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:

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

## **Shareholder Communications**

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

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

# King Equipment Limited

## Financial report – 30<sup>th</sup> June 2006

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This financial report covers both King Equipment Limited as an individual entity and the consolidated entity consisting of King Equipment Limited and its controlled entities.

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

7 Oak Street  
HAWTHORNE QLD 4171

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 to 7.

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.

For queries in relation to our reporting please e-mail [sk@kingequipment.com.au](mailto:sk@kingequipment.com.au)

**King Equipment Limited and its controlled entities**
**Income Statement**

For the year ended 30<sup>th</sup> June 2006

		Parent	
	Notes	2006 \$	2005 \$
<b>Revenue</b>	5	<b>630,392</b>	132,417
Cost of goods sold	6	<b>(577,967)</b>	(101,705)
Employee benefits expense		<b>(49,887)</b>	(46,357)
Depreciation and amortisation expenses	6	<b>(38,657)</b>	(21,834)
Borrowing costs expense	6	<b>(38,690)</b>	(5,800)
Consultancy and management expenses		<b>(294,875)</b>	(623,117)
Reduction in the carrying amount of assets	6	<b>(5,000)</b>	-
Rental expense relating to operating leases	6	<b>(66,382)</b>	(53,956)
Other expenses from ordinary activities		<b>(292,301)</b>	(243,962)
<b>(Loss) before related income tax expense</b>		<b>(733,367)</b>	(964,314)
Income tax benefit/(expense)	7	-	-
<b>Net (loss) / profit</b>		<b>(733,367)</b>	(964,314)
		<b>Cents</b>	Cents
Basic earnings per share (loss)	30	<b>(2.7)</b>	(4.3)
Diluted earnings per shares (loss)	30	<b>(2.7)</b>	(4.3)

The Income Statement should be read in conjunction with the Notes to the Financial Statements

**King Equipment Limited and its controlled entities****Balance Sheet**As at 30<sup>th</sup> June 2006

	Notes	Parent 2006 \$	2005 \$
<b>Current assets</b>			
Cash and cash equivalents	8	157,880	-
Receivables	9	33,164	9,061
Inventories	10	249,315	495,008
Financial assets	11	7,000	-
Other	12	115,624	42,821
Total current assets		<u>562,983</u>	<u>546,890</u>
<b>Non-current assets</b>			
Property, plant and equipment	13	47,642	112,394
Intangible assets	14	4,050	4,050
Total non-current assets		<u>51,692</u>	<u>116,444</u>
<b>Total assets</b>		<u>614,675</u>	<u>663,334</u>
<b>Current liabilities</b>			
Payables	15	118,742	252,851
Interest bearing liabilities	16	93,788	109,430
Total current liabilities		<u>212,530</u>	<u>362,281</u>
<b>Non-current liabilities</b>			
Interest bearing liabilities	17	15,470	78,880
Total non-current liabilities		<u>15,470</u>	<u>78,880</u>
<b>Total liabilities</b>		<u>228,000</u>	<u>441,161</u>
<b>Net assets/(liabilities)</b>		<u>386,675</u>	<u>222,173</u>
<b>Equity</b>			
Parent entity interest			
Contributed equity	18	2,084,356	1,186,487
Retained (losses)/profits		(1,697,681)	(964,314)
Total parent entity interest		<u>386,675</u>	<u>222,173</u>
<b>Total equity</b>		<u>386,675</u>	<u>222,173</u>

The Balance Sheet should be read in conjunction with the Notes to the Financial Statements

**King Equipment Limited and its controlled entities**
**Statement of Changes in Equity**

For the year ended 30<sup>th</sup> June 2006

	Parent		
	<i>Contributed equity \$</i>	<i>Retained (losses) / profits \$</i>	<i>Total \$</i>
<b>Equity balances at 1 July 2004</b>	-	-	-
Placement of shares	1,186,487	-	1,186,487
Net (loss) / profit attributable to members of the parent	-	(964,314)	(964,314)
Equity balances as at 30 June 2005	1,186,487	(964,314)	222,173
<b>Equity balances at 30 June 2005</b>	1,186,487	(964,314)	222,173
Contributed capital raised by rights issue	1,114,002	-	1,114,002
Rights issue costs	(216,133)	-	(216,133)
Net (loss) / profit attributable to members of parent entity	-	(733,367)	(733,367)
Equity balances as at 30 June 2006	2,084,356	(1,697,681)	386,675

