K&S CORPORATION LIMITED

# ANNUAL REPORT 2011

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## FINANCIAL CALENDAR

| | |
|---|---|
| Final dividend payment (5.0 cents per share) | 31 October 2011 |
| Annual General Meeting | 22 November 2011 |
| Half-year results and interim dividend announcement | 22 February 2012 |
| Interim dividend payment | 30 March 2012 |
| Full-year result and final dividend announcement | 22 August 2012 |
| Annual report mailed to Shareholders | 5 October 2012 |
| Final dividend payment | 31 October 2012 |
| Annual General Meeting | 20 November 2012 |

## CONTENTS

# HIGHLIGHTS

"To be the leading provider of transport and logistic solutions within our target markets in Australia and New Zealand."


- Revenue increased to $523 million
- New contract with CHEP
- Successful acquisition of Regal Transport Group
- Integrated Regal and Pacific Transport into one business unit
- Perth rail terminal completed
- Completed fully underwritten 1 for 6 Non-Renounceable Entitlement Offer
- Opened new depot in Broome

# CHAIRMAN'S OVERVIEW

TONY JOHNSON CHAIRMAN


**On behalf of the Board of K&S Corporation, I am pleased to present the Company's annual report.**

This has been a difficult year with weaker trading conditions on the east coast of Australia compounded by the impact of floods, Cyclone Yasi, the closure of the Wesley Vale and Burnie paper mills in Tasmania and the lane mix changes of OneSteel's distribution.

The continuing high value of the A$ has had a serious impact for the demand of locally manufactured goods, both for domestic purposes and export.

As a result of the higher A$ we continue to see increased levels of imported products that compete with locally manufactured goods.

The continued contraction of manufacturing and the softening of the Australian economy throughout the financial year has seen reduced volumes and demand for transport services which has impacted on net profit after tax.

Net profit after tax for 2010-11 was $14.8 million compared with $18.7 million for the 2009-10 financial year.

The closure of the Tasmanian Paper mills at Wesley Vale and Burnie had a major impact on the utilisation of our infrastructure across the mainland states with the reduction of over 320,000 tonnes of paper distribution volume.

Changes in the distribution mix of OneSteel's production from an interstate linehaul activity to a lower yielding local movement supporting the ongoing shift of volume to Pacific National operated steel trains also impacted our result negatively.

Earnings were impacted by the Brisbane floods in January and cyclone Yasi in early February. These two weather related events stopped all freight movements from the nation's manufacturing hub in Melbourne to Queensland for a period of three weeks. Flooding on the Nullarbor in February also stopped rail movements to Perth for a further two weeks.

The unusual climatic conditions in January and February further exacerbated the normal low seasonal volumes to unprecedented levels resulting in losses in both rail and road operations for this period.

Interest costs were up $3.2 million on higher debt levels and increased interest rates as a direct result of our recent acquisitions.

Operating revenue for the year was $523.4 million, an increase of 15.2% on the previous corresponding period.

The increase in revenue is a direct result of our recent Western Australian acquisitions of Regal and Pacific transport whilst the traditional east coast business revenues declined due to the mill closures in Tasmania, shift of product to the steel trains and weather events.

Our gearing now stands at 26.4%, which is within our target range.

Earnings per share were 18.3 cents.

Management is extremely focused on winning new business and reducing operating costs.

In December 2010 we merged the operations of both Regal and Pacific into a single large North West focused business unit. During the merger of these two businesses we experienced some cultural and people related issues. The majority of these issues have been resolved and the merged business has performed strongly in recent months.

The performance of this business, since acquisition, has been broadly in line with our expectation.

We have commenced a fleet reduction programme which will match the local fleet size with current customer demand. This fleet rationalisation will improve productivity and utilisation of our equipment.

All non critical capital expenditure will be deferred until the economy shows signs of a positive recovery. These measures will result in a reduction in our overall fixed costs.

Variable costs which include overtime, subcontractors and agency labour are being closely monitored to ensure that costs are minimised.

On December 29, 2010, K&S successfully completed a fully under-written one for six Non-Renounceable Entitlement Offer. The entitlement offer raised net proceeds of $25.9 million which were used to retire debt.

We expect interest costs to reduce in the new financial year as a result of the equity raising and the reduced capital spending.

We have declared a fully franked final dividend of 5.0 cents per share (last year 7.0 cents per share). This follows the interim dividend of 5.0 cents per share paid in March 2011, making a total dividend of 10.0 cents per share. The final dividend will be paid on 31 October 2011, with the date for determining entitlements being 17 October 2011.

The Dividend Reinvestment Plan (DRP) will once again be part of the October 2011 dividend. The DRP will apply in respect of the fully franked final dividend of 5.0 cents payable on 31 October 2011.

The terms of the DRP will remain unchanged with issue price under the DRP based on the weighted average trading price for K&S shares in the five business days ending on 17 October 2011 (the record date of the final dividend) less a discount of 2.5%.

Providing earnings guidance going forward remains difficult. The strong A$ continues to impact on Australian manufacturers.

The outlook for paper appears to be subdued, while the impact of a potential carbon tax remains another issue that will need to be factored in during the 2012 financial year.

The purchase of Perth-based Regal Transport in July 2010 following the earlier purchase of Pacific Transport in January 2010 has provided us with the capacity and resourcing necessary to successfully target opportunities arising from the large gas, oil and resources developments in Western Australia.

We see this as being a significant area of growth for the Company in the future.

Despite the difficulties of the past 12 months, K&S has a strong Balance Sheet and low gearing with secure customer contracts.

On behalf of the Board, I thank our customers, suppliers and employees, who have contributed to our continuing success. In particular, I thank the senior management team, led by Legh Winser, for their ongoing commitment and dedication in what has been a testing period.

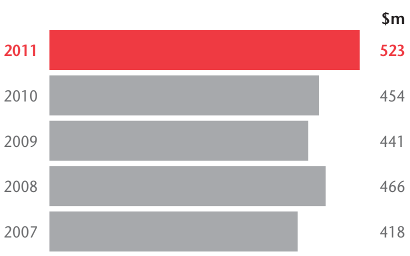
A J Johnson

**Tony Johnson**
Chairman

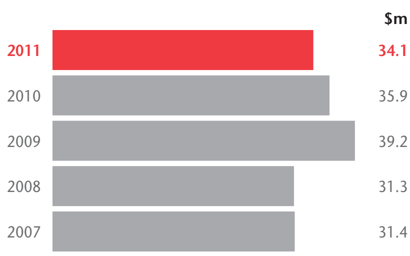
# FINANCIAL OVERVIEW

| | | 2011 | 2010 | % movement |
|---|---|---|---|---|
| Revenue | $m | **523.4** | 454.3 | 15.2 |
| Operating profit before interest, tax and depreciation | $m | **54.7** | 51.7 | 5.8 |
| Operating profit before interest and tax | $m | **29.6** | 31.5 | (6.2) |
| Operating profit before tax | $m | **21.2** | 26.3 | (19.6) |
| Operating profit after tax | $m | **14.8** | 18.7 | (20.9) |
| Dividends paid | $m | **8.4** | 7.7 | 9.1 |
| Total assets | $m | **388.0** | 326.1 | 19.0 |
| Net borrowings | $m | **76.7** | 52.3 | 46.7 |
| Shareholders' funds | $m | **213.6** | 179.1 | 19.3 |
| Depreciation and amortisation | $m | **25.1** | 20.1 | 24.6 |
| Earnings per share | cents | **18.3** | 26.3 | (30.4) |
| Dividends per share | cents | **10.0** | 14.0 | (28.6) |
| Net tangible assets per share | $ | **1.65** | 1.85 | (10.8) |
| Cash flow per share | $ | **0.39** | 0.50 | (22.0) |
| Return on Shareholders' funds | % | **6.9** | 10.5 | (34.3) |
| Gearing | % | **26.4** | 24.5 | 7.8 |
| Lost time injuries | | **36.0** | 30.0 | 20.0 |
| Lost time injuries frequency rate | % | **9.0** | 9.0 | 0.0 |

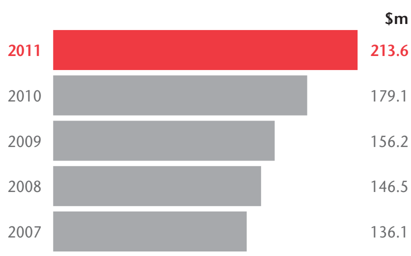
## OPERATING REVENUE



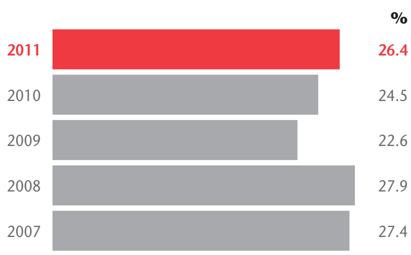

## OPERATING CASH FLOW




## SHAREHOLDERS FUNDS




## GEARING



# MANAGING DIRECTOR'S REPORT

**LEGH WINSER** MANAGING DIRECTOR

**Trading conditions in 2010-11 were extremely difficult for K&S. The combination of a softening economy, high exchange rates, strong interest rates and natural disasters slowed our east coast operations significantly.**

Lower steel volumes on the back of reduced production, de-stocking and a change in product and distribution mix impacted on operations through the first three quarters of the year. However, by the fourth quarter domestic steel volumes had shown some recovery on the back of several major infrastructure projects, while our strategy of targeting work in the oil, gas and resources sectors in Western Australia progressed well.

The closure of the Wesley Vale and Burnie paper mills in Tasmania impacted on our paper operations, while economic and climatic conditions also affected operations in New Zealand.

Net profit after tax was $14.8 million, 20.9% below the result for the previous year, but in line with advice provided to Shareholders during the year.

Operating revenue for the year was $523.4 million, after first half earnings of $264.7 million, compared with $454.3 million for the 2009-10 financial year.

## Operations

The soft economic conditions, high A$ and extreme weather events early in 2011 adversely affected K&S' core business operations.

Our steel operations in particular were adversely affected with volumes carried for BlueScope and OneSteel falling significantly, although OneSteel reported an encouraging upswing in activity after April.

K&S, through DTM, was successful in converting a short term contract with OneSteel to carry steel tubing into a long term contract.

# MANAGING DIRECTOR'S REPORT

**Operations** continued

Our relationship with these companies remains strong and places us in a sound position to improve our revenue base when the economy recovers and volumes increase.

Despite the tough conditions, K&S was able to retain all its major customers and successfully extended a number of major contracts including:

- **Laminex** – a new five year contract for the national transportation of product.
- **Pacific Steel** – a 12 month extension to its Australian transport business.
- **Chep** – K&S Freighters rolled over parcels of linehaul business. This is additional to the business held by DTM in Western Australia and New South Wales.

Bulk operations recorded an increase in overall volumes, but were affected by a number of external factors.

Queensland Magnesia, based at Rockhampton, was impacted by flooding in early 2011, while sugar volumes were also down as a result of Cyclone Yasi, which devastated Queensland sugar plantations and cut the season short.

Cement Australia operations from Gladstone performed well, as expected.

Holden's introduction of its new Cruze model this year has proven beneficial for our contract with GM Holden. This work involves the storage and transport of steel coil into Elizabeth and the provision of local transport support to Business Park operations and was recently extended for three years.

## Perth Rail Terminal

The construction of K&S' new state-of-the-art rail terminal in Perth on Pacific National land in Kewdale was completed in January 2011 and is now in operation. This was developed as part of a five-year contract signed with Pacific National in 2009 for its rail linehaul services.

The closure of the Wesley Vale and Burnie paper mills in Tasmania and the earthquake and subsequent tsunami which hit Japan in March affected our paper transport business.

PaperlinX volumes were affected by the high A$ and increased levels of imports, but increases in K&S' warehousing operations have gone some way to countering reductions in road transport operations. The Norske Skog contract remains solid.

The construction of K&S' new state-of-the-art rail terminal in Perth on Pacific National land in Kewdale was completed in January 2011 and is now in operation. This was developed as part of a five-year contract signed with Pacific National in 2009 for its rail linehaul services.

The new facility, which involved capital expenditure of $11 million, provides K&S with additional capacity and will help drive down operating costs.

The Perth-based operations of Brookes have now been located at a K&S owned site at Kewdale, providing additional efficiencies and savings.

The consolidation of our three Sydney operations onto adjoining properties at Enfield was also completed during the year and is producing significant operational efficiencies and productivity improvements. This facility is being shared with DTM.

K&S' fleet replacement program was largely completed during the year and is now on maintenance. We continue to look at ways to reduce energy use and have a number of green trial tests underway.

While east coast operations were depressed, the situation in Western Australia was more positive with the purchase of Regal Transport and the consolidation of Regal and Pacific into one North West business unit.

The Laminex and Wespine operations performed to expectations and our contract with Gunnersens for the transport of imported timber across Australia also remains strong.

## Project Services/Oil & Gas Logistics

In December 2010, K&S commenced contracted linehaul services for French oil and gas company, Total E&P, to drill two wells off Darwin. During the six month campaign, over 200,000 kilometres were travelled transporting 2,500 freight tonnes with no service delivery failures. Due to the success of this campaign, Total E&P has awarded K&S the contract to perform similar linehaul services to Broome in 2012 for a three well program.

K&S utilising Regal Transport, provided heavy haulage transport for Woodside Energy Limited from Dampier to Perth supporting the Pluto project. At the client's request, these 30 tonne valves were skated into position undercover at the K&S Sheffield Road depot.

K&S currently has long term storage of core samples for Japanese oil & gas company Inpex. K&S looks to build on this relationship to support the Ichthys project off Broome.

K&S is currently in discussion with several major oil and gas companies to provide supply base operations in Broome. K&S is also working with international freight forwarders who are bidding on major projects in the resource industry.

## DTM

Earlier this year, DTM won a tender to transport steel products within New South Wales for BlueScope Lysaght. This means DTM is now one of only two major transporters for BlueScope Lysaght distribution in New South Wales.

DTM was also able to convert a short term contract from OneSteel to carry steel, tube aluminium and stainless steel products from the Geelong, Dandenong, Scoresby and Newcastle sites into a long-term agreement.

The original contract was awarded at short notice in December 2009 after the collapse of the incumbent carrier. OneSteel provided DTM with a long-term extension, recognising its outstanding performance in providing cost and service improvements.

Work with pallet and container pooling group Chep in New South Wales and Western Australia has grown organically and we have been able to achieve significant operational improvements from the fleet servicing this contract. Scheduling services for both regions are now also provided by DTM.

A new fleet of vehicles has been introduced to handle the Air Liquide Australia work in South Australia, Victoria and New South Wales. This fleet upgrade involved some 20 vehicles.

DTM has also begun work with Caltex to distribute lubricating oil and lubricants from Melbourne to Adelaide, while work to distribute lubricants for BP continues.

# MANAGING DIRECTOR'S REPORT

**DTM** continued

A new freight management system will be introduced to the DTM business in the next 12 months, providing a range of improvements including further enhanced package track and trace capabilities.

## Regal/Pacific

The Regal Transport Group was purchased by K&S in July 2010 and in December amalgamated with Pacific Transport, which K&S had purchased earlier in the year, to form Regal Transport.

The combined businesses provide K&S with a range of transport services including general freight and heavy haulage in support of businesses based in the Pilbara and Kimberley regions of Western Australia. These operations are supported by depots in Perth, Port Hedland, Karratha and Newman as well as Broome and Derby.

Major customers include MacMahon, Mount Gibson Iron, Kimberley Diamond Company, HWE Mining, Pilbara Manganese, Thiess, Emeco, Westrac, Hitachi, BGC and OneSteel.

While initial activity following the consolidation was weaker than expected, this was largely the result of slower economic conditions in January and February. Since March, Regal Transport has shown strong growth with the major oil, gas and resources projects in Western Australia expected to underpin continued improvement in the year ahead.

The operations are also now benefitting from synergies achieved as a result of the merger, including the closure of the Pacific Transport depot in Perth and consolidation of its operations into the Regal depot.

The freight business currently services mining, construction, oil and gas and retail markets in the North West, including retail outlets, mining work camps, mine sites and the Curtin Detention Centre. It also includes a refrigerated transport component. This work is also expected to grow as construction commences on planned infrastructure projects in Western Australia.

The heavy haulage business in particular offers good opportunities with the movement of heavy machinery to new mines and support to infrastructure projects in the State's North West. The forecast is for continued improvement in this market sector.

Regal Transport's compliance with national safety and quality standards is attracting greater attention and helping it to win additional work as the importance of compliance becomes better understood.

## Business Development

Western Australia is a major focus for K&S, especially the rapidly expanding oil, gas and resources sectors.

The acquisition of the Regal Group provided us with the critical mass and expertise to tender for this work and we are currently bidding on a number of major contracts on new gas and resources developments.


Activity on the east coast of Australia has been difficult with the impact of the high A$ and slowing economy affecting the volume of work.

However K&S has been able to retain all its existing major customers, including negotiating an extension to its Pacific Steel contract.

This places the Company in a strong position once the economy recovers and transport volumes return to previous levels.

## New Zealand

Conditions in New Zealand throughout 2010-11 were challenging with the high NZ$ and abnormal weather conditions impacting on major export industries.

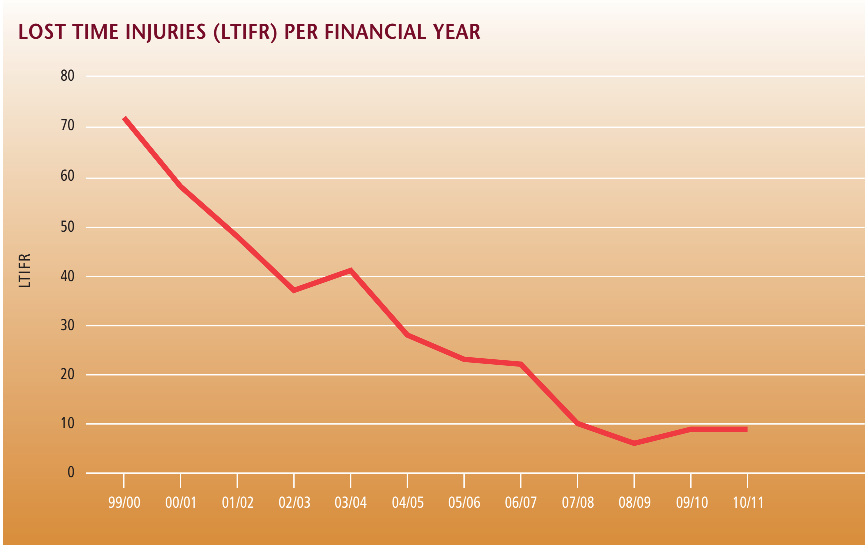
The forestry industry was affected by volatility in the exchange rate with export levels falling and major timber mills shedding volume. Efforts during the year to open new markets in Asia were unrewarded, while domestic sales were flat, reducing the amount of timber carried by K&S.

Increased volumes of paper were imported as a result of the high NZ$. This resulted in Norske Skog contracting K&S to carry all paper that was previously carried by rail to Auckland. This has been positive for K&S and provides a solid domestic base for our operations.

Drought conditions in New Zealand reduced the amount of dairy product produced by Fonterra for export in the first half of the financial year.

However, good weather conditions in February and March have boosted feed levels and provide a more optimistic outlook, although stock numbers are currently at relatively low levels.

# MANAGING DIRECTOR'S REPORT




## New Zealand continued

Kiwi fruit volumes rose 10% during 2010-11, but the year ahead will depend on the success of efforts to contain the bacterial infection PSA which has devastated some kiwi fruit orchards in the Bay of Plenty.

## Human Resources

Human resource management within K&S was again challenged by the slowing economy, which affected the general transport industry.

This resulted in significant attention being paid to retention and development of our people to ensure ongoing customer service focus and stability within the Group.

Safety and skill development remained a key commitment across the broader workforce and we made significant investment in management development programs to enhance the career progression of key personnel within the business.

Our commitment to equal opportunity across the Group was strongly promoted.

The Company has broadened its commitment to employment opportunities with the formalisation earlier this year of an Indigenous Employment Policy and the development of a relationship with the Department of Education, Employment Workplace Relations. This relationship is designed to help engage and develop indigenous employees in key skill shortage areas of our business nationally.

Industrially we have maintained stability during a period of increased union activity in pursuit of wage claims.

## Environment

K&S has completed and submitted its reporting obligations under the National Greenhouse and Energy Reporting Act and the Energy Efficiency Opportunity Program.

During the full year 2010, K&S generated 115,000 tonnes of $CO_2$ equivalent and continues to look for ways to reduce its emissions and energy consumption.

The Government has announced the details of its carbon tax which is proposed to be implemented on 1 July 2012. The road transport industry will be excluded from the tax until July 2014. Carbon will be priced initially at $23 per tonne rising at 2.5% per year in real terms. It will be replaced by an emissions trading scheme from 1 July 2015.

The target of the tax is the 500 largest polluters. According to the Government the most exposed industries are steel, aluminium, zinc and pulp and paper. These industries will receive free permits to assist them with the introduction of the carbon tax.

These industries represent a significant part of our customer base and we will monitor with interest the impact of the carbon tax on them.

K&S is continuing to work with the Australian Trucking Association (ATA) on a number of environmental initiatives.

Our fleet upgrade program was recently completed, ensuring we have the latest model vehicles with the lowest possible emissions.

## Information Technology

The introduction of an on-line induction program for agency drivers was completed during the year. This enables non K&S drivers to complete their basic induction on-line before entering K&S facilities, reducing costs and improving efficiency and safety.

Regal and Pacific telecommunications were integrated within K&S, providing significant cost savings on fixed, mobile and data networks.

The integration of rail and sea modules with the Panorama Transport Management System was completed and successfully deployed during the year, providing K&S with a common transport management system across all modes of transport.

Panorama provides an improved ordering system, track and trace capabilities and a flexible system able to integrate with customer platforms.

A new freight management system will be introduced to the DTM business in the next 12 months which will provide greater flexibility and capacity for future growth.


## Quality, Occupational Health, Safety, Environment and Compliance

K&S maintained its strong focus on injury prevention, claims and rehabilitation of injured employees.

This focus, driven by the strong leadership of the Managing Director and Executive Managers, has enabled K&S to maintain lost time frequency rates at industry low levels *(refer graph on page 10)* while absorbing new acquisitions.

Quality, OHS&E and Compliance activities were integrated during the year to improve efficiencies within K&S.

The integration of these areas has enabled common issues to be more quickly identified and far more efficient implementation of effort.

Following the acquisition of Regal Transport in July 2010, a detailed OHS&E training program was undertaken to bring former Regal staff and operations into line with K&S standards nationally.

A significant amount of work has been undertaken to maintain lost time injury rates at current low levels, despite the increase in staff and movements as a result of the Regal and Pacific Transport acquisitions.

Since 2005-06, staff levels at K&S have almost doubled to 1900 nationally. However, the lost time injury rate has continued to remain in single digit levels.

This coincides with greater resources being allocated to OHS&E and Compliance matters.

Other key initiatives undertaken during the year to maintain or improve the strong focus on safety include:

- The Safety Walk, Safety Talk program has been updated and now incorporates KPI's.
- Monthly toolbox meetings continue to raise training awareness.
- Audits of K&S' prevention, claims and rehabilitation processes were completed. They were found to be compliant with relevant standards ensuring the Company meets its conditions as a self insurer under the Commonwealth OH&S and Workers Compensation Schemes.
- Safety targets were set and applied to all levels of the organisation and to individuals.

**Quality, Occupational Health, Safety, Environment and Compliance** continued

- Performance against these targets was tracked monthly to identify specific areas requiring improvement or a specific focus.
- All policies and consultation structures across the organisation were reviewed to ensure compliance and the development of the company Health and Safety Management arrangements.
- A roadshow training program in safety prevention and risk management principles was delivered to all managers and supervisors, with a particular focus on Regal and Pacific.

K&S was required to provide a Licence Improvement Program to Comcare under the terms of its licence. This covers injury prevention, rehabilitation and claims management. The report was completed and forwarded on time.

One key area of attention relates to harmonisation of OH&S laws across all Federal, State and Territory jurisdictions. The policy is being driven by COAG with Safe Work Australia developing national standards and codes of practice. A draft model Work Health and Safety Act (WHS) was released for comment in September 2009 and in December 2010.

K&S has participated in workshops to discuss these draft codes and regulations and is undertaking considerable work to understand how our obligations under Comcare will fit in with the harmonisation process.

K&S has also taken a leading role in the development of Loading Unloading Exclusion Zones (LUEZ) guidelines for industries within the supply chain.

The LUEZ Steering Committee consisted of K&S Freighters, Akzo Nobel, OneSteel, Linfox and WorkSafe Victoria supported by the Victorian Transport Association and Transport Workers Union Vic/Tas through SafetyAssist.

Incidents arising from interaction between equipment and people during loading or unloading are some of the most significant areas of injury for truck drivers and mobile plant equipment operators across the transport and related industries.

Safety leadership and ongoing integration of safety into daily operating systems continues to be a priority to reduce risk and injuries to our employees.

## Compliance

K&S continues to be accredited to ISO 9001:2008 standards.

It has also maintained accreditation under the National Heavy Vehicle Accreditation scheme for Mass Management and Fatigue and Maintenance, TruckSafe, WA Heavy Vehicle Accreditation and HACCP (food safety). We continue to work with our clients and the peak industry body to ensure the application of compliance obligations throughout the transport industry and all other affected industries.

## Industry Representation

K&S remains a member of the ATA Council, where it is represented on the Safety Committee, the Skills and Workforce Committee and the Transport Economics Committee.

The Company has participated in work involving the establishment of a single national heavy vehicle regulator.

The regulator has now developed the Heavy Vehicle National Law Draft Regulatory Impact Statement, which addresses inconsistencies in road law across Australia and has identified some 368 different road rules or inconsistencies across jurisdictions.

Efforts will be made to address these inconsistencies to bring about common road laws across all states and territories.

New speed compliance laws developed by the National Transport Commission for the heavy vehicle industry have now been introduced across Australia with the WA Government introducing the regulations this year.

Training programs have been held to ensure all K&S drivers are aware of their responsibilities under the new legislation.

## The Year Ahead

We will continue to implement a number of expansion initiatives aimed mainly at the oil, gas and resource sectors in Western Australia.

In conclusion, I extend my thanks to our customers for their business and support, the Board for their ongoing support and, management and employees for their commitment to the business.

**Legh Winser**
Managing Director

# BOARD OF DIRECTORS

**TONY JOHNSON** CHAIRMAN

**LEGH WINSER** MANAGING DIRECTOR

**GREG BOULTON** DEPUTY CHAIRMAN

The Directors of the Company in office at the date of this report, together with particulars of their qualifications, experience and special responsibilities, are set out below.

**Tony Johnson** *Chairman*

Age 64, Director since 1986

Tony Johnson BA, LLB, LLM, FAICD (Companies & Securities), is a lawyer and an accredited mediator.
Tony is Chairman of the national law firm Johnson Winter & Slattery. He has worked extensively in the corporate advisory and commercial disputes area. Mr Johnson is also Chairman of AA Scott Pty Ltd, listed entity Scott Corporation Limited and Director of Adelaide Community Healthcare Alliance.

Member of:

- Environmental Committee *(Chairman)*
- Nomination and Remuneration Committee

**Legh Winser** *Managing Director*

Age 63, Director since December 1999

Legh Winser, has more than 39 years experience in the transport industry. Prior to his appointment as Managing Director in January 1998 he previously held other Executive positions within the Company.

Member of:

- Nomination and Remuneration Committee
- Environmental Committee

**Greg Boulton AM** *Deputy Chairman*

Age 61, Director since January 1996

Greg Boulton BA(Accountancy), FCA, FCPA, FAICD is Chairman of private equity fund Paragon Equity Limited, Chairman of Southern Gold Limited, Director of Statewide Superannuation and holds board positions on a number of privately owned companies. He has over 30 years experience in transport related industry.

Member of:

- Audit Committee

RICHARD NICHOLSON

RAY SMITH

BRUCE GRUBB

CHRIS BRIGHT SECRETARY

### Richard Nicholson

Age 68, Director since 1986

Richard Nicholson ACA, is a Chartered Accountant in public practice. He was previously the Company Secretary and Finance Officer of the Scott Group of Companies and is a former Non-Executive Director of that Group.

Member of:

- Nomination and Remuneration Committee *(Chairman)*

### Bruce Grubb

Age 61, Director since 2007

Bruce Grubb has over 30 years experience in the transport industry and is the former Chief Executive and remains Executive Director of Scott Transport Industries Pty Ltd. Mr Grubb is also a Non-Executive Director of the listed entity Scott Corporation Limited and a Director of DGL (Aust) Pty Ltd.

Member of:

- Environmental Committee

### Ray Smith

Age 64, Director since 2008

Ray Smith FCPA, FAICD, Dip Com was Chief Financial Officer of Smorgon Steel Group for 11 years. During that period Smorgon Steel Group was at the forefront of the rationalisation of the Australian Steel Industry. Mr Smith is a Director of listed entity WHK Group Ltd and Transpacific Industries Limited. Mr Smith is a trustee of the Melbourne and Olympic Parks Trust. Mr Smith brings a wealth of corporate and financial experience in the areas of strategy, acquisitions, treasury and capital raising.

Member of:

- Audit Committee *(Chairman)*

## Secretary

**Chris Bright** *Secretary since 2005*

Chris Bright BEc, LLB, Grad Dip CSPM, FCIS has held the position of Group Legal Counsel for 9 years. Mr Bright was admitted as a solicitor in South Australia in 1997. He also has experience working in private practice in Adelaide, principally in commercial dispute resolution.

# FIVE-YEAR FINANCIAL HISTORY

| ($A Millions unless otherwise indicated) | 2011 | Variation % | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Group Revenue | **523.4** | 15.2 | 454.3 | 441.0 | 466.1 | 418.0 |
| Operating Profit before Individually Significant Items, Interest and Tax | **29.6** | (8.9) | 32.5 | 27.9 | 33.4 | 28.5 |
| Individually Significant Items & Fraud | - | - | - | 2.5 | - | 0.8 |
| Operating Profit before Interest and Income Tax | **29.6** | (7.3) | 31.5 | 30.4 | 33.4 | 29.3 |
| Interest Expense | **8.4** | 61.1 | 5.2 | 5.3 | 5.4 | 5.0 |
| Profit Before Tax | **21.2** | (19.6) | 26.3 | 25.0 | 28.0 | 24.3 |
| Income Tax Expense | **6.3** | 16.3 | 7.6 | 6.9 | 8.3 | 7.3 |
| Operating Profit after Tax | **14.8** | (20.9) | 18.7 | 18.2 | 19.7 | 17.0 |
| Earnings per Ordinary Share (cents) | **18.3** | (30.4) | 26.3 | 26.1 | 28.6 | 25.3 |
| Dividends per Share (cents) | **10.0** | (28.6) | 14.0 | 12.0 | 16.0 | 14.0 |
| Return on Shareholders Funds | **6.9%** | (34.3) | 10.5% | 11.6% | 13.4% | 12.5% |
| Paid Up Capital | **94.3** | 46.1 | 64.5 | 57.4 | 55.4 | 52.8 |
| Shareholders Funds | **213.6** | 19.3 | 179.1 | 156.2 | 146.5 | 136.1 |
| Total Assets | **388.0** | 19.0 | 326.1 | 287.6 | 297.4 | 281.2 |
| Net Tangible Assets (book value) per Share | **$1.65** | (10.8) | $1.85 | $1.87 | $1.76 | $1.68 |

# DIRECTORS' REPORT

| Financial overview | | 2011 | 2010 | % movement |
|---|---|---|---|---|
| Operating revenue | $m | **523.4** | 454.3 | 15.2 |
| Operating profit after tax | $m | **14.8** | 18.7 | (20.9) |
| Net borrowings | $m | **76.7** | 52.3 | 46.7 |
| Shareholders' funds | $m | **213.6** | 179.1 | 19.3 |
| Earnings per share (basic) | cents | **18.3** | 26.3 | (30.4) |
| Dividends per share | cents | **10.0** | 14.0 | (28.6) |
| Net tangible assets per share | $ | **1.65** | 1.85 | (10.8) |
| Cash flow per share | $ | **0.39** | 0.50 | (22.0) |
| Return on Shareholders' funds | % | **6.9** | 10.5 | (34.3) |
| Gearing | % | **26.4** | 24.5 | 7.8 |
| Lost time injuries | | **36.0** | 30.0 | 20.0 |
| Lost time injuries frequency rate | % | **9.0** | 9.0 | 0.0 |

**The Directors' present their report, together with the consolidated financial report of K&S Corporation Limited ("the Company") and the consolidated entity, for the year ended 30 June 2011 and the Auditors' Report thereon.**

## Principal Activities

The principal activities of the consolidated entity during the course of the financial year were transport and logistics, contract management, warehousing and distribution, and fuel distribution.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

## Operating and Financial Review

The Directors of K&S Corporation Limited today announced a net profit after tax of $14.8 million, a decrease of 20.9% on the previous year.

This has been a difficult year with weaker trading conditions on the east coast of Australia compounded by the impact of floods, Cyclone Yasi, the closure of the Wesley Vale and Burnie paper mills in Tasmania and the lane mix changes of OneSteel's distribution patterns.