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements

# King Equipment and its controlled entities

## Cash Flow Statement

For the year ended 30<sup>th</sup> June 2006

	Notes	Parent 2006 \$	2005 \$
		Inflow / (Outflow)	
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of gst)		720,319	135,258
Payments to suppliers and employees (inclusive of gst)		(1,304,848)	(1,277,769)
		(584,529)	(1,142,511)
Interest received		117	7,992
Borrowing costs		(38,690)	(5,800)
<b>Net cash inflows / (outflow) from operating activities</b>	28	(623,102)	(1,140,319)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(21,178)	(4,109)
Payments for investments		(10,000)	-
Payment for intangible assets		-	(4,050)
<b>Net cash inflows / (outflow)/inflow from investing activities</b>		(31,178)	(8,159)
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		903,238	1,335,775
Payment of capital raising costs		(5,369)	(245,488)
Proceeds from borrowings		-	53,562
Repayment of borrowings / lease liabilities		(61,199)	(19,881)
<b>Net cash inflows / (outflows) from financing activities</b>		836,670	1,123,968
<b>Net increase/(decrease) in cash held</b>		182,390	(24,510)
Cash at the beginning of the financial year		(24,510)	-
<b>Cash at the end of the financial year</b>	8	157,880	(24,510)
Financing arrangements	16		
Non-cash financing and investing activities	29		

The Cash Flow Statement should be read in conjunction with the Notes to the Financial Statements



**King Equipment Limited and its controlled entities****Notes to the financial statements**For the year ended 30<sup>th</sup> June 2006

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# **King Equipment Limited and its controlled entities**

## **Notes to the financial statements**

For the year ended 30<sup>th</sup> June 2006

### **Note 1      Summary of significant accounting policies**

#### **(a)    Basis of preparation of the financial report**

King Equipment Limited and its controlled entities have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards ("AIFRS") from 1 July 2006.

In accordance with the requirements of AASB1: First time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions under AASB 1 have been applied. These consolidated accounts are the first financial statements of King Equipment Limited to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented. The consolidated entity has however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation and AASB 139: Financial Instruments: Recognition and Measurement.

#### **(b)    Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by King Equipment Limited as at 30 June 2006 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 income statement 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**

The charge for current income tax is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognized to the extent that it is probable that the company's income tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account which may be realised is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### **(d)    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.

#### **(e)    Trade and other Receivables**

All trade debtors are recognised at the amounts receivable.

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

#### **(f)    Inventories**

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

# King Equipment Limited and its controlled entities

## Notes to the financial statements

For the year ended 30<sup>th</sup> June 2006

### (g) Financial Instruments

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### *Financial Liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

#### *Available –for-sale financial assets*

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

#### *Impairment of Assets*

At each reporting date, the consolidated entity reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### (h) 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:

<i>Class of depreciable asset</i>	<i>Depreciation rate</i>
Plant and equipment	8%-30%
Leased plant and equipment	8%-30%

### (i) 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 income statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

### (j) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated cash outflows to be made for those benefits.

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

## **King Equipment Limited and its controlled entities**

### **Notes to the financial statements**

For the year ended 30<sup>th</sup> June 2006

#### **(k) Cash and cash equivalents**

For purposes of the cash flow statement, cash and cash equivalents 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.

#### **(l) Earnings per share**

Basic and diluted 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.

#### **(m) Comparative figures**

Where required by Australian equivalents to International Financial Reporting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

## **Note 2 Going concern**

This financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of assets and discharge of liabilities in the ordinary course of business.

The company and consolidated entity have incurred a loss from ordinary activities after income tax of \$733,367 (2005 : loss of \$964,314) for the year ended 30 June 2006. As a result of the financial performance of the company and consolidated entity outlined above, there is uncertainty whether the company and consolidated entity will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuation of the company and consolidated entity as a going concern is dependent upon their ability to achieve the following:

- The continued short term support of major creditors;
- Obtaining continued support from its financiers to be able to continue to pay its debts on a timely basis;
- Obtaining additional facilities, funding or capital from financiers, shareholders, Directors and/or related parties in order to achieve a sufficient working cash flow level; and
- The generation of future profits by the business activities.