The continuing high value of the $A has had a serious impact on the demand for locally manufactured goods, both for domestic purposes and export.

As a result of the higher $A, we also continue to see increased levels of imported products that compete with locally manufactured goods.

The continued contraction of manufacturing and the softening of the Australian economy throughout the financial year have seen reduced volumes and demand for transport services which has impacted on earnings.

# DIRECTOR'S REPORT


**Operating and Financial Review** continued

The closure of the Tasmanian Paper mills at Wesley Vale and Burnie had a major impact on the utilisation of our infrastructure across the mainland states with the reduction of over 320,000 tonnes of paper distribution.

Changes in the distribution mix of OneSteel's production from an interstate linehaul activity to a lower yielding local movement supporting the ongoing shift of volume to Pacific National operated steel trains also impacted our result negatively.

Earnings were impacted by the Brisbane floods in January and Cyclone Yasi in early February. These two weather related events stopped all freight movements from the nation's manufacturing hub in Melbourne to Queensland for a period of three weeks.

Flooding on the Nullarbor in February also stopped rail movements to Perth for a further two weeks.

The unusual climatic conditions in January and February further exacerbated the normal low seasonal volumes to unprecedented levels resulting in losses in both rail and road operations for this period.

Interest costs were up $3.2 million on higher debt levels and increased interest rates as a direct result of our recent Western Australian acquisitions of Regal Transport and Pacific Transport.

Operating revenue for the year was $523.4 million, an increase of 15.2% on the previous corresponding period.

The increase in revenue is a direct result of the addition of Regal Transport and Pacific Transport.

The traditional east coast business revenue declined by 6.3% due to the mill closures in Tasmania, shift of product to the steel trains and weather events.

Our gearing now stands at 26.4%, which is within our target range.

Earnings per share were 18.3 cents.

Management is extremely focused on winning new business and reducing operating costs.

In December 2010, we merged the operations of both Regal Transport and Pacific Transport into a single large North West focused business unit. During the merger of these two businesses, we experienced some cultural and people related issues. The majority of these issues have been resolved and the performance of the merged business has performed strongly in recent months.

The performance of this business since acquisition was broadly in line with our expectation.

We have commenced a fleet reduction programme which will match the local fleet size with current customer demand. This fleet rationalisation will improve the productivity and utilisation of our equipment.

All non critical capital expenditure will be deferred until the economy shows signs of a positive recovery. These measures will result in a reduction in our overall fixed costs.

Variable costs which include overtime, subcontractors and agency labour are being closely monitored to ensure that costs are minimised.

On December 29, 2010, K&S successfully completed a fully underwritten one for six Non-Renounceable Entitlement Offer. The entitlement offer raised net proceeds of $25.9 million which were used to retire debt.

We expect interest costs to reduce in the new financial year as a result of the equity raising and the reduced capital spending.

**Final Dividend**

We have declared a fully franked final dividend of 5.0 cents per share (last year 7.0 cents per share). This follows the interim dividend of 5.0 cents per share paid in March 2011, making a total dividend of 10.0 cents per share. The final dividend will be paid on 31 October 2011, with the date for determining entitlements being 17 October 2011.

The Dividend Reinvestment Plan (DRP) will once again be part of the October 2011 dividend. The DRP will apply in respect of the fully franked final dividend of 5.0 cents payable on 31 October 2011.

The terms of the DRP will remain unchanged with issue price under the DRP based on the weighted average trading price for K&S shares in the five business days ending on 17 October 2011 (the record date of the final dividend) less a discount of 2.5%.

**Outlook**

Providing earnings guidance going forward remains difficult.

The strong $A continues to impact on Australian manufacturers.

The outlook for paper appears to be subdued, while the impact of a potential carbon tax remains another issue that will need to be factored in during the 2012 financial year.

The purchase of Perth based Regal Transport in July 2010 following the earlier purchase of Pacific Transport in January 2010 has provided us with the capacity and resourcing necessary to successfully target opportunities arising from the large gas, oil and resources developments in Western Australia.

We see this as being a significant area of growth for the Company in the future.

Despite the difficult trading environment of the past 12 months, K&S has a strong Balance Sheet and low gearing with secure customer contracts.

## 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:

On 8 July 2010, K&S Corporation Limited acquired the Perth based Regal Transport. Regal Transport was formed in March 2009 with the merger of N&L Transport and Strategic Transport Services Pty Ltd.

At the time of acquisition, Regal generated annual revenues of $50 million and employed over 120 people. The Regal acquisition will extend the footprint achieved by the Pacific Transport acquisition to the oil, gas and resources sectors of Western Australia.

On December 29, 2010, K&S successfully completed a fully underwritten one for six Non-Renounceable Entitlement Offer. The entitlement offer raised net proceeds of $25.9 million which were used to retire debt.

## Environmental Regulation and Performance

The consolidated entity's operations are subject to environmental regulations under both Commonwealth and State legislation in relation to its transport and storage business and its fuel business.

## Environmental Regulation and Performance continued

The consolidated entity has a Board Committee which monitors compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this report.

### Climate Change

Reporting under the National Greenhouse and Energy Reporting Act (NGER) and the Energy Efficiency Opportunity Program (EEOP) were completed and submitted in October and December 2010. The NGER reporting was introduced as part of the development of an emissions trading scheme, while the EEOP continues and requires companies to complete energy savings assessments for up to 80% of total energy use to the Federal Government by the end of 2011.

### Transport and Warehousing

The transport and warehousing business is subject to the Dangerous Goods Acts in Commonwealth and State Legislation. The consolidated entity monitors performance and recorded a number of minor incidents and no serious incidents during the year.

### Fuel

The fuel business is subject to the *South Australian Environmental Protection Act 1993* and the *South Australian Dangerous Substances Act 1979*. The consolidated entity monitors performance and recorded a number of minor fuel related incidents during the year. In all cases, corrective actions have been taken.

## Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

**1** A final fully franked ordinary dividend (taxed to 30%) of 7.0 cents per share amounting to $5,147,975 in respect of the year ended 30 June 2010 was declared on 24 August 2010 and paid on 29 October 2010;

**2** A fully franked preference dividend (taxed to 30%) of 4.0 cents per share amounting to $4,800 in respect of the year ended 30 June 2010 was declared on 24 August 2010 and paid on 29 October 2010.

An interim fully franked ordinary dividend (taxed to 30%) of 5.0 cents per share in respect of the year ended 30 June 2011 was declared on 22 February 2011 and paid on 31 March 2011 amounting to $4,303,180.

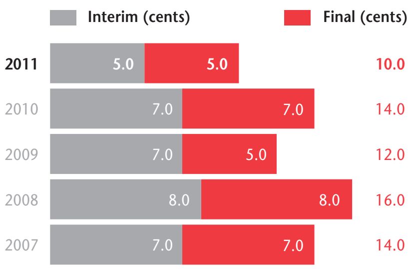
The final dividend declared by the Directors of the Company on 18 August 2011 and payable on 31 October 2011 in respect of the year ended 30 June 2011 comprises:

**1** A fully franked ordinary dividend (taxed to 30%) of 5.0 cents per share amounting to $4,314,275; and

**2** A fully franked preference dividend (taxed to 30%) of 4.0 cents per share amounting to $4,800.

The preference share dividends are included as interest expense in determining Net Profit.

DIVIDENDS PAID TO SHAREHOLDERS



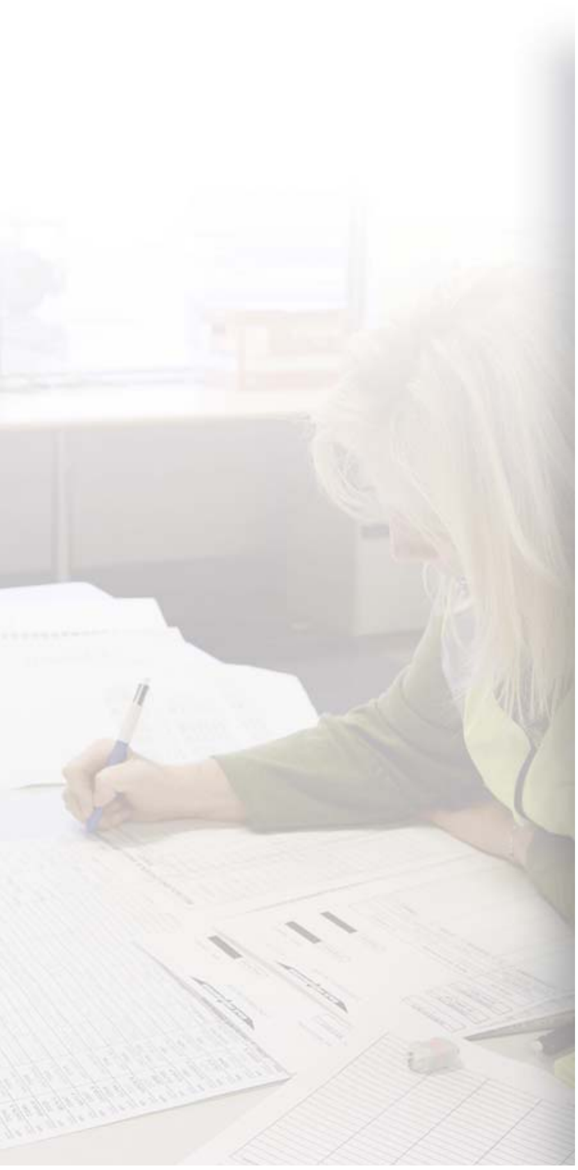

## Events Subsequent to Balance Date

On 18 August 2011, the Directors of K&S Corporation Limited declared a final dividend on ordinary shares in respect of the 2011 financial year.

The total amount of the dividend is $4,314,275, which represents a fully franked dividend of 5.0 cents per share. The dividend is payable on 31 October 2011 and has not been provided for in the 30 June 2011 financial statements.

The Dividend Reinvestment Plan (DRP) will apply to the final dividend and the issue price for shares under the DRP will be based on the weighted average trading price of K&S shares in the five business days ending on 17 October 2011 (the record date of the final dividend), less a discount of 2.5%.

Other than the matters above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.



## Likely Developments

It is anticipated that the consolidated entity will continue to expand transport and logistics operations during the next financial year by further extending its services throughout Australia and adopting the latest technology in the industry to contain costs and enhance the services offered to customers.

The Federal Government recently released exposure draft legislation designed to underpin its proposed carbon pricing regime. While the draft exposure legislation targets the introduction of a carbon tax from 1 July 2012, as currently drafted heavy on-road transport activities will be excluded from the carbon pricing regime until 30 June 2014.

Under the exposure draft legislation, from 1 July 2014 the amount of the business fuel tax credit ("FTC") claimed by K&S in respect of purchases of diesel fuel will be reduced by the effective price on carbon. Based on the carbon price of $25.40 per tonne to apply in 2014/15 under the exposure draft legislation, the effective price on carbon for diesel fuel would be 6.858 cents per litre.

Under the exposure draft legislation, the carbon pricing regime is to move from a fixed price to a market determined price on 1 July 2015. From 1 July 2015, it is proposed that the effective price on carbon would be adjusted six monthly in line with that market determined price.

K&S currently anticipates that any reduction in the FTC that it is able to claim in respect of diesel fuel purchases for heavy on-road transport activities from 1 July 2014 will be passed through to customers via fuel surcharges. In the intervening period from 1 July 2012 to 30 June 2014, K&S is likely to experience some minor increases in its cost base as a result of any introduction of a price on carbon.

K&S is also unable to predict what impact the imposition of the proposed price on carbon may have on its customer base generally, and the manufacturing sector in particular.

## General Disclosures

K&S Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia.

## Directors

The Directors of the Company in office at any time during or since the end of the financial year are:

**Tony Johnson** *(Non-Executive Chairman)*
**Legh Winser** *(Managing Director)*
**Greg Boulton** *(Deputy Chairman)*
**Richard Nicholson**
**Bruce Grubb**
**Ray Smith**

Secretary – Chris Bright BEc, LLB, Grad Dip CSPM, FCIS

With the exception of Mr Winser, all Directors are Non-Executive Directors. Particulars of Directors' qualifications, experience, special responsibilities and other relevant Directorships are on *pages 14 and 15* of the Annual Report.

## Directors' Interests

The beneficial interest of each Director in their own name in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

| | Ordinary Shares |
|---|---|
| Mr R Nicholson | 11,213 |
| Mr B Grubb | 17,034 |
| Mr L Winser | 423,750 |

Directors of the Company have relevant interests in additional shares as follows:

| | Ordinary Shares |
|---|---|
| Mr G Boulton | 184,375 |
| Mr T Johnson | 257,789 |
| Mr L Winser | 669,274 |
| Mr R Smith | 20,789 |
| Mr R Nicholson | 15,345 |
| Mr B Grubb | 108,171 |

**Board of Directors**

Back row l to r:

Bruce Grubb,

Ray Smith,

Richard Nicholson,

Chris Bright *(Secretary)*

Front row l to r:

Greg Boulton,

Tony Johnson,

Legh Winser

## Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

| Director | Directors' Meetings | | Audit Committee Meetings | | Nomination and Remuneration Committee Meetings | | Environmental Committee Meetings | |
|---|---|---|---|---|---|---|---|---|
| | No. attended | No. held | No. attended | No. held | No. attended | No. held | No. attended | No. held |
| Mr T Johnson | 11 | 11 | - | - | 3 | 3 | 4 | 4 |
| Mr G Boulton | 11 | 11 | 4 | 4 | - | - | - | - |
| Mr R Smith | 11 | 11 | 4 | 4 | - | - | - | - |
| Mr B Grubb | 11 | 11 | - | - | - | - | 4 | 4 |
| Mr R Nicholson | 11 | 11 | - | - | 3 | 3 | - | - |
| Mr L Winser | 11 | 11 | - | - | 2* | 3 | 4 | 4 |

In addition to the eleven regular meetings, there were sixteen other special meetings of Directors held during the course of the year.

* Mr Winser was absent from one Nomination and Remuneration Committee meeting as it was in relation to his performance and salary package.

# DIRECTOR'S REPORT

## Indemnification and Insurance of Directors and Officers

### Indemnification

The Company indemnifies current and former Directors, Executive Officers and the Secretaries of the Company and its controlled entities against all liabilities, costs and expenses to another person (other than the Company or a related body corporate) to the maximum extent permitted by law that may arise from their position as Directors, Executive Officers and Secretaries of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

### Insurance Premiums

Since the end of the previous financial year, the Company has paid insurance premiums of $39,972 in respect of Directors and Officers' Liability insurance contracts for current and former officers, including Directors, Executive Officers and the Secretaries of the Company and its controlled entities.

The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in successfully defending proceedings, whether civil or criminal;
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or position to gain a personal advantage.

The officers of the Company covered by the policy include the current Directors; T Johnson, G Boulton, R Nicholson, R Smith, B Grubb and L Winser.

Other officers covered by the contract are Executive Officers and the Secretaries of the Company and Directors and the Secretaries of controlled entities (who are not also Directors of the Company), General Managers and other Executive Officers of controlled entities.

## Tax Consolidation

Effective 1 July 2002, for the purposes of income taxation, K&S Corporation Limited and its domestic based 100% owned subsidiaries formed a tax consolidated group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

## Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of K&S Corporation Limited support the principles of corporate governance. The Company's Corporate Governance Statement commences on *page 28* of the Annual Report.

## Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## Auditor Independence and Non-Audit Services

The entity's Auditor, Ernst & Young have provided the economic entity with an Auditors' Independence Declaration which is on *page 98* of this report.

### Non-audit Services

No non-audit services were provided by the entity's Auditor, Ernst & Young.

## REMUNERATION REPORT
(audited)

This remuneration report outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company, and includes the five executives in the Group receiving the highest remuneration.

For the purposes of this report, the term executive encompasses the Managing Director, Senior Executives, General Managers and Secretaries of the Parent and the Group. Details of the KMP (including the five executives in the Group receiving the highest remuneration) are:

**i) Directors**

| | |
|---|---|
| Mr T Johnson | *Non-Executive Chairman* |
| Mr G Boulton | *Non-Executive Deputy Chairman* |
| Mr R Smith | *Non-Executive* |
| Mr R Nicholson | *Non-Executive* |
| Mr B Grubb | *Non-Executive* |
| Mr L Winser | *Managing Director* |

**ii) Executives**

| | |
|---|---|
| Mr B Walsh | *Chief Financial Officer* |
| Mr C Bright | *Group Legal Counsel & Company Secretary* |
| Mr G Wooller | *Chief Operating Officer* |
| Mr P Sarant | *Executive General Manager DTM* |
| Mr G Everest | *Executive General Manager Regal Transport – Appointed 10 October 2010* |
| Ms K Evans | *National Human Resources Manager* |
| Mr S Fanning | *General Manager K&S Freighters – Resigned 27 August 2010* |
| Ms C De Gois | *Chief Information Officer – Resigned 9 July 2010* |

### Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives. To this end, the Company adopts the following key principles in its remuneration policy:

- Remuneration is set at levels that will attract and retain good performers and motivate and reward them to continually improve business performance.
- Remuneration is structured to reward employees for increasing Shareholder value.
- Rewards are linked to the achievement of business targets.