The Directors currently believe that the company and consolidated entity will be successful in achieving the above objectives and accordingly have prepared the financial report on a going concern basis.

In the event that the company or consolidated entity does not achieve the above objectives, there is uncertainty whether the company or consolidated entity will continue as a going concern and, therefore, whether it will realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

## **Note 3 Implementation of International Financial Reporting Standards**

The implementation of Australian equivalents to International Financial Reporting has had no impact on the financial statements of the company.

## **Note 4 Segment information**

The company only operated in a single business segment in the reporting period.

**King Equipment Limited and its controlled entities**  
**Notes to the financial statements**  
For the year ended 30<sup>th</sup> June 2006

**Note 5            Revenue**

	Parent	
	2006	2005
	\$	\$
<i>Revenue</i>		
Revenue from sales of goods	604,986	121,225
Revenue from services	24,816	
	<u>629,802</u>	<u>121,225</u>
<i>Other income</i>		
Interest	117	7,992
Other	473	3,200
	<u>590</u>	<u>11,192</u>
Revenue	<u>630,392</u>	<u>132,417</u>

**Note 6            Profit/(loss) before Income Tax Expense**

**Expenses**

Cost of sales of goods	577,967	101,705
Depreciation and amortisation		
Plant and equipment	38,657	21,834
Other charges against assets		
Provision for write down to fair value	3,000	-
Provision for write down to recoverable amount	2,000	-
Total write downs	<u>5,000</u>	<u>-</u>
Borrowing costs		
Interest and finance charges paid/payable	38,690	5,800
Rental expense relating to operating leases		
Minimum lease payments	66,382	53,956

**King Equipment Limited and its controlled entities**  
**Notes to the financial statements**  
For the year ended 30<sup>th</sup> June 2006

**Note 7 Income tax expense**

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

	Parent	
	2006 \$	2005 \$
Net (loss) / profit before income tax expense	(733,367)	(964,314)
Income tax calculated at 30% (2005 – 30%)	220,010	289,294
Tax losses not recognised	(220,010)	(289,294)
Income tax expense / (benefit)	-	-

- (b) No part of the deferred tax assets is attributable to tax losses. The directors estimate that the potential income tax benefit in respect of tax losses not brought to account is:

	509,304	289,294
--	---------	---------

This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives 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 8 Current assets – Cash and cash equivalents**

	Parent	
	2006 \$	2005 \$
Cash at bank and on hand	157,880	-

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

Cash at bank and on hand	157,880	-
Less: Bank overdrafts (note 16)	-	(24,510)
Cash flow statement cash position	157,880	(24,510)

**Note 9 Current assets – Receivables**

Trade debtors	7,430	-
Other debtors	25,734	9,061
	33,164	9,061

**Other debtors**

These amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

**King Equipment Limited and its controlled entities**  
**Notes to the financial statements**  
For the year ended 30<sup>th</sup> June 2006

**Note 10 Current assets – Inventories**

	Parent	
	2006	2005
	\$	\$
Finished goods – at cost	251,315	495,008
Provision for write down to recoverable amount	(2,000)	-
	<u>249,315</u>	<u>495,008</u>

**Note 11 Current assets – Financial assets**

*Investments traded on organised markets*

Shares in listed entity – at cost	10,000	-
Provision for write down to fair value	(3,000)	-
	<u>7,000</u>	<u>-</u>

The investment included above includes the following:

Name	Principal Activities	Percentage Ownership		Carrying Amount	
		2006	2005	2006	2005
		%	%	\$	\$
Norton Gold Fields Limited	Mining	0.07	-	7,000	-
				<u>7,000</u>	<u>-</u>

**Note 12 Current assets – Other Assets**

Deposit on purchase of equipment	106,624	33,821
Security deposit	9,000	9,000
	<u>115,624</u>	<u>42,821</u>

**Note 13 Non-current assets – Property, plant and equipment**

**Plant and equipment**

At cost	88,667	134,228
Accumulated depreciation	(41,025)	(21,834)
Total plant and equipment	<u>47,642</u>	<u>112,394</u>