### The Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for reviewing compensation arrangements for the Directors, the Managing Director and the Senior Management team.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Senior Managers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executives.

While the Nomination and Remuneration Committee reviews the remuneration paid to Non-Executive Directors and the Managing Director, and the aggregate remuneration paid to the Senior Management team, the Board of Directors has ultimate responsibility for determining these amounts.

### Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director and Senior Manager remuneration is separate and distinct.

### Non-Executive Director Remuneration

***Objective***

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain quality Directors, whilst incurring a cost which is acceptable to Shareholders.

***Structure***

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors' shall be determined from time to time by a general meeting.

The latest determination was at the Annual General Meeting held on 18 November 2007 when Shareholders approved an aggregate remuneration of $500,000 per year.

The amount of aggregate remuneration sought to be approved by Shareholders and the amounts paid to Directors is reviewed annually. The Board considers advice from external consultants, as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review. Each Non-Executive Director receives a fee for being a Director of the Company.

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the Director on the market). It is considered good corporate governance for Directors to have a stake in the Company whose Board he or she sits on.

The remuneration of Non-Executive Directors for the period ended 30 June 2011 is detailed on *page 27* of this report.


**Executive Director and Senior Manager Remuneration**

***Objective***

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company to:

- reward Executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of Shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

***Structure***

In determining the level and make up of Executive remuneration, the Nomination and Remuneration Committee seeks external information detailing market levels of comparable executive roles from which the Committee makes its recommendation to the Board.

For the Managing Director and the other Senior Executives, remuneration programs are balanced with a mix of fixed and variable rewards. The make up and eligibility criteria for short term incentives are recommended to the Board by the Nomination and Remuneration Committee prior to the commencement of each financial year.

For the year ended 30 June 2011, the adoption of at risk short term incentives comprising 20% and 10% of the base emolument of the Managing Director and Executives respectively was approved by the Board.

The payment of such short term incentives can either be as a cash bonus or superannuation contributions and is in addition to the base emolument.


### Executive Director and Senior Manager Remuneration

*Structure* continued

Payment of the short term incentive is conditional upon the achievement by the Company of budgeted profit after tax on a normalised basis and excluding any one off or non-trading items (eg, profit on the sale of real estate). Where budgeted profit after tax on a normalised basis is not achieved, no short term incentive is payable to the Managing Director and Executives.

As the Company's annual budget for operating profit after tax is set with a view to increasing the profit generated by the Company, growing earnings per share, and improving the Company's capacity to pay dividends, the Board believes that aligning the payment of short term incentives to the attainment by the Company of budgeted profit before tax on a normalised basis is appropriate and in the interests of Shareholders.

For the year ended 30 June 2011, the eligibility criteria for the payment of short term incentives were not satisfied and no short term incentive payment was made to the Managing Director or Executives.

The Board has approved the adoption of at risk short term incentives comprising 25% and 10% of the base emolument for the Managing Director and Executives respectively for the year ended 30 June 2012 and in all other respects on the same basis as outlined above. The total short term incentives payable to the Managing Director and Executives for the year ended 30 June 2012, if eligibility criteria are met, will be $347,760.

### Employment Contracts

It is the Nomination and Remuneration Committee's policy that fixed term contracts are only entered into with the Managing Director and with no other Executives.

The Managing Director, Mr Legh Winser, has a contract of employment with the Company. His remuneration comprises a salary and allowances package. On early termination, Mr Winser would receive up to 12 months salary and benefits.

The contract does not contain express terms as to the duration of the contract, periods of notice and required termination details. Mr Winser is not present whilst discussions are held in relation to his performance and salary package.

### Employee Share Plan

In the year ended 30 June 2011, no offers were made nor were any shares issued to employees under the Employee Share Plan ("the Plan") approved by Shareholders at the Company's Annual General Meeting on 21 November 2006. Directors will make offers to eligible employees under the Plan in the year ended 30 June 2012.

### Directors' Retirement Benefits

A change to the Directors' Retirement Benefits calculation was made in July 2004 to freeze accumulation of years of service of Directors as at 30 June 2004. No Director commencing after 1 July 2004 is eligible for any benefits under the retirement scheme.

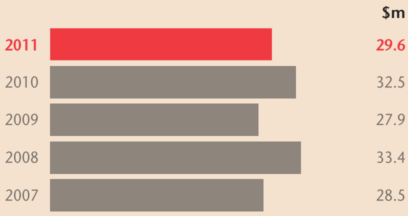
The expenditure provided (not paid) during the year ended 30 June 2011 is attributable only to the method of calculation which involves the averaging of the fees paid to Directors, as per the benefits scheme in operation up to 30 June 2004.

Further details of the method of calculating entitlements for eligible Directors under the Retirement Benefits Scheme are also set out in the Corporate Governance Report on *pages 32 to 33*.

### Company Performance

The graph below shows the performance of the Company, as measured by the Company's operating profit before individually significant items, interest and tax.

**NORMALISED EBIT**




In addition, Dividends paid to Shareholders are disclosed on *page 20* of the Directors' report.

## Remuneration of Key Management Personnel and the five highest Paid Executives of the Company and the Group

*Remuneration for the year ended 30 June 2011*

| | | Short-Term | | | Other Long-Term | Post Employment | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| Non-Executive Directors | | Salary & Fees $ | Incentives+ $ | Non-Cash Benefits $ | Long Service Benefit $ | Retirement Benefits $ | Super Contributions $ | $ | Performance Related % |
| T Johnson | **2011** | **110,000** | - | - | - | **20,000** | **12,100** | **142,100** | - |
| | 2010 | 90,000 | - | - | - | 10,000 | 9,900 | 109,900 | - |
| G Boulton | **2011** | **65,000** | - | - | - | **6,500** | **7,150** | **78,650** | - |
| | 2010 | 52,000 | - | - | - | 3,500 | 5,720 | 61,220 | - |
| R Smith | **2011** | **65,000** | - | - | - | - | **7,150** | **72,150** | - |
| | 2010 | 33,000 | - | - | - | - | 24,720 | 57,720 | - |
| B Grubb | **2011** | **65,000** | - | - | - | - | **7,150** | **72,150** | - |
| | 2010 | 52,000 | - | - | - | - | 5,720 | 57,720 | - |
| R Nicholson | **2011** | **65,000** | - | - | - | **13,000** | **7,150** | **85,150** | - |
| | 2010 | 52,000 | - | - | - | 7,000 | 5,720 | 64,720 | - |
| Total | **2011** | **370,000** | - | - | - | **39,500** | **40,700** | **450,200** | |
| | 2010 | 279,000 | - | - | - | 20,500 | 51,780 | 351,280 | |
| **Executive Director** | | | | | | | | | |
| L Winser | **2011** | **479,133** | - | **78,452** | **11,625** | - | **50,000** | **619,210** | - |
| | 2010 | 375,550 | 74,000 | 79,743 | 9,389 | - | 45,066 | 583,748 | 12.68 |
| **Other Key Management Personnel** | | | | | | | | | |
| B Walsh | **2011** | **250,000** | - | **27,031** | **6,250** | - | **35,630** | **318,911** | - |
| | 2010 | 213,150 | 21,000 | 22,527 | 5,329 | - | 28,055 | 290,061 | 7.24 |
| C Bright | **2011** | **206,193** | - | **27,545** | **5,000** | - | **25,000** | **263,738** | - |
| | 2010 | 162,400 | 16,000 | 21,735 | 4,060 | - | 21,888 | 226,083 | 7.08 |
| G Wooller | **2011** | **320,679** | - | **26,298** | **5,334** | - | **50,000** | **402,311** | - |
| | 2010 | 274,050 | 27,000 | 21,423 | 4,568 | - | 35,363 | 362,404 | 7.45 |
| P Sarant | **2011** | **329,451** | - | **28,804** | **5,167** | - | **25,000** | **388,422** | - |
| | 2010 | 270,764 | 26,000 | 28,524 | 4,399 | - | 25,000 | 354,687 | 7.33 |
| G Everest# | **2011** | **173,846** | - | **9,531** | **2,882** | - | **20,862** | **207,121** | - |
| | 2010 | - | - | - | - | - | - | - | - |
| K Evans | **2011** | **180,692** | - | **16,750** | **3,000** | - | **23,537** | **223,979** | - |
| | 2010 | 152,250 | 15,000 | 17,027 | 2,538 | - | 18,270 | 205,085 | 7.31 |
| S Fanning** | **2011** | **62,097** | - | **3,063** | **980** | - | **6,061** | **72,201** | - |
| | 2010 | 327,408 | 31,000 | 26,951 | 5,322 | - | 25,000 | 415,681 | 7.46 |
| C De Gois* | **2011** | **3,962** | - | **2,284** | **85** | - | **682** | **7,013** | - |
| | 2010 | 192,076 | - | 20,640 | 3,384 | - | 25,526 | 241,626 | - |
| Total Executive KMP | **2011** | **2,006,053** | - | **219,758** | **40,323** | - | **236,772** | **2,502,906** | |
| | 2010 | 1,967,648 | 210,000 | 238,570 | 38,989 | - | 224,168 | 2,679,375 | |
| **Totals** | **2011** | **2,376,053** | - | **219,758** | **40,323** | **39,500** | **277,472** | **2,953,106** | |
| | 2010 | 2,246,648 | 210,000 | 238,570 | 38,989 | 20,500 | 275,948 | 3,030,655 | |

* C. De Gois resigned on 9 July 2010.
** S. Fanning resigned on 27 August 2010.
# G. Everest met the definition of a Key Management Person on his appointment as Executive General Manager Regal Transport on 10 October 2010.
+ Performance incentives accrued in the 2010 June accounts were paid in September 2010.
Executives qualified for 100% of the short-term incentive available for the year ended 30 June 2010.

Signed in accordance with a resolution of the Directors.

T Johnson
Chairman
18th August 2011

L Winser
Managing Director
18th August 2011

# CORPORATE GOVERNANCE


**The Board of Directors of K&S Corporation Limited is responsible for the governance of the consolidated entity. The Board guides and monitors the business and affairs of K&S Corporation Limited on behalf of the Shareholders by whom they are elected and to whom they are accountable.**

In keeping with the Australian Securities Exchange Corporate Governance Council's updated Corporate Governance Principles and Recommendations, this statement outlines the Company's compliance with the ASX principles.

The K&S Corporation Limited Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

**Principle 1**

Lay solid foundations for management oversight

**Principle 2**

Structure the board to add value

**Principle 3**

Promote ethical and responsible decision making

**Principle 4**

Safeguard integrity in financial reporting

**Principle 5**

Make timely and balanced disclosure

**Principle 6**

Respect the rights of shareholders

**Principle 7**

Recognise and manage risk

**Principle 8**

Remunerate fairly and responsibly

## The Roles of the Board and Management

The Board has a Charter which establishes the relationship between the Board and Management and describes their functions and responsibilities in a manner which is consistent with ASX Principle 1.

The role of the Board is to oversee and guide the Management of K&S Corporation Limited and its businesses with the aim of protecting and enhancing the interests of Shareholders while taking into account the interests of employees, customers, suppliers and the community at large.

The Board is responsible for setting and approving the strategic direction of the Company, establishing goals for Management and monitoring the achievement of those goals.

The Managing Director is responsible to the Board for the day to day management of the Company.

All Management, including the Managing Director, have clear statements of roles and responsibilities. The performance of Key Executives is reviewed not less than annually by the Managing Director.

The review involves an open exchange of ideas between the Managing Director and Key Executives. The performance of Key Executives is reviewed against matters including financial targets (eg., budget), OHS&E management, and achievement of specific strategic and business objectives.

## Structure of the Board

The Board currently comprises five Non-Executive Directors, including the Chairman, and one Executive Director, namely, the Managing Director.

The qualifications, experience and periods of service of each of the Directors is set out on *pages 14-15* of the Annual Report.

Directors are expected to bring independent views and judgement to the Board's deliberations. In response to the ASX Principles, the Board Charter requires the Board to include a majority of Non-Executive Directors, a Non-Executive Chairman and to have a different person filling the roles of Chairman and Managing Director. The Chairman of the Audit Committee cannot be Chairman of the Board.

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered independent judgement. Materiality of business and other relationships held by a Director is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements.

Quantitative factors relate to the financial value of the business or other relationship. Qualitative factors considered include whether a relationship is strategically important, the competitive context of the relationship, the nature of the relationship and the contractual or other arrangements governing it or other factors which point to the actual ability of the Director in question to influence the direction of the Company other than in the best interests of the Company as a whole.

The Board has reviewed the position of each of the six Directors in office at the date of this report and considers the following Directors of the Company to be independent:

| **Name** | **Position** |
|---|---|
| G Boulton | Non-Executive Director |
| R Smith | Non-Executive Director |
| R Nicholson | Non-Executive Director* |

* In previous years, Mr Nicholson has been considered by the Board as not being independent as a result of his directorships of a number of companies within the Scott Group of privately owned companies until 25 February 2008, one of which (AA Scott Pty Ltd) is the largest Shareholder of K&S Corporation Limited. However, consistent with the criteria in the ASX Principles, the Board now considers Mr Nicholson to be independent as more than three years have passed since he ceased to be a director of those entities and the Board is of the view that he is free of any business or other relationship that could materially interfere with the independent exercise of his judgment.

The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

The Board considers the following Directors as not independent:

**L Winser** *Managing Director*

**T Johnson** *Non-Executive Director (Chairman)*

Mr Johnson is a Director of AA Scott Pty Ltd, as well as Chairman of Scott Corporation Limited (a company controlled by AA Scott Pty Ltd, the largest Shareholder of K&S Corporation Limited).

## Structure of the Board
continued

**B Grubb** *Non-Executive Director*
Mr Grubb is the former Chief Executive and remains an Executive Director of Scotts Transport Industries Pty Ltd, a Director of Scott Corporation Limited, and a Director of a number of other companies within the Scott Group of companies, one of which (AA Scott Pty Ltd) is the largest Shareholder of K&S Corporation Limited.

The Board structure is consistent with ASX Principle 2, with the exception of:

- **Recommendation 2.1** which requires that the majority of the Board be independent Directors. The Board considers that the mix of skills and experience of and the contributions by the non-independent Non-Executive Directors offsets the benefits to the Company of having a majority of independent Non-Executive Directors. However, as part of the review of Board Performance (refer *this page*), Directors have regard to the balance of independent and non-independent Non-Executive Directors.

- **Recommendation 2.2** which requires that the Chairman of the Board be an independent Director. Mr Johnson is Chairman of the Board and is not considered by Directors to be independent. The Board considers that the skills and experience that Mr Johnson brings as Chairman add value to the deliberations and functioning of the Board. Further, K&S Corporation Limited's Deputy Chairman, Mr Boulton, is an independent Non-Executive Director who is able to fulfil the role of Chairman where and to the extent that any conflicts of interest arise for Mr Johnson.

- **Recommendations 2.4 and 8.1** which require that the Nomination and Remuneration Committee have a majority of independent Non-Executive Directors as members.
Mr Nicholson was the Chairman of the Nomination and Remuneration Committee during the course of the year and is considered by Directors to be an independent Director. However, the other current members of the Nomination and Remuneration Committee (Messrs Johnson and Winser) are not considered by Directors to be independent. As the Nomination and Remuneration Committee is only empowered to make recommendations to the Board, Directors are of the view that any decisions as to nomination and remuneration are still subject to an appropriate level of scrutiny by independent Non-Executive Directors as those decisions are reserved to the Board.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The Board meets formally eleven times a year and on other occasions as required. During the course of the year, the Board's sub-committees meet on a number of occasions to deal with their specific responsibilities in relation to the Company's business. With the exception of the Nomination and Remuneration Committee, Senior Management attend and are a vital ingredient to the sub-committees, making presentations, providing information and responding to questions of the Directors. All Directors have unrestricted access to all employees of the Group and, subject to the law, access to all Company records and information held by employees and external advisers. The Board receives regular financial and operational reports from Senior Management to enable it to carry out its duties and responsibilities.

## Retirement and Re-election of Directors

The Company's Constitution requires one third of the Directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been newly appointed by the Board during the year are also required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors retiring at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

## Review of Board Performance

The Board has implemented a process for the regular review of its overall performance, consistent with ASX Recommendation 2.5. Regular review involves both analysis by the Board of the results of a questionnaire completed by all Directors and discussion between the Chairman and each of the Directors.