**Plant & equipment**  
**\$**

**Consolidated**

Carrying amount as at 30 June 2005	112,394
Additions	21,178
Disposals	(47,273)
Depreciation/amortisation expense (note 6)	(38,657)
Carrying amount as at 30 June 2006	<u>47,642</u>

**King Equipment Limited and its controlled entities**  
**Notes to the financial statements**  
For the year ended 30<sup>th</sup> June 2006

	Parent	
	2006 \$	2005 \$
<b>Note 14</b>		
<b>Non-current assets – Intangible assets</b>		
Trademarks	<u>4,050</u>	<u>4,050</u>

**Note 15**      **Current liabilities – Payables**

<i>Unsecured</i>		
Trade creditors	83,624	252,851
Other creditors	<u>35,118</u>	<u>-</u>
	<u>118,742</u>	<u>252,851</u>

**Note 16**      **Current liabilities – Interest bearing liabilities**

<i>Secured</i>		
Bank overdraft	-	24,510
Lease liabilities (note 23)	<u>21,314</u>	<u>31,358</u>

<i>Unsecured</i>		
Directors loans	<u>72,474</u>	<u>53,562</u>
	<u>93,788</u>	<u>109,430</u>

*Financing arrangements*

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

Credit standby arrangements

Bank overdraft facility	-	20,000
Related party loan facility	250,000	-
Used facility as at balance date	<u>177,526(7</u>	<u>(24,510)</u>
	<u>2,474)</u>	
Unused at balance date	<u>-</u>	<u>(4,510)</u>

The bank overdraft facilities may be drawn at any time.

**Note 17**      **Non-current liabilities – Interest bearing liabilities**

<i>Secured</i>		
Lease liabilities (note 23)	<u>15,470</u>	<u>78,880</u>

**Note 18**      **Contributed equity**

	Notes	Parent entity		Parent entity	
		2006 Shares	2005 Shares	2006 \$	2005 \$
(a) <i>Share capital</i>					
Fully paid ordinary shares	(c)	<u>75,767,738</u>	<u>22,720,000</u>	<u>2,084,356</u>	<u>1,186,487</u>



**King Equipment Limited and its controlled entities**  
**Notes to the financial statements**  
For the year ended 30<sup>th</sup> June 2006

(b) *Movements in ordinary share capital*

Date	Details	Number of shares	Issue price	\$
31 <sup>st</sup> August 2004	Founding shares	2,600,000	.0001 cents	260
31 <sup>st</sup> August 2004	Seed capital placements	536,000	\$0.500	268,000
31 <sup>st</sup> August 2004	Seed capital placements	100,000	\$1.000	100,000
31 <sup>st</sup> August 2004	Share reconstruction – 5 for 1 split	12,944,000		-
27 <sup>th</sup> September 2004	Share placement	770,000	\$0.100	77,000
8 <sup>th</sup> February 2005	Initial public offering issue	5,030,000	\$0.200	1,006,000
30 <sup>th</sup> June 2005	Share placement	740,000	\$0.130	96,200
	Share issue costs			(360,973)
30 <sup>th</sup> June 2005	Balance	22,720,000		1,186,487
5 <sup>th</sup> June 2006	Rights issue	52,750,000	\$0.021	1,107,750
30 <sup>th</sup> June 2005	Share placement	297,738	\$0.021	6,252
30 <sup>th</sup> June 2005	Share issue costs			(216,133)
		<b>75,767,738</b>		<b>2,084,356</b>

(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*

These issues represent options exercised during the year. Each option was converted into one ordinary share at the issue price noted above.

**Note 19 Financial Instruments**

(a) *Credit risk exposures*

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, 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.

2006			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 \$
<b>Financial assets</b>							
Cash and cash equivalents	8	-	-	-	-	157,880	157,880
Receivables	9	-	-	-	-	33,164	33,164
Financial assets	11	-	-	-	-	7,000	7,000
		-	-	-	-	198,044	198,044
Weighted average interest rate							
		-	-	-	-	-	
<b>Financial liabilities</b>							
Payables	15	-	-	-	-	118,742	118,742
Interest bearing liabilities	16 / 17	-	93,788	15,470	-	-	109,258
		-	93,788	15,470	-	118,742	228,000
Weighted average interest rate							
		-	8%	8%	-	-	
Net financial assets/(liabilities)							
		-	(93,788)	(15,470)	-	79,302	(29,956)

# King Equipment Limited and its controlled entities

## Notes to the financial statements

For the year ended 30<sup>th</sup> June 2006

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 \$
<b>Financial assets</b>							
Cash and cash equivalents	8	-	-	-	-	-	-
Receivables	9	-	-	-	-	9,061	9,061
Financial assets	11	-	-	-	-	-	-
		-	-	-	-	9,061	9,061
Weighted average interest rate							
		-	-	-	-	-	
<b>Financial liabilities</b>							
Payables	15	-	-	-	-	252,851	252,851
Interest bearing liabilities	16/ 17	24,510	84,920	78,880	-	-	188,310
		24,510	84,920	78,880	-	252,851	441,161
Weighted average interest rate							
		8%	8%	8%	-	-	
Net financial assets/(liabilities)							
		(24,510)	(84,920)	(78,880)	-	(243,790)	(432,100)

## Note 20 Key Management Personnel Information

### Directors

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

#### Chairman – Executive

Siegfried Konig

#### Non-executive directors

Sean Corbin  
Robert Joseph  
Kevin Wunsh

### Principles used to determine the nature and amount of remuneration

Executive remuneration and other terms of employment are reviewed annually by the Board 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.

#### 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.

**King Equipment Limited and its controlled entities****Notes to the financial statements**For the year ended 30<sup>th</sup> June 2006**Details of remuneration**

Details of the nature and amount of each element of the emoluments of each director of the company for the year ended 30 June 2006 are set out in the following table.

**Non-executive directors of King Equipment Limited**

<i>Name</i>	<i>Directors' base fee</i> \$	<i>Superannuation</i> \$	<i>Other</i> \$	<i>Total</i> \$
Sean Corbin	22,000	-	-	22,000
Robert Joseph	12,000	-	-	12,000
Ewart Sylvester	-	-	-	-
Kevin Wunsh	-	-	-	-
<b>Total</b>	<b>34,000</b>	<b>-</b>	<b>-</b>	<b>34,000</b>

**Executive directors of King Equipment Limited**

<i>Name</i>	<i>Primary</i>		<i>Post-employment</i>		<i>Equity</i>	
	<i>Cash salary and fees</i> \$	<i>Allowances</i> \$	<i>Super-annuation</i> \$	<i>Termination payments</i> \$	<i>Options</i> \$	<i>Total</i> \$
Siegfried Konig	163,340	17,620	4,185	-	-	185,145
<b>Total</b>	<b>163,340</b>	<b>17,620</b>	<b>4,185</b>	<b>-</b>	<b>-</b>	<b>185,145</b>

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

**Non-executive directors of King Equipment Limited**

<i>Name</i>	<i>Directors' base fee</i> \$	<i>Superannuation</i> \$	<i>Other</i> \$	<i>Total</i> \$
Sean Corbin	22,000	-	-	22,000
<b>Total</b>	<b>22,000</b>	<b>-</b>	<b>-</b>	<b>22,000</b>

**Executive directors of King Equipment Limited**

<i>Name</i>	<i>Primary</i>		<i>Post-employment</i>		<i>Equity</i>	
	<i>Cash salary and fees</i> \$	<i>Allowances</i> \$	<i>Super-annuation</i> \$	<i>Termination payments</i> \$	<i>Options</i> \$	<i>Total</i> \$
Siegfried Konig	174,822	61,911	8,418	-	91,393	336,544
Ewart Sylvester	100,800	23,691	3,958	96,200	14,563	239,212
<b>Total</b>	<b>275,622</b>	<b>85,602</b>	<b>12,376</b>	<b>96,200</b>	<b>105,956</b>	<b>575,756</b>

**Executives**

The company does not have any other executives.

**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.

<i>Name</i>	<i>Balance at the start of the year</i>	<i>Purchased during the year</i>	<i>Other changes during the year</i>	<i>Balance at the end of the year</i>
<b>Directors of King Equipment Limited</b>				
<b>Ordinary shares</b>				
Siegfried Konig	6,342,500	14,495,000	-	20,837,500
Sean Corbin	90,000	180,000	-	270,000
Robert Joseph	-	95,238	25,000	120,238
Kevin Wunsh	-	1,190,476	500,000	1,690,476

**King Equipment Limited and its controlled entities****Notes to the financial statements**For the year ended 30<sup>th</sup> June 2006**Options**

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.