The Board's performance review departs from Recommendation 2.5 as the review is conducted by the full Board, and not the Nomination and Remuneration Committee.
As the Board is comprised of only six Directors, the Board considers this the most effective way to address its own performance.

## Committees of the Board

Three standing Board Committees assist the Board in the discharge of its responsibilities.

These committees are:

- The Audit Committee
- The Nomination and Remuneration Committee
- The Environmental Committee


## Audit Committee

The Board has an established Audit Committee, which operates under a Charter approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguard of assets, the maintenance of proper accounting records, and the reliability of financial information.

The Board has delegated to the Audit Committee the responsibility for the ongoing monitoring of a framework of internal control and ethical standards for the management of the consolidated entity, consistent with ASX Principle 4.

The Audit Committee also provides the Board with additional assurance regarding the reliability of the financial information for inclusion in the financial reports. All members of the Audit Committee are currently independent Non-Executive Directors.

Among the specific responsibilities set out in the Audit Committee Charter, the Audit Committee reviews all published accounts of the Group, reviews the scope and independence of external audits, monitors and assesses the systems for internal compliance and control, and risk management and advises on the appointment, performance and remuneration of the external auditors.

The members of the Audit Committee during the year were:

Mr Smith (Chairman)
Mr Boulton

Mr Smith is Chairman of the Audit Committee. The Board considers Mr Smith to be independent using the ASX Council's definition of independence.

The Board considers Mr Boulton to be independent using the ASX Council's definition of independence.

The ASX Council Recommendation 4.2 recommends that the Audit Committee consist of at least three members who are all Non-Executive and the majority independent. The Board is of the view that the current composition of the Audit Committee is appropriate given the size of the business, the extensive financial skills, and industry knowledge of the current members of the Audit Committee.

### Audit Committee
continued

The Managing Director, the Chief Financial Officer, the Company Secretary, the Group Commercial Manager, the external Auditors and any other persons considered appropriate attend meetings of the Audit Committee by invitation. The Committee also meets from time to time with the external Auditors, independent of management.

The Audit Committee met on four occasions during the course of the year.

### Nomination and Remuneration Committee

Consistent with ASX Principle 8, the Board has a Nomination and Remuneration Committee with a formal Charter. The role of the Committee is to review and make recommendations to the Board on remuneration packages and policies applicable to the Managing Director, Senior Executives, Salaried Staff and Directors themselves.

The Nomination and Remuneration Committee does not make recommendations to the Board as to the nomination and appointment of new Directors. As the Board of K&S Corporation Limited is comprised of only six Directors, Directors are of the view that the nomination and appointment of new Directors is most efficiently discharged by the Board.

When appointing new Directors, matters the Board have regard to include the spread of skills and qualifications, experience, and independence of both the potential appointee and the existing members of the Board.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and Senior Executives.

The Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages. It also plays a role in evaluation of the performance of the Managing Director and management succession planning. This role includes the responsibility for incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies, professional indemnity and liability insurance policies.

The members of the Nomination and Remuneration Committee during the year were:

Mr Nicholson (Chairman)
Mr Winser
Mr Johnson

The Nomination and Remuneration Committee meets at least twice a year and as required. The Committee met formally three times, but also informally on several other occasions during the year.

The Company's Non-Executive Directors receive only fees and superannuation for their services and the reimbursement of reasonable expenses. The fees paid to the Company's Non-Executive Directors reflect the demands on, and responsibilities of, those Directors.

The advice of independent remuneration consultants is taken as well as benchmarking against external remuneration data for comparable companies to establish that the Directors' fees are in line with market standards. Non-Executive Directors do not receive any shares, options or other securities in addition to their remuneration.

A Directors' fee pool limit of $500,000 for Non-Executive Directors was approved by Shareholders at the Annual General Meeting on 18 November 2007. This fee pool is only available to Non-Executive Directors. The Non-Executive Directors received $65,000 each and the Chairman was paid $110,000 in 2010/11. Committee membership does not entitle a Director to additional fees.

The Managing Director, Mr Legh Winser, has a contract of employment with the Company. His remuneration comprises a salary and allowances package. On early termination, Mr Winser would receive up to twelve months salary and benefits. The contract does not disclose the duration of the contract, period of notice and required termination details. Mr Winser is not present while discussions are held in relation to his performance and salary package.

The Non-Executive Directors' retirement benefits scheme entitlements were frozen in years of service as at 30 June 2004 and will be paid on retirement. Under the terms of the Non-Executive Directors' retirement benefit scheme, participating Directors are entitled to receive up to the total remuneration paid to them in the last three years upon their retirement in accordance with the following formula:

$$RB = TR \times (Y \div 15)$$

where

RB = retirement benefit payable to the Director on retirement
TR = the total remuneration paid to the Director in the last three years
Y = the years of service of the Director prior to 30 June 2004, provided that Y shall not exceed 15

Non-Executive Directors appointed after 30 June 2004 are not eligible to participate in the retirement benefits scheme.

The structure and disclosure of the Company's remuneration of Non-Executive Directors is consistent with ASX Principle 8.

Further details of Directors' remuneration, superannuation and retirement payments are set out in the Directors' Report on *pages 24 to 27*.

## Environmental Committee

The Board has an Environmental Committee, which operates under a Charter approved by the Board. The role of the Committee is to monitor environmental incidents, exposures and compliance with environmental regulations.

The members of the Environmental Committee during the year were:

Mr Johnson (Chairman)
Mr Winser
Mr Grubb

The Company Secretary acts as Secretary to the Environmental Committee.

The Environmental Committee is responsible for:

- reviewing and recommending, as appropriate, changes to the Company's environmental policies;
- ensuring the adequacy of environmental procedures and controls implemented by Management;
- reporting to the Board on Company compliance with environmental procedures and controls;
- reviewing the adequacy and effectiveness of resources devoted to informing employees of their environmental obligations and to training employees to operate within Company guidelines and legal requirements;
- monitoring conformance by the Company with mandatory environmental reporting and improvement regimes;
- regular monitoring of licence requirements, with performance against licence conditions reported to the various State regulators on a regular basis; and
- reviewing any environmental incidents that have occurred and monitoring actions taken or to be taken.

To enable it to meet its responsibilities, the Committee has established a regular internal reporting process.

The Environmental Committee met four times during the year.

## Financial Reporting

Consistent with the ASX Principle 4 and Recommendation 7.3, the Company's financial report preparation and approval process for the financial year ended 30 June 2011, involved both the Managing Director and Chief Financial Officer certifying that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

In accordance with Recommendation 7.2, this sign off also includes assurances as to the Company's risk management processes and internal compliance and control procedures.

## Audit Governance and Independence

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company has implemented a review process to monitor the independence and competence of the Company's external Auditor.

The Company's current external Auditors are Ernst & Young. The effectiveness, performance and independence of the external Auditor is reviewed by the Audit Committee at least annually. The format of that review includes discussing the performance of the External Auditors with Management while the Auditors are not present. The Audit Committee also met with senior members of Ernst & Young to review the performance of the lead audit partner.

If it becomes necessary to replace the external Auditor for performance or independence reasons, the Audit Committee will then formalise a process for the selection and appointment of new Auditors.

Ernst & Young has a policy for the rotation of the lead audit partner for their clients. The lead audit partner and the audit review partner for the Company were last rotated at the commencement of the year ended 30 June 2008.

The Audit Committee's Charter requires the provision of non-audit services to the Company or its business units by the external audit firm to be approved by the Audit Committee.

In accordance with sections 249V and 250T of the *Corporations Act 2001* (Cth), Ernst & Young attend and are available to answer questions at the Company's Annual General Meetings.

# CORPORATE GOVERNANCE

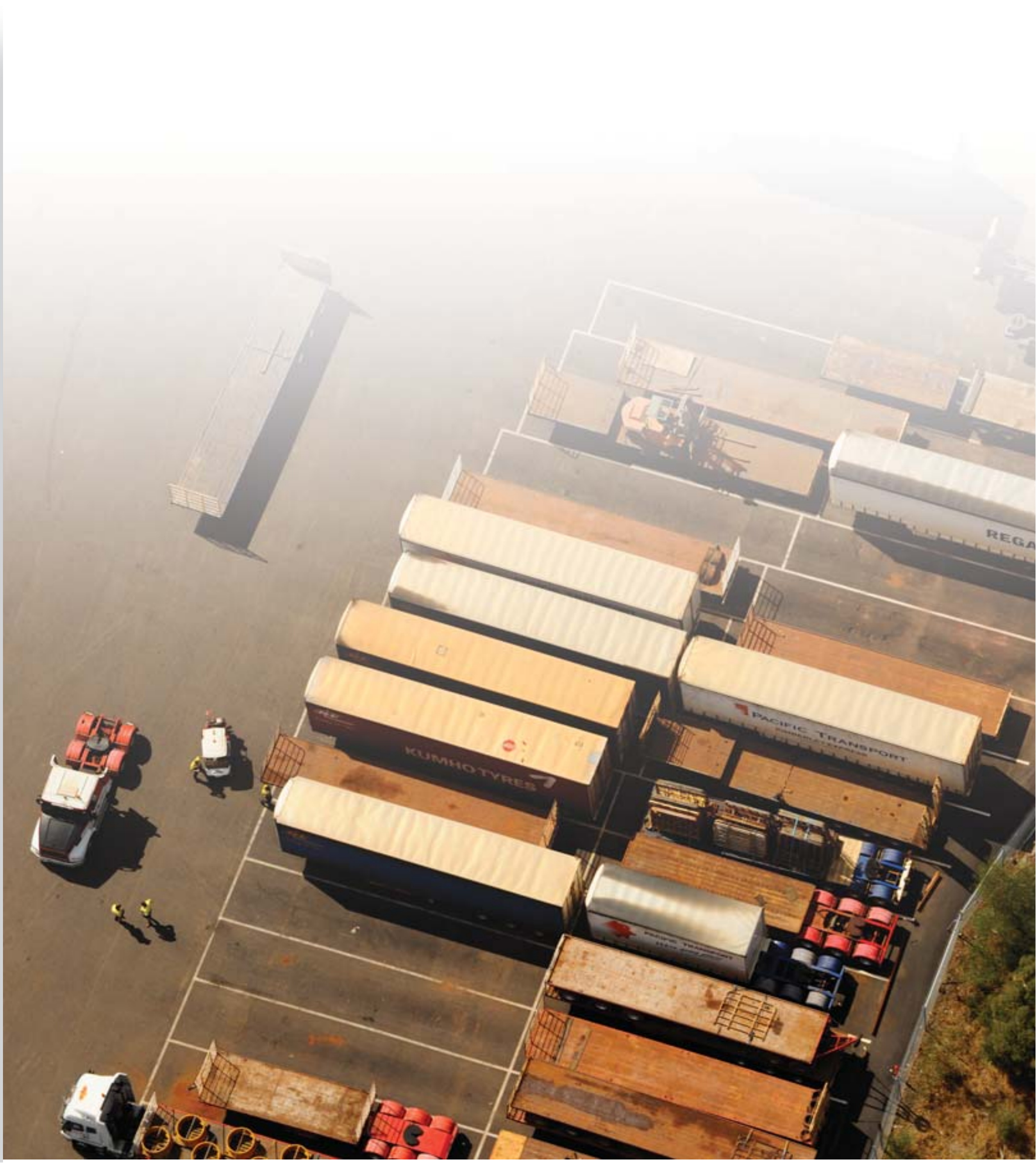
## Risk Management

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of material risks in the business. Those material risks include a full spectrum of financial, strategic, compliance, and operational risks.

While not wishing to stifle the entrepreneurial endeavours of Senior Executives, the Board takes a relatively conservative approach to risk.

The Board requires that Management have in place a system to identify, monitor, and manage the material business risks faced by the Company. The management systems in place as part of the risk management controls include:

- Capital expenditure commitments above set limits obtain prior Board approval.
- Financial exposures are controlled and the use of derivatives is limited to interest rate swaps.
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- Business transactions are properly authorised and executed.
- A comprehensive annual insurance programme, including external risk management survey and action plans.
- Annual budgeting and monthly reporting systems for all business units, which enable the monitoring of progress against performance targets and the evaluation of trends.
- Appropriate due diligence procedures for acquisitions and divestments.




- Disaster management systems for key IT systems and recovery plans.
- Documentation and regular review of business wide risk identification and mitigation strategies.

The Company has a risk management policy consistent with ASX Principle 7. The Company also has a number of policies and internal documents that are central to the management of risk. Those documents include:

- The Risk Review Statement that is designed to comprehensively document and rate all material business risks to which the Company is exposed, as well as setting out the actions being undertaken by Management to mitigate those risks.
- The Company's Levels of Authority Statement which sets out the different levels of authority delegated to the Managing Director, General Managers, and Branch Managers in relation to financial and business matters such as capital expenditure, acquisitions, entering into contracts, treasury issues, and employment related issues.

- The Company's Administration Manual which sets out the financial and administrative protocols for all staff.
- The Company's OHS&E Manual and supporting documented policies and procedures which are designed to minimise the risk of harm to employees engaged in operational tasks.
- The Company's Quality Management System coupled with its extensive documented operating and compliance focused policies and procedures which are designed to ensure that the Company's operations are conducted using industry best practice and in accordance with the numerous legislative regimes that apply.

Management is responsible to the Board for the Group's system of internal control and risk management. The Audit Committee through its Charter assists the Board in monitoring this role.

The Risk Review Statement is designed to be a 'living' document and is regularly updated to address the emergence of new risks and changes to the priority of existing material business risks. The Risk Review Statement is provided to both the Audit Committee and the Board on a quarterly basis. In addition, a summary of the status of key risk items identified in the Risk Review Statement is provided to the Board at its monthly meetings.

The Managing Director has reported to the Board that Management believes that the Company has in place an effective system of oversight and management and internal controls. The Managing Director and the Chief Financial Officer also certify on an annual basis that the Company has a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

## Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange.

The Company Secretary has the responsibility for overseeing and co-ordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with the Managing Director, Chairman and Chief Financial Officer in relation to continuous disclosure matters.

The Chairman, or in his absence the Deputy Chairman, approves all price sensitive releases to the Australian Securities Exchange prior to release.

The Company posts all price sensitive releases to the Australian Securities Exchange and media on the Company's website.

The Company's Continuous Disclosure Policy is consistent with ASX Principle 5.

## Conflict of Interest

In accordance with the *Corporations Act 2001* (Cth) and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of Director related entity transactions with the Company and consolidated entity are set out in *Note 26*.

## Director Dealing in Company Shares

The Constitution permits Directors and Officers to acquire shares in the Company, subject to very limited exceptions contemplated in the Listing Rules. Company policy prohibits Directors, Associates and Officers from dealing in Company shares or Executive options:

- In the period of 60 days prior to the release of the Company's half year and annual results to the Australian Securities Exchange.
- Whilst in possession of price sensitive information.

In accordance with the provisions of the *Corporations Act 2001* and the Listing Rules of the Australian Securities Exchange, the Company advises the Exchange of any transactions conducted by Directors in shares in the Company.

## International Quality Standard ISO 9001

The consolidated entity strives to ensure that its services are of the highest standard. Towards this aim, it has achieved ISO 9001 accreditation for its core business segment and is well advanced in the implementation of Occupational Health & Safety systems to meet the AS4801 Standard.

# CORPORATE GOVERNANCE

## Ethical Standards

In accordance with Principle 3, the Board has adopted the Code of Conduct produced by the Australian Institute of Company Directors to guide the Directors and promote high ethical and professional standards.

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance practice and the ethical conduct by all Directors and employees of the Company and has approved the following policies:

### Code of Conduct

The Company has a Code of Conduct for its employees to act within the law, avoid conflicts of interest, protect Company property, keep information confidential and act honestly and ethically in all business activities. The Code of Conduct is complemented by a Whistle Blower Policy which provides protection to employees who report instances of malpractice, impropriety, misconduct, or other unethical or illegal conduct involving the Company or its employees.

### Trade Practices

The Company has a Trade Practices Policy advising employees on the legislative prohibitions on price fixing and anti-competitive arrangements, as well as other prohibited conduct.

### Other Policies

Amongst other policies endorsed by the Board in previous years are the Occupational Health and Safety, Environment Protection, Electronic Communications Policies and the Transport Law Compliance Policy.

The Group's ethical standards are consistent with the requirements of ASX Principle 3.

## Communication with Shareholders

The Company places considerable importance on communication with Shareholders.

The Company's communication strategy promotes the communication of information to Shareholders through the distribution of the Annual Report, announcements through the Australian Securities Exchange and the media regarding changes to the business, the Chairman's and Managing Director's addresses at the Annual General Meeting, and actively engaging the investment community.