<i>Name</i>	<i>Balance at the start of the year</i>	<i>Converted during the year</i>	<i>Other changes during the year</i>	<i>Balance at the end of the year</i>
<b>Directors of King Equipment Limited</b>				
<b>Options</b>				
Siegfried Konig	6,810,000	-	-	6,810,000
Sean Corbin	90,000	-	-	90,000
Robert Joseph	-	-	25,000	25,000
Kevin Wunsh	-	-	-	-

**Other transactions with directors**

First Choice Unit Investments Pty Ltd, a company related to Mr S Konig, has provided an unsecured loan facility to the company up to a limit of \$250,000. The loan has no set repayment terms and bears an annual interest rate of 9.00%.

During the financial year the following company forwarded loans to the company

	Parent	
	2006	2005
	\$	\$
Advances by Directors in funds or services	249,308	53,562
Repayment of Director loans	(230,396)	-
	<u>18,912</u>	<u>53,562</u>

**Note 21 Remuneration of auditors**

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	<u>20,000</u>	<u>10,000</u>
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Remuneration for other services:

Auditor of the parent entity	<u>1,250</u>	<u>16,000</u>
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**Note 22 Contingent liabilities and contingent assets**

The company has no known contingent liabilities or assets.

**Note 23 Commitments for expenditure***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	-	-
	-	<u>75,539</u>
Liability recognised for surplus leased space under non-cancellable operating leases	-	-
	-	<u>75,539</u>

# King Equipment Limited and its controlled entities

## Notes to the financial statements

For the year ended 30<sup>th</sup> June 2006

	Parent	
	2006	2005
	\$	\$
<i>Finance leases</i>		
Commitments in relation to finance leases are payable as follows:		
Within one year	24,328	37,524
Later than one year but not later than 5 years	17,250	89,289
Later than 5 years	-	-
Minimum lease payments	41,578	126,813
Finance charges	(4,794)	(16,575)
Lease liability	36,784	110,238
Representing lease liabilities		
Current (note 16)	21,314	31,358
Non-current (note 17)	15,470	78,880
Lease liability	36,784	110,238

## Note 24 Employee benefits

### Employee benefit and related on-costs liabilities

Included in other creditors – current (note 15)	-	-
Provision for employee benefits	-	-
Aggregate employee benefit and related on-costs liabilities	-	-

### Employee numbers

	Number	
Number of employees at end of the year	4	4

## Note 25 Related parties

### Directors and specified executives

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

### Wholly-owned group

The wholly-owned group consists of King Equipment Limited and the entities it controlled during the year. Transactions between King Equipment Limited and other entities in the wholly-owned group during the years ended 30 June 2006 and 2005 consisted of loans advanced and loans repaid and have been eliminated in full.

## Note 26 Investments in controlled entities

Name of entity	Country of incorporation	Class of shares	Equity Holding		Parent entity carrying amount	
			2006	2005	2006	2005
			%	%	\$	\$
Tian Gong Pty Ltd	Australia	Ordinary	100	100	1,350	1,350
SEM Australasia Pty Ltd	Australia	Ordinary	100	100	1,350	1,350
Jonyang Pty Ltd	Australia	Ordinary	100	100	1,350	1,350
					4,050	4,050

The investments in controlled entities have been recorded in note 14 to the financial statements as intangible assets. The controlled entities have not traded since being incorporated. The financial report of the parent entity reflects the financial report of the consolidated entity.

**King Equipment Limited and its controlled entities**  
**Notes to the financial statements**  
For the year ended 30<sup>th</sup> June 2006

**Note 27 Event occurring after reporting date**

There are no significant events to report post balance date.