K&S Corporation Limited posts all price sensitive reports, Australian Securities Exchange releases and media releases on the Company's website.

The communication strategy is consistent with ASX Principle 6. The Company's Communication Policy is available on the Company's website: *www.ksgroup.com.au*

K&S CORPORATION LIMITED

# FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2011

K&S CORPORATION LIMITED

ABN 67 007 561 837

## Contents

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Operating revenue** | 5(a) | **523,364** | 454,317 |
| Cost of goods sold | | **(57,765)** | (53,656) |
| **Gross profit** | | **465,599** | 400,661 |
| Other income | 5(b) | **5,218** | 3,626 |
| Contractor expenses | | **(157,475)** | (145,137) |
| Employee benefits expenses | 5(e) | **(147,875)** | (121,169) |
| Fleet expenses | | **(90,983)** | (73,772) |
| Depreciation and amortisation expense | 5(d) | **(25,089)** | (20,142) |
| Finance costs | 5(c) | **(8,404)** | (5,218) |
| Other expenses | | **(20,021)** | (12,771) |
| Share of profits/(losses) of associates | 13 | **198** | 239 |
| **Profit before income tax** | | **21,168** | 26,317 |
| Income tax (expense)/benefit | 6 | **(6,340)** | (7,578) |
| **Profit after income tax** | | **14,828** | 18,739 |
| **Other comprehensive income** | | | |
| Foreign currency translation | | **(588)** | 151 |
| Fair value revaluation of land and buildings | | **-** | 5,314 |
| **Other comprehensive income for the period, net of tax** | | **(588)** | 5,465 |
| **Total comprehensive income for the period** | | **14,240** | 24,204 |
| **Earnings per share (cents per share)** | 7 | | |
| • basic for profit for the year attributable to ordinary equity holders of the parent | | **18.3** | 26.3 |
| • diluted for profit for the year attributable to ordinary equity holders of the parent | | **18.3** | 26.3 |
| Dividends per share (cents per share) | 8 | **10.0** | 14.0 |

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

| | Note | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 9,747 | 12,042 |
| Trade and other receivables | 10 | 67,496 | 56,747 |
| Inventories | 11 | 2,981 | 2,696 |
| Prepayments | | 5,277 | 4,809 |
| **Total current assets** | | 85,501 | 76,294 |
| **Non-current assets** | | | |
| Other receivables | 10 | 2,034 | 2,093 |
| Investments in associates | 13 | 199 | - |
| Property, plant & equipment | 14 | 221,968 | 197,169 |
| Intangibles | 15 | 71,569 | 44,761 |
| Deferred tax assets | 6 | 6,731 | 5,776 |
| **Total non-current assets** | | 302,501 | 249,799 |
| **TOTAL ASSETS** | | 388,002 | 326,093 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 46,457 | 44,596 |
| Interest bearing loans and borrowings | 18 | 15,070 | 16,462 |
| Income tax payable | | 894 | 1,270 |
| Provisions | 19 | 13,353 | 11,190 |
| Derivatives | | 712 | 1,123 |
| **Total current liabilities** | | 76,486 | 74,641 |
| **Non-current liabilities** | | | |
| Other payables | 17 | 4,929 | 4,340 |
| Interest bearing loans and borrowings | 18 | 71,331 | 47,889 |
| Deferred tax liabilities | 6 | 18,941 | 18,032 |
| Provisions | 19 | 2,709 | 2,122 |
| **Total non-current liabilities** | | 97,910 | 72,383 |
| **TOTAL LIABILITIES** | | 174,396 | 147,024 |
| **NET ASSETS** | | 213,606 | 179,069 |
| **EQUITY** | | | |
| Contributed equity | 20 | 94,276 | 64,528 |
| Reserves | | 24,507 | 25,095 |
| Retained earnings | | 94,823 | 89,446 |
| **TOTAL EQUITY** | | 213,606 | 179,069 |

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

| | Issued capital $'000 | Retained earnings $'000 | Asset revaluation reserves $'000 | Forex translation reserves $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **CONSOLIDATED** | | | | | |
| **At 1 July 2010** | **64,528** | **89,446** | **26,270** | **(1,175)** | **179,069** |
| Profit for the year | - | 14,828 | - | - | 14,828 |
| Other comprehensive income | - | - | - | (588) | (588) |
| **Total comprehensive income for the year** | **-** | **14,828** | **-** | **(588)** | **14,240** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of share capital | 29,748 | - | - | - | 29,748 |
| Dividends paid | - | (9,451) | - | - | (9,451) |
| **At 30 June 2011** | **94,276** | **94,823** | **26,270** | **(1,763)** | **213,606** |
| **At 1 July 2009** | 57,425 | 79,174 | 20,956 | (1,326) | 156,229 |
| Profit for the year | - | 18,739 | - | - | 18,739 |
| Other comprehensive income | - | - | 5,314 | 151 | 5,465 |
| **Total comprehensive income for the year** | - | 18,739 | 5,314 | 151 | 24,204 |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of share capital | 7,103 | - | - | - | 7,103 |
| Dividends paid | - | (8,467) | - | - | (8,467) |
| **At 30 June 2010** | **64,528** | **89,446** | **26,270** | **(1,175)** | **179,069** |

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

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts from customers | | **578,279** | 493,552 |
| Cash payments to suppliers and employees | | **(513,036)** | (429,228) |
| Interest received | | **89** | 212 |
| Borrowing costs paid | | **(8,404)** | (5,218) |
| Income taxes paid | | **(6,819)** | (7,414) |
| Net goods and services tax paid | | **(15,979)** | (15,957) |
| **Net cash provided by/(used in) operating activities** | 9 | **34,130** | 35,947 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of non-current assets | | **3,907** | 2,411 |
| Payments for property plant & equipment | | **(13,325)** | (4,662) |
| Acquisition of business | | **(39,185)** | (23,995) |
| **Net cash provided by/(used in) investing activities** | | **(48,603)** | (26,246) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issue | | **25,870** | 4,936 |
| Proceeds from borrowings | | **77,000** | 20,000 |
| Repayments of borrowings | | **(62,000)** | (12,000) |
| Lease and hire purchase liability repayments | | **(20,256)** | (17,626) |
| Dividends paid, net of dividend reinvestment plan | | **(8,403)** | (7,700) |
| **Net cash provided by/(used in) financing activities** | | **12,211** | (12,390) |
| Net increase/(decrease) in cash held | | **(2,262)** | (2,689) |
| Cash at the beginning of the financial year | | **12,042** | 14,717 |
| Effects of exchange rate variances on cash | | **(33)** | 14 |
| Cash at the end of the financial year | 9 | **9,747** | 12,042 |

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Corporate Information

The financial report of K&S Corporation Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of Directors on 18 August 2011.

K&S Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operation and principal activities of the Group are described in *Note 4*.

## 2 Summary of Significant Accounting Policies

### a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporation Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for land and buildings which have been measured at fair value. The carrying values of cash flow hedges are also stated at fair value with the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge recognised directly in equity and the ineffective portion recognised in profit or loss.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

### b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### c) New Accounting Standards and Interpretations

#### i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010.

| Reference | Title | Title date of standard | Application date of standard |
|---|---|---|---|
| AASB 2009-5 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project – The subject of amendments to the standards are set out below:<br>• AASB 5 – Disclosures in relation to non-current assets (or disposal groups) classified as held for sale or discontinued operations<br>• AASB 8 – Disclosure of information about segment assets<br>• AASB 101 – Current/non-current classification of convertible instruments<br>• AASB 107 – Classification of expenditures that does not give rise to an asset<br>• AASB 117 – Classification of leases of land<br>• AASB 118 – Determining whether an entity is acting as a principle or an agent<br>• AASB 136 – Clarifying the unit of account for goodwill impairment test is not larger than an operating segment before aggregation<br>• AASB 139 – Treating loan prepayment penalties as closely related embedded derivatives, and revising the scope exemption for forward contracts to enter into a business combination contract | 1 Jan 2010 | 1 July 2010 |
| AASB 2009-8 | Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] | 1 Jan 2010 | 1 July 2010 |
| AASB 2009-10 | Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] | 1 Feb 2010 | 1 July 2010 |

K&S CORPORATION LIMITED

| Reference | Title | Title date of standard | Application date of standard |
|---|---|---|---|
| AASB 2010-3 | Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]<br>Limits the scope of the measurement choices of non-controlling interest to instruments that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of NCI are measured at fair value.<br>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), in a consistent manner i.e., allocate between consideration and post combination expenses.<br>Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.<br>Clarifies that the revised accounting for loss of significant influence or joint control (from the issue of IFRS 3 Revised) is only applicable prospectively. | 1 July 2010 | 1 July 2010 |
| Interpretation 19 | Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments<br>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.<br>The interpretation states that equity instruments issued as payment of a debt should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. | 1 July 2010 | 1 July 2010 |

**Annual Improvements Project**

In May 2009 and June 2010 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

***AASB 8 Operating Segments:*** Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in *Note 4*.

***AASB 136 Impairment of Assets:*** when discounted cash flows are used to estimate "fair value less cost to self" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The additional disclosure also clarifies the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or the performance of the Group.

AASB 5 Non-current Assets Held for Sale

AASB101 Presentation of Financial Statements

AASB 117 Leases

AASB 118 Revenue

AASB 139 Financial Instruments: Recognition and Measurement

## 2 Summary of Significant Accounting Policies

### c) New Accounting Standards and Interpretations continued

### ii) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2011, are outlined in the table on the following pages:

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 (AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12) | The amendments arise from the issuance if AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.<br>This standard shall be applied when AASB 9 is applied. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |
| AASB 2009-12 | Amendments to Australian Accounting Standards (AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052) | This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. | 1 Jan 2011 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2011 |
| AASB 9 | Financial Instruments | AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).<br>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 9 *continued* | Financial Instruments | a) Financial assets are classified based on; *1)* the objective of the entity's business model for managing the financial assets; *2)* the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.<br>b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.<br>c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |
| AASB 124 (Revised) | Related Party Disclosures | The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:<br>a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other;<br>b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and<br>c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.<br><br>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures. | 1 Jan 2011 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2011 |

## 2 Summary of Significant Accounting Policies

### ii) Accounting standards and interpretations issued but not yet effective continued

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 1053 | Application of Tiers of Australian Accounting Standards | This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:<br>a) Tier 1: Australian Accounting Standards<br>b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements<br>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.<br>The following entities apply Tier 1 requirements in preparing general purpose financial statements:<br>a) For-profit entities in the private sector that have public accountability (as defined in this Standard)<br>b) The Australian Government and State, Territory and Local Governments<br>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:<br>a) For-profit private sector entities that do not have public accountability<br>b) All not-for-profit private sector entities<br>Public sector entities other than the Australian Government and State, Territory and Local Governments. | 1 July 2013 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2013 |
| AASB 2009-14 | Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement | These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14).<br>The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.<br>The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. | 1 Jan 2011 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2011 |

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 1054 | Australian Additional Disclosures | This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.<br>This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:<br>a) Compliance with Australian Accounting Standards<br>b) The statutory basis or reporting framework for financial statements<br>c) Whether the financial statements are general purpose or special purpose<br>d) Audit fees<br>e) Imputation credits | 1 Jan 2011 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2011 |
| AASB 2010-4 | Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] | Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.<br>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.<br>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.<br>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account. | 1 Jan 2011 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2011 |
| AASB 2010-5 | Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] | This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.<br>These amendments have no major impact on the requirements of the amended pronouncements. | 1 Jan 2011 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2011 |

## 2 Summary of Significant Accounting Policies

### ii) Accounting standards and interpretations issued but not yet effective continued

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2010-6 | Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] | The amendments increase the disclosure requirements for transactions involving transfers of financial assets. *Disclosures* require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale. | 1 July 2011 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2011 |
| AASB 2010-7 | Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127] | The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:<br>• The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>• The remaining change is presented in profit or loss<br>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |
| AASB 2010-8 | Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] | These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate *SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.* | 1 Jan 2012 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2012 |

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 2011-1 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113] | This Standard makes amendments to many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054. | 1 July 2011 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2011 |
| AASB 2011-2 | Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054] | This Standard makes amendments to the application of the revised disclosures to Tier 2 entities, that are applying AASB 1053. | 1 July 2013 | The amendments are not expected to have any impact on the Group's financial report. | 1 July 2013 |
| AASB 2011-4 | Amendments to Australian Accounting Standards to remove individual key management personnel disclosure requirements | This Standard makes amendments to AASB 124 Related Party Disclosures to remove individual key management personnel disclosure requirements under section 334 of the Corporations Act 2001. | 1 July 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |
| AASB 2011-5 | Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131] | These amendments result from the proposals that were included in Exposure draft ED205. | 1 July 2011 | The amendments are unlikely to have any impact on the Group since the relief criteria are not met. | 1 July 2011 |
| **** | Consolidated Financial Statements | IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*.<br>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |

## 2 Summary of Significant Accounting Policies

### ii) Accounting standards and interpretations issued but not yet effective continued

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| **** | Disclosure of Interests in Other Entities | IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |
| **** | Fair Value Measurement | IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.<br><br>IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |
| **** | Joint Arrangements | IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |

| Reference | Title | Summary | Application date of standard | Impact on Group financial report | Application date for Group |
|---|---|---|---|---|---|
| **** *continued* | Joint Arrangements | Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group. | 1 Jan 2013 | The Group has not yet determined the extent of the impact of the amendments, if any. | 1 July 2013 |

**** The AASB has not issued this standard, which was finalised by the IASB in May 2011.

### d) Basis of consolidation

The consolidated financial statements comprise the financial statements of K&S Corporation Limited and its subsidiaries ("the Group") as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from inter-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries by K&S Corporation Limited are accounted for at cost in the separate financial statements of the parent less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of the dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exists. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration, (including the fair value of any pre-existing investment in the acquiree), is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the Statement of Financial Position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

### e) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred to the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

## 2 Summary of Significant Accounting Policies

### e) Business combinations continued

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

### f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following aspects:

- Nature of the product or services;
- Type or class of customer for the product or services; and
- Methods used to distribute the products or provide services.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

### g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*i) Sale of goods*
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of fuel products to entities outside the consolidated entity. Sales revenue is recognised when fuel is provided.

*ii) Rendering of services*
Service revenue from the distribution of customer goods is recognised when delivered or when services are fully provided.

*iii) Interest*
Revenue is recognised as the interest accrues using the effective interest method. This method calculates the amortised cost of a financial asset and allocates the interest over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

*iv) Dividends*
Revenue is recognised when the Group's right to receive the payment is established.

### h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### i) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

### j) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

### l) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
**Consumables** – purchase cost on a first-in, first-out basis;
**Finished goods** – weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

### l) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate contracts is determined by reference to market value for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (interest rate swaps) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to profit or loss in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

### m) Derecognition of financial assets and liabilities

**Financial assets**
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either ***(a)*** has transferred substantially all the risks and rewards of the asset, or ***(b)*** has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**Financial liabilities**
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

## 2 Summary of Significant Accounting Policies

### n) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

**Financial assets carried at amortised cost**
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**Financial assets carried at cost**
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

### o) Foreign currency translation

Both the functional and presentation currency of K&S Corporation Ltd and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries (K&S Freighters Limited and Cochrane's Transport Limited) is New Zealand dollars (NZ$).

As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of K&S Corporation Limited at the rate of exchange ruling at the reporting date and the revenue and expenses are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating of that particular foreign operation is recognised in profit or loss.

### p) Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities in which the Group has significant influence and that are neither a subsidiary nor a joint venture.

Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment loss is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from the associates are recognised in the parent entity's Statement of Comprehensive Income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

**q) Income tax and other taxes**

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences is associated with investments in subsidiaries and associates and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

**Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## 2 Summary of Significant Accounting Policies

### r) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis using the following rates:

| | |
|---|---|
| Land | Not depreciated |
| Buildings | 2.5% p.a |
| Motor vehicles | 5% – 40% p.a |
| Plant and equipment | 5% – 27% p.a |

***i) Impairment***

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment exists when the carrying values of an asset or cash-generating unit exceeds its estimated recoverable amount. The assets or cash-generating units are written down to their recoverable amount. For plant and equipment, impairment losses are recognised in profit or loss. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

***ii) Revaluations***

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position unless it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase for the same asset debited directly to the asset revaluation reserve.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the reporting date.

***iii) Derecognition and disposal***

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognised.

### s) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation and convention in the marketplace.

**Financial assets at fair value through profit or loss**

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

**Held-to-maturity investments**
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost.

This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

**Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing methods.

### t) Goodwill and intangibles

**Goodwill**
Goodwill acquired in a business combination is initially measured at cost of the business combination, being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes, and is not larger than a operating segment determined in accordance with AASB 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**Intangibles**
Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

## 2 Summary of Significant Accounting Policies

### t) Goodwill and intangibles continued

**Development costs**
An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to the use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during the development.

Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

### u) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amounts (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the assets in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### v) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

### w) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

### x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### y) Employee leave benefits

**i) Wages, 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 current provisions in respect of employees' service up to the reporting date. They 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 are measured at the rates paid or payable.

**ii) Long service leave**
The liability for long service leave 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 using the projected unit credit method. Consideration is given to expected future wages 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 currencies that match, as closely as possible, the estimated future cash outflows.

**iii) Defined contribution superannuation funds**
The commitment to defined contribution plans is limited to making contributions in accordance with the minimum statutory requirements. The Group does not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss as incurred.

**iv) Directors retirement benefits**
Directors commencing after 30 June 2004 are not eligible for any benefit under the Directors Retirement Scheme. However, Non-Executive Directors appointed before that date are eligible to receive retirement benefits on retiring as a Director. In July 2004, the Directors Retirement benefit calculation changed, to freeze the accumulation of years of service for each Director.

### z) Contributed equity

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

### aa) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than shares);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

### bb) Significant account judgments, estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

**i) Significant accounting judgments**

***Recovery of deferred tax assets***
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgment is required to determine the amount of deferred taxes that can be recognised, based upon the likely timing and the level of future taxable profits.

***Taxation***
The Group's accounting policy for taxation requires management judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependent on sufficient future profits.

## 2 Summary of Significant Accounting Policies

### bb) Significant account judgments, estimates and assumptions continued

### ii) Significant accounting estimates and assumptions

***Impairment of goodwill***
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in *Note 16*.

***Make good provisions***
Provision is made for anticipated costs of future restoration of leased storage premises. The future cost estimates are discounted to their present value. The related carrying amounts are disclosed in *Note 19*.

***Allowance for impairment loss on trade receivables***
Where receivables are outstanding beyond normal trading terms, the likelihood of recovery of these receivables is assessed by management. This assessment is based on supportable past collection history and historical write-offs of bad debts. The allowance for impairment loss is outlined in *Note 10*.

***Long service leave provision***
As discussed in *Note 2 (y)*, the liability for long service is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

***Impairment of non-financial assets other than goodwill***
The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

## 3 Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance leases and hire purchase contracts, and cash deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, principally interest rate swap contracts. The purpose is to manage the interest rate risk arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in *Note 2* to the financial statements.

**Risk exposures and responses**

***Fair Value***
The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

**Level 1** – the fair value is calculated using quoted prices in active markets.
**Level 2** – the fair value is estimated using inputs other than quoted prices in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
**Level 3** – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair values are summarised in the table below.

| | Year ended 30 June 2011 | | | Year ended 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | **Quoted market price (Level 1)** | **Valuation technique – market observable inputs (Level 2)** | **Valuation technique – non-market observable inputs (Level 3)** | Quoted market price (Level 1) | Valuation technique – market observable inputs (Level 2) | Valuation technique – non-market observable inputs (Level 3) |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **CONSOLIDATED** | | | | | | |
| **Financial liabilities** | | | | | | |
| Derivative instruments | | | | | | |
| – Interest rate swaps | - | **(712)** | - | - | (1,123) | - |
| | - | **(712)** | - | - | (1,123) | - |

For financial instruments not quoted in active market, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

There were no transfers between Level 1 and Level 2 during the year.

***Credit risk***

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. It is the Group's policy that customers who wish to trade on credit more than $1,000 per week are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

The consolidated entity also minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various states. The Group is not materially exposed to any individual customer or individual state. Concentration of credit risk on trade debtors due from customers are: Transport 94% (2010: 93%) and Fuel 6% (2010: 7%).

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

***Foreign currency risk***

The Group's exposure to currency risk is minimal.

***Interest rate risk***

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The level of debt is disclosed in *Note 18*.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

| | **Consolidated** | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| **Financial assets** | | |
| – Cash and cash equivalents | **9,747** | 12,042 |
| **Financial liabilities** | | |
| – Bank loans | **(38,621)** | (23,803) |
| Net exposure | **(28,874)** | (11,761) |

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are intended to hedge underlying debt obligations, however derivatives held by the Group do not qualify for hedge accounting and as a result any gains or losses arising from changes in fair value are taken directly to the Statement of Comprehensive Income. The net gain is reported within other income and the net loss is reported within other expenses. Interest rate swap contracts are outlined in *Note 21*.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative hedging positions and the mix of fixed and variable interest rates.

## 3 Financial Risk Management Objectives and Policies

Risk exposures and responses

*Interest rate risk* continued

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Balance Sheet date:

| Judgements of reasonably possible movements: | Post Tax Profit Higher/(Lower) 2011 $'000 | 2010 $'000 | Equity Higher/(Lower) 2011 $'000 | 2010 $'000 |
|---|---|---|---|---|
| **Consolidated** | | | | |
| + 1% (100 basis points) | **(152)** | (27) | **(152)** | (27) |
| – 0.5% (50 basis points) | **57** | 13 | **57** | 13 |

The movements in profit are due to higher/lower interest costs from variable debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based upon the Group's current credit rating and debt mix in Australia and New Zealand.
- A price sensitivity of derivatives has been based on reasonably possible movements in the spot rate.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months.

***Liquidity risk***

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and committed lines of credit.

The Group's policy in managing liquidity risk is to ensure the Group always has sufficient liquidity to meet its financial obligations when due, as well as to accommodate unforeseen cash requirements over both the short and long term.

*i) Non-derivative financial liabilities*

The following liquidity risk disclosure reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities and financial guarantees as of 30 June 2011. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

## 3 Financial Risk Management Objectives and Policies continued

The following table reflects a balanced view of cash inflows and outflows of non-derivative financial instruments:

| | Less than 1 year $'000 | 1 to 2 years $'000 | 2 to 5 years $'000 | Greater than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2011** | | | | | |
| **Liquid financial assets** | | | | | |
| Cash and cash equivalents | 9,747 | - | - | - | 9,747 |
| Trade and other receivables | 68,299 | 1,324 | 365 | - | 69,988 |
| | 78,046 | 1,324 | 365 | - | 79,735 |
| **Financial liabilities** | | | | | |
| Interest bearing loans and borrowings | (20,888) | (21,551) | (58,730) | - | (101,169) |
| Trade and other payables | (46,457) | (4,929) | - | - | (51,386) |
| Financial guarantees | (13,613) | - | - | - | (13,613) |
| | (80,958) | (26,480) | (58,730) | - | (166,168) |
| **Net inflow/(outflow)** | (2,912) | (25,156) | (58,365) | - | (86,433) |

The Group's available credit facilities are outlined in *Note 18*.

*ii) Derivative financial liabilities*
Due to the unique characteristics and risks inherent to derivative instruments, the Group separately monitors the liquidity risk arising from transacting in derivative instruments.

The table below details the liquidity risk arising from the derivative liabilities held by the Group at balance date.

| | Less than 1 year $'000 | 1 to 2 years $'000 | 2 to 5 years $'000 | Greater than 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2011** | | | | | |
| Derivative liabilities – net settled | (712) | - | - | - | (712) |
| **Net maturity** | (712) | - | - | - | (712) |

## 4 Operating Segments

### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Management team in assessing performance and in determining the allocation of resources.

The operating segments are identified by Management based on the nature of the services provided, the identity of the service line manager and the country of origin. Discrete financial information about each of these operating businesses is reported to the Executive Management team on at least a weekly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the services provided and/or the products sold, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The Group comprises the following main business segments, based on the consolidated entity's management reporting system:

- **K&S Aus** – The provision of interstate and local logistical services to customers under the brand K&S in Australia.
- **K&S Fuels** – The distribution of fuel to fishing, farming and retail customers within the South East of South Australia.
- **DTM** – The provision of local logistical services to customers under the brand DTM.
- **Regal/Pacific** – The provision of logistical services to customers under the brand Regal/Pacific Transport in Western Australia.
- **K&S NZ** – The provision of logistical services to customers under the brand K&S in New Zealand.

### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in *Note 2* to the accounts and in the prior period except as detailed below:

***Inter-entity sales***
Inter-entity sales are recognised based on an internally set transfer price. The price is set periodically and aims to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

***Corporate charges***
Corporate charges are allocated to each operating segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

***Segment loans payable and loans receivable***
Segment loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets or liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which Management believe would be inconsistent.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Finance costs.
- Fair value gains/losses on derivative classified as held for trading.

The following table presents revenue and profit information for reportable segments for the years ended 30 June 2011 and 30 June 2010.

K&S CORPORATION LIMITED

## 4 Operating Segments continued

| | K&S Aust $'000 | Regal/ Pacific $'000 | K&S Fuels $'000 | DTM $'000 | K&S NZ $'000 | Unallocated Items $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2011** | | | | | | | |
| **Revenue** | | | | | | | |
| Sales to external customers | 312,384 | 72,381 | 61,719 | 54,528 | 22,263 | - | 523,275 |
| Inter-segment sales | 504 | 850 | 38,929 | 433 | - | - | 40,716 |
| **Total segment revenue** | 312,888 | 73,231 | 100,648 | 54,961 | 22,263 | - | 563,991 |
| **Segment net operating profit after tax** | 12,325 | 3,891 | 868 | 1,720 | 270 | - | 19,074 |
| Interest revenue | - | - | - | - | - | 89 | 89 |
| Interest expense | - | - | - | - | - | (8,404) | (8,404) |
| Depreciation and amortisation | (18,800) | (3,683) | (107) | (93) | (2,406) | - | (25,089) |
| Share of profit of associate | 86 | - | - | - | 112 | - | 198 |
| Income tax expense | (3,635) | (1,623) | (372) | (732) | 22 | - | (6,340) |
| **Segment assets** | 311,688 | 24,669 | 17,052 | 23,291 | 24,011 | - | 400,711 |
| Investment in associate | 86 | - | - | - | 113 | - | 199 |
| Capital expenditure | (27,603) | - | - | - | (6,638) | - | (34,241) |
| **Segment liabilities** | (135,833) | (14,584) | (6,450) | (1,661) | (14,761) | - | (173,289) |
| **Cash flow information** | | | | | | | |
| Net cash flow from operating activities | 21,024 | 7,574 | 863 | 2,742 | 1,927 | - | 34,130 |
| Net cash flow from investing activities | (50,367) | - | - | 816 | 948 | - | (48,603) |
| Net cash flow from financing activities | 26,630 | (7,574) | (863) | (3,558) | (2,424) | - | 12,211 |
| **Year ended 30 June 2010** | | | | | | | |
| **Revenue** | | | | | | | |
| Sales to external customers | 317,730 | 10,773 | 58,629 | 46,833 | 20,140 | - | 454,105 |
| Inter-segment sales | 167 | - | 33,716 | 358 | - | - | 34,241 |
| **Total segment revenue** | 317,897 | 10,773 | 92,345 | 47,191 | 20,140 | - | 488,346 |
| **Segment net operating profit after tax** | 17,245 | 564 | 1,124 | 1,547 | 172 | - | 20,652 |
| Interest revenue | - | - | - | - | - | 212 | 212 |
| Interest expense | - | - | - | - | - | (5,218) | (5,218) |
| Depreciation and amortisation | (17,004) | (556) | (117) | (91) | (2,374) | - | (20,142) |
| Share of profit of associate | 225 | - | - | - | 14 | - | 239 |
| Income tax expense | (6,289) | (241) | (495) | (644) | 91 | - | (7,578) |
| **Segment assets** | 278,305 | 4,546 | 15,612 | 16,204 | 21,309 | - | 335,976 |
| Investment in associate | - | - | - | - | - | - | - |
| Capital expenditure | (17,481) | - | - | - | (1,008) | - | (18,489) |
| **Segment liabilities** | (119,563) | (3,982) | (5,877) | (2,233) | (10,603) | - | (142,258) |
| **Cash flow information** | | | | | | | |
| Net cash flow from operating activities | 29,047 | 1,120 | 1,483 | 2,231 | 2,066 | - | 35,947 |
| Net cash flow from investing activities | (26,501) | - | - | 270 | (15) | - | (26,246) |
| Net cash flow from financing activities | (4,657) | (1,120) | (1,483) | (2,504) | (2,626) | - | (12,390) |

## 4 Operating Segments continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **i) Segment revenue reconciliation to the Statement of Comprehensive Income** | | |
| Total segment revenue | **563,991** | 488,346 |
| Interest revenue | **89** | 212 |
| Inter-segment sales elimination | **(40,716)** | (34,241) |
| Total revenue | **523,364** | 454,317 |
| Revenue from external customers by geographical location is detailed below. Revenue is attributed to geographic location based on the location of the customers. The Company does not have external revenues from external customers that are attributable to any foreign country other than as shown. | | |
| Australia | **501,101** | 434,177 |
| New Zealand | **22,263** | 20,140 |
| Total revenue | **523,364** | 454,317 |
| **ii) Segment net operating profit before tax reconciliation to the Statement of Comprehensive Income** | | |
| The Executive Management committee meets on a monthly basis to assess the performance of each segment by analysing the segment's net operating profit after tax. A segment's net operating profit after tax excludes non operating income and expense such as fair value gains and losses and gains on disposal of assets. Income tax expenses are calculated as 30% (2010: 30%) of the segment's net operating profit. | | |
| Reconciliation of segment net operating profit after tax to net profit before tax. | | |
| Segment net operating profit after tax | **19,074** | 20,652 |
| Income tax expense 30% (2010: 30%) | **8,131** | 8,807 |
| Fair value gain/(loss) on held for trading derivatives | **401** | 668 |
| Finance costs | **(8,404)** | (5,218) |
| Net gains on disposal of property plant and equipment | **1,966** | 1,408 |
| Total net profit before tax per Statement of Comprehensive Income | **21,168** | 26,317 |
| **iii) Segment assets reconciliation to the Statement of Financial Position** | | |
| Segment assets are those operating assets of the entity that the Executive Management committee views as directly attributing to the performance of the segment. These assets include plant and equipment, receivables, inventory, intangibles and excludes deferred tax assets. | | |
| Reconciliation of segment operating assets to total assets. | | |
| Segment operating assets | **400,711** | 335,976 |
| Intersegment eliminations | **(19,440)** | (15,659) |
| Deferred tax assets | **6,731** | 5,776 |
| Total assets per the Statement of Financial Position | **388,002** | 326,093 |

## 4 Operating Segments continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| The analysis of location on non-current assets other than financial instruments and deferred tax assets is as follows: | | |
| Australia | **275,226** | 226,006 |
| New Zealand | **20,544** | 18,085 |
| Total assets per the Statement of Financial Position | **295,770** | 244,091 |

**iv) Segment liabilities reconciliation to the Statement of Financial Position**

Segment liabilities include trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations. The Executive Management committee reviews the level of debts for each segment in the monthly meetings.

Reconciliation of segment operating liabilities to total liabilities.