**Note 28 Reconciliation of loss after income tax to net cash flow from operating activities**

	Parent	
	2006	2005
	\$	\$
Net (loss)/profit	(733,367)	(964,314)
Depreciation and amortisation (note 4)	38,657	21,834
Reduction in the carrying amounts of investments (note 4)	5,000	-
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 receivables	(24,103)	-
Increase/(decrease) in inventories	243,693	(495,008)
Increase/(decrease) in other assets	(72,803)	(51,882)
(Increase)/decrease in payables	(80,179)	252,851
Net cash outflow from operating activities	(623,102)	(1,140,319)

**Note 29 Non-cash financing and investing activities**

Acquisition of plant and equipment by means of finance lease	-	130,119
Issue of ordinary shares in payment for remuneration/services	210,764	212,885
	210,764	343,004

**Note 30 Earnings per share**

	Parent	
	2006	2005
	Cents	Cents
Basic earnings per share (loss)	(2.7)	(4.3)
Diluted earnings per share (loss)	(2.7)	(4.3)
	Number	Number
<b>Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	26,498,743	21,986,000
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	26,498,743	21,986,000
	2006	2005
	\$	\$
<b>Reconciliations of earnings used in calculating earnings per share</b>		
Basic and diluted earnings per share		
Net (loss) / profit attributable to members	(733,367)	(964,314)

## **DIRECTORS' DECLARATION**

- (1) The directors declare that the financial statements and notes set out on pages 13 to 30:
- (a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory financial reporting requirements; and
  - (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.
- (2) The Managing Director has declared that:
- (a) the financial records of the company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards in Australia; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
- (3) 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 is made in accordance with a resolution of the directors.



Siegfried Konig  
Chairman and Managing Director

Brisbane, 4 October 2006



PITCHER PARTNERS

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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KING EQUIPMENT LIMITED**

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the Directors' declaration for King Equipment Limited ("the company") for the year ended 30 June 2006.

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 an 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, 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 financial position, and of its performance as represented by the results of its 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.





**INDEPENDENT AUDIT REPORT  
TO THE MEMBERS OF KING EQUIPMENT LIMITED  
(continued)**

*Audit approach (continued)*

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 is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its 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.

**Inherent uncertainty regarding continuation of going concern**

Without qualification to the statement expressed above, attention is drawn to the following matter.

As a result of the matters described in Note 2 to the financial statements, there is significant uncertainty whether the company or consolidated entity will be able to continue as a going concern and, therefore, whether it will be able to pay its debts as they become due and payable and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company or consolidated entity not continue as a going concern.

PITCHER PARTNERS

S A Green  
Partner

Brisbane, 4 October 2006

## King Equipment Limited Shareholder Information

			Class of Equity Security	
			Shares	Options
1	–	1,000	-	-
1,001	–	5,000	2	84
5,001	–	10,000	43	31
10,001	–	100,000	109	50
100,001	and over		49	27
Total			203	192

### Equity security holders

#### *Twenty largest quoted equity security holders* Shares

The names of the twenty largest holders of quoted ordinary shares as at 27 September 2006 are listed below:

Shareholder	Number of Shares	Percentage of issued shares
Kalonda Pty Ltd <ATF The Leibowitz Super Fund A/C>	12,931,954	17.00%
Jennifer Thompson ( Konig FT A/C)	10,957,500	14.41%
Ivany Investment Company P/L	9,571,428	12.58%
Mr Paul Jacobs	3,571,428	4.70%
Grajoel properties Pty Ltd	2,857,143	3.76%
Kalonda Pty Ltd <Leibowitz Family A/C>	2,750,000	3.62%
Recycled Technologies (Pacific) Pty Ltd	2,310,000	3.04%
Sandra Konig (Konig – Lawrence A/C)	2,280,000	3.00%
First Choice Unit Investments Pty Ltd	2,273,807	2.99%
Farwest Equities Pty Ltd	1,740,000	2.29%
Kemir Pty Ltd <K&M Wunsh Family A/C>	1,690,476	2.22%
Ernst Rack & Hannelore Rack	1,597,738	2.10%
David Alan Stern	1,500,000	1.97%
Shirmic Pty Ltd	1,428,571	1.88%
Petra Winkelman	1,150,000	1.51%
Soquos Pty Ltd	1,072,500	1.41%
Hecado Pty Ltd	1,000,000	1.31%
Erro One Limited	783,750	1.03%
Heinz Schorpp (Sepp A/C)	782,500	1.03%
Technology Innovation Pty Ltd	770,000	1.01%
	63,018,795	82.85%

### Options

The names of the twenty largest holders of quoted options as at 27 September 2006 are listed below:

Name	Options	
	Number held	Percentage of issued Options
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%
Technology Innovation Pty Ltd	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%
	<hr/>	
	16,101,875	82.56%

### 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.