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Segment operating liabilities | **173,289** | 142,258 |
| Intersegment eliminations | **(19,440)** | (15,659) |
| Deferred tax liabilities | **18,941** | 18,032 |
| Income tax payable | **894** | 1,270 |
| Derivatives | **712** | 1,123 |
| Total liabilities per the Statement of Financial Position | **174,396** | 147,024 |

## 5 Revenue and Expenses

**Revenue**

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **a) Rendering of services** | **461,556** | 395,476 |
| Sale of goods | **61,719** | 58,629 |
| Finance revenue | **89** | 212 |
| **Total revenue** | **523,364** | 454,317 |
| **b) Other income** | | |
| – Net gains on disposal of property, plant and equipment | **1,966** | 1,408 |
| – Other | **3,252** | 2,218 |
| **Total other income** | **5,218** | 3,626 |
| **c) Finance costs** | | |
| – Related parties – other | **5** | 5 |
| – Other parties | **4,772** | 2,184 |
| – Finance charges on hire purchase contracts | **3,627** | 3,029 |
| **Total finance costs** | **8,404** | 5,218 |

## 5 Revenue and Expenses continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **d) Depreciation and amortisation expense** | | |
| Depreciation | | |
| – Buildings | **1,920** | 1,491 |
| – Motor vehicles | **20,081** | 16,176 |
| – Plant and equipment | **2,627** | 2,351 |
| Amortisation | | |
| – IT Development costs | **461** | 124 |
| **Total depreciation and amortisation expenses** | **25,089** | 20,142 |
| **e) Employee benefits expense** | | |
| – Wages and salaries | **118,392** | 96,599 |
| – Workers' compensation costs | **5,289** | 5,452 |
| – Long service leave provision | **1,493** | 627 |
| – Annual leave provision | **7,415** | 6,323 |
| – Payroll tax | **6,606** | 5,317 |
| – Defined contribution plan expense | **8,640** | 6,831 |
| – Directors retirement scheme expense | **40** | 20 |
| **Total employee benefits expense** | **147,875** | 121,169 |
| **f) Operating lease rental expense** | | |
| – Property | **10,148** | 5,782 |
| – Plant and equipment | **2,580** | 2,949 |
| | **12,728** | 8,731 |
| **g) Derivatives** | | |
| – Net (gain)/loss on derivatives classified as held for trading * | **(401)** | (668) |

* *Derivatives held by the Group do not qualify for hedge accounting and as a result any gains or losses arising from changes in fair value are taken directly to the Statement of Comprehensive Income. The net gain is reported within other income and the net loss is reported within other expenses. Interest rate swap contracts are outlined in Note 21.*

## 6 Income Tax

The major components of income tax expense are:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Statement of Comprehensive Income** | | |
| **Current income tax** | | |
| – Current income tax charge | **6,438** | 7,891 |
| – Adjustments in respect of current income tax of previous years | **5** | (245) |
| **Deferred income tax** | | |
| – Relating to origination and reversal of temporary differences | **(103)** | (68) |
| Income tax expense reported in the Statement of Comprehensive Income | **6,340** | 7,578 |

K&S CORPORATION LIMITED

## 6 Income Tax continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **Statement of Changes in Equity** | | |
| **Deferred income tax related to items charged or credited directly to equity** | | |
| – Net gain on revaluation of land and buildings | - | 2,277 |
| Income tax expense reported in equity | - | 2,277 |
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: | | |
| Accounting profit before income tax | **21,168** | 26,317 |
| At the Group's statutory income tax rate of 30% (2010: 30%) | **6,350** | 7,895 |
| – Expenditure not allowable for income tax purposes | **(15)** | 53 |
| – Adjustments in respect of current income tax of previous years | **5** | (245) |
| – Investment allowance | - | (125) |
| Income tax expense reported in the Statement of Comprehensive Income | **6,340** | 7,578 |

| | Consolidated 2011 $'000 Current Income Tax | 2011 $'000 Deferred Income Tax | 2010 $'000 Current Income Tax | 2010 $'000 Deferred Income Tax |
|---|---|---|---|---|
| **Recognised deferred tax assets and liabilities** | | | | |
| Opening balance | **(1,270)** | **(12,256)** | (1,037) | (10,114) |
| Charged to income | **(6,443)** | **103** | (7,646) | 68 |
| Charged to equity | - | **170** | - | (2,277) |
| Other payments | **6,819** | - | 7,413 | - |
| Acquisitions/Disposals | - | **(227)** | - | 67 |
| Closing balance | **(894)** | **(12,210)** | (1,270) | (12,256) |
| Tax expense in Statement of Comprehensive Income | | **6,340** | | 7,578 |
| Amounts recognised in the Statement of Financial Position: | | | | |
| Deferred tax asset | | **6,731** | | 5,776 |
| Deferred tax liability | | **(18,941)** | | (18,032) |
| | | **(12,210)** | | (12,256) |

## 6 Income Tax continued

| | Statement of Financial Position | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| **Deferred income tax** | | |
| Deferred income tax at 30 June relates to the following: | | |
| **Consolidated** | | |
| *Deferred tax liabilities* | | |
| – Accelerated depreciation for tax purposes | (6,100) | (5,390) |
| – Revaluations of land and buildings to fair value | (11,258) | (11,258) |
| – Trade and other receivables not derived for tax purposes | (1,583) | (1,384) |
| | (18,941) | (18,032) |
| *Deferred tax assets* | | |
| – Equity raising costs | 136 | - |
| – Accelerated depreciation for accounting purposes | 633 | 474 |
| – Trade and other payables not currently deductible | 1,091 | 1,181 |
| – Trade and other receivables not derived for tax purposes | 89 | 128 |
| – Employee entitlements not currently deductible | 4,782 | 3,993 |
| Gross deferred income tax assets | 6,731 | 5,776 |

### Tax consolidation

Effective 1 July 2002, for the purposes of income taxation, K&S Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group. K&S Corporation Limited is the head entity of the tax consolidated group. Members of the group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

K&S Corporation Limited formally notified the Australian Tax Office of its adoption of the tax consolidation regime when lodging its 30 June 2003 consolidated tax return.

### Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires members of the tax consolidated group to make contributions to the head company for tax liabilities and deferred tax balances arising from transactions occurring after the implementation of tax consolidation. Contributions are payable following the payment of the liabilities by K&S Corporation Limited. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense or benefit.

In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or upon leaving the Group.

In preparing the accounts for K&S Corporation Ltd for the current year, the following amounts have been recognised as tax consolidation adjustments:

| | Parent | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| Total increase/(reduction) to tax expense of K&S Corporation Ltd | (6,712) | (7,920) |
| Total increase/(reduction) to inter-company assets of K&S Corporation Ltd | 6,712 | 7,920 |

## 7 Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| Net profit attributable to ordinary equity holders of the parent from continuing operations | 14,828 | 18,739 |
| **Net profit attributable to ordinary equity holders of the parent** | 14,828 | 18,739 |
| | 2011<br>Thousands | 2010<br>Thousands |
| Weighted average number of ordinary shares used in the calculation of the basic earnings per share | 80,849 | 70,281 |
| Effect of dilution<br>– Ordinary Shares | - | - |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 80,849 | 70,281 |

Earnings per share calculations reflect the "bonus" element of the Rights Issue conducted in December 2010. As such, an adjustment is required to the number of shares outstanding before the share purchase plan to reflect the "bonus" element. Prior year comparatives earnings per share figures have been restated to take account of this.

## 8 Dividends Paid and Proposed

| | Consolidated | |
|---|---|---|
| | 2011<br>$'000 | 2010<br>$'000 |
| **Declared and paid during the year:** | | |
| ***Dividends on ordinary shares*** | | |
| Final franked dividend for 2010: 7.0 cents (2009: 5.0 cents) | 5,148 | 3,510 |
| Interim franked dividend for 2011: 5.0 cents (2010: 7.0 cents) | 4,303 | 4,957 |
| | 9,451 | 8,467 |
| **Proposed (not recognised as a liability as at 30 June):** | | |
| ***Dividends on ordinary shares*** | | |
| Final franked dividend for 2011: 5.0 cents (2010: 7.0 cents) | 4,314 | 5,148 |
| **Franking credit balance** | | |
| The amount of franking credits available for the subsequent year are: | | |
| • franking account balance as at the end of the financial year at 30% (2010: 30%) | 41,493 | 38,465 |
| • franking credits that will arise from the payment of income tax payable as at the end of the financial year | 1,630 | 2,262 |

## 8 Dividends Paid and Proposed

Franking credit balance continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| The amount of franking credits available for future reporting periods: | | |
| • impact on franking account of dividends proposed but not recognised as a distribution to equity holders during the period | **(1,849)** | (2,206) |
| | **41,274** | 38,521 |

**Tax rates**
The tax rate at which dividends have been franked is 30% (2010: 30%).
Dividends proposed will be franked at the rate of 30% (2010: 30%).

## 9 Cash and Cash Equivalents

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Cash | **46** | 42 |
| Cash deposits with banks | **9,701** | 12,000 |
| | **9,747** | 12,042 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

| **Reconciliation of net profit after income tax to net cash flows from operations** | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Net profit after income tax | **14,828** | 18,739 |
| Add/(less) items classified as investing/financing activities: | | |
| – (Profit)/loss on sale of non-current assets | **(1,966)** | (1,408) |
| Add/(less) non-cash items: | | |
| – Amounts set aside to provisions | **1,661** | 569 |
| – Depreciation | **25,089** | 20,142 |
| – Share of associates' net profit | **(198)** | (239) |
| – Dividends received from associates | **-** | 268 |
| **Net cash provided by operating activities before changes in assets and liabilities** | **39,414** | 38,071 |
| CHANGE IN ASSETS AND LIABILITIES | | |
| (Increase)/decrease in inventories | **(286)** | 483 |
| (Increase)/decrease in income tax benefit | **(686)** | (187) |
| (Increase)/decrease in prepayments | **(262)** | (409) |
| (Increase)/decrease in receivables | **(2,821)** | (10,306) |
| Decrease)/increase in trade creditors | **(1,030)** | 7,943 |
| (Decrease)/increase in income taxes payable | **(376)** | 235 |
| (Decrease)/increase in deferred taxes payable | **413** | 113 |
| Exchange rate changes on opening cash balances | **(236)** | 4 |
| Net cash provided by/(used in) operating activities | **34,130** | 35,947 |

**Disclosure of financing facilities**
*Refer to Note 18.*

**Disclosure of non-cash financing and investing activities**
*Refer to Note 14(d).*

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **10 Trade and Other Receivables** | | |
| **Current** | | |
| Trade debtors | **64,751** | 54,052 |
| Allowance for impairment loss (a) | **(292)** | (446) |
| | **64,459** | 53,606 |
| Sundry debtors | **3,037** | 3,141 |
| | **67,496** | 56,747 |
| **Non-current** | | |
| Sundry debtors | **776** | 515 |
| Related party receivables | | |
| – Employee share plan loans | **1,258** | 1,578 |
| | **2,034** | 2,093 |

**a) Allowance for impairment loss**

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received for the relevant debtors.

Movements in the provision for impairment loss were as follows:

| | 2011 | 2010 |
|---|---|---|
| At 1 July | **446** | 478 |
| Charge for the year | **2** | 151 |
| Amounts written off | **(156)** | (183) |
| At 30 June | **292** | 446 |

**At 30 June, the aging analysis of trade receivables is as follows:**

| Consolidated | Total | 0-30 days | 31-60 days | 61-90 days PDNI* | 61-90 days CI** | +91 days PDNI* | +91 days CI** |
|---|---|---|---|---|---|---|---|
| **2011** | **64,751** | **41,281** | **16,374** | **6,075** | **-** | **729** | **292** |
| 2010 | 54,052 | 37,665 | 14,325 | 1,192 | - | 424 | 446 |

* Past due not impaired ('PDNI')

** Considered impaired ('CI')

Receivables past due but not impaired payment terms have not been re-negotiated. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

**b) Fair value and credit risk**

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.
The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **11 Inventories** | | |
| Consumable stores – at cost | **969** | 966 |
| Finished goods – fuel at cost | **2,012** | 1,730 |
| Total inventories at the lower of cost and net realisable value | **2,981** | 2,696 |

**a) Inventory expense**

Inventories recognised as an expense for the year ended 30 June 2011 totalled $57,765,000 (2010: $53,656,000) for the Group. This expense has been included in the cost of sales line item as a cost of inventories.

| | Parent 2011 $'000 | Parent 2010 $'000 |
|---|---|---|
| **12 Other Financial Assets** | | |
| Investments controlled entities | | |
| – Shares – unlisted at cost | **32,418** | 32,418 |
| | **32,418** | 32,418 |

| | Interest Owned 2011 % | Interest Owned 2010 % | Investment Carrying Amount Consolidated 2011 $'000 | Investment Carrying Amount Consolidated 2010 $'000 |
|---|---|---|---|---|
| **13 Investment in Associates** | | | | |
| **a) Investment details** | | | | |
| Smart Logistics Pty Ltd | **50** | 50 | **86** | - |
| Dairy Transport Logistics Pty Ltd | **24.5** | 24.5 | **113** | - |
| Investment in associates | | | **199** | - |

Both Smart Logistics Pty Ltd and Dairy Transport Logistics Pty Ltd are providers of distribution services and consultants in transport and distribution. Smart Logistics Pty Ltd was incorporated in Australia. Dairy Transport Logistics Pty Ltd was incorporated in New Zealand.

**b) Movements in the carrying amount of the Group's investment in associates**

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Dairy Transport Logistics Pty Ltd | | |
| At 1 July | - | 31 |
| Share of profit after income tax | **112** | 14 |
| Exchange rate changes on opening balances | **1** | (2) |
| Dividend payment | - | (43) |
| At 30 June | **113** | - |

## 13 Investment in Associates continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| Smart Logistics Pty Ltd | | |
| At 1 July | - | - |
| Share of profit/(loss) after income tax | **113** | 280 |
| Dividend payment | - | (225) |
| Recovery of prior share losses not equity accounted | **(27)** | (55) |
| At 30 June | **86** | - |

### c) Share of associates' commitments

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| ***Share of associates' finance lease commitments:*** | | |
| Within one year | **208** | 208 |
| One year or later and no later than five years | **105** | 313 |
| Minimum lease payments | **313** | 521 |
| Less: Future finance charges | **(19)** | (51) |
| Total lease liability | **294** | 470 |

### d) Summarised financial information

The following table illustrates summarised financial information relating to the Group's associates:

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| ***Extract from the associates' Statement of Financial Position:*** | | |
| Current assets | **9,329** | 9,384 |
| Non-current assets | **277** | 764 |
| | **9,606** | 10,148 |
| Current liabilities | **(8,766)** | (9,591) |
| Non-current liabilities | **(204)** | (599) |
| | **(8,970)** | (10,190) |
| Net assets/(liabilities) | **636** | (42) |
| Share of associates net assets/(liabilities) | **226** | (21) |
| Adjustments arising from equity accounting | | |
| – Recovery of prior share losses not equity accounted | **(27)** | 21 |
| | **199** | - |
| ***Extract from the associates' Statement of Comprehensive Income:*** | | |
| Revenue | **118,618** | 116,009 |
| Net profit | **685** | 567 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Freehold Land and Buildings $'000 | Motor Vehicles $'000 | Plant & Equipment $'000 | Total $'000 |
| **14 Property, Plant and Equipment** | | | | |
| **a) Reconciliation of carrying amounts at the beginning and end of the period:** | | | | |
| **Year ended 30 June 2011** | | | | |
| As at 1 July 2010 net of accumulated depreciation and impairment | **90,618** | **95,062** | **11,489** | **197,169** |
| Additions | **10,346** | **21,335** | **2,560** | **34,241** |
| Additions – Regal Transport | **-** | **17,065** | **692** | **17,757** |
| Disposals | **-** | **(1,941)** | **-** | **(1,941)** |
| Depreciation charge for the year | **(1,920)** | **(20,081)** | **(2,627)** | **(24,628)** |
| Exchange adjustment | **(20)** | **(601)** | **(9)** | **(630)** |
| At 30 June 2011 net of accumulated depreciation and impairment | **99,024** | **110,839** | **12,105** | **221,968** |
| **At 30 June 2011** | | | | |
| Cost or fair value | **102,862** | **223,150** | **45,777** | **371,789** |
| Accumulated depreciation and impairment | **(3,838)** | **(112,311)** | **(33,672)** | **(149,821)** |
| Net carrying amount | **99,024** | **110,839** | **12,105** | **221,968** |
| **Year ended 30 June 2010** | | | | |
| As at 1 July 2009 net of accumulated depreciation and impairment | 83,613 | 91,324 | 10,871 | 185,808 |
| Additions | 874 | 14,879 | 2,758 | 18,511 |
| Additions – Pacific Transport | - | 5,923 | 237 | 6,160 |
| Reclassification of category | 27 | - | (27) | - |
| Revaluation | 7,591 | - | - | 7,591 |
| Disposals | - | (1,003) | - | (1,003) |
| Depreciation charge for the year | (1,491) | (16,176) | (2,351) | (20,018) |
| Exchange adjustment | 4 | 115 | 1 | 120 |
| At 30 June 2010 net of accumulated depreciation and impairment | 90,618 | 95,062 | 11,489 | 197,169 |
| **At 30 June 2010** | | | | |
| Cost or fair value | 92,538 | 199,113 | 42,915 | 334,566 |
| Accumulated depreciation and impairment | (1,920) | (104,051) | (31,426) | (137,397) |
| Net carrying amount | 90,618 | 95,062 | 11,489 | 197,169 |

**b) Revaluation of freehold land and buildings**

The freehold land and buildings are included in the financial statements at fair value, except for capital expenditure subsequent to the valuation which is recorded at cost. The fair value of land and buildings in 2011 was determined based on an independent valuation undertaken in March 2010 by Jones Lang LaSalle on the basis of open market values of properties for the highest and best use. Directors have adopted this independent valuation as fair value. This resulted in an increase to the Asset Revaluation Reserve of $5,314,000.

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## 14 Property, Plant and Equipment continued

| | Consolidated 2011 Freehold Land and Buildings $'000 | 2010 Freehold Land and Buildings $'000 |
|---|---|---|
| **c) Carrying amounts if land and buildings were measured at cost less accumulated depreciation and impairment** | | |
| If land and buildings were measured using the cost model the carrying amounts would be as follows: | | |
| Cost | 70,235 | 59,889 |
| Accumulated depreciation and impairment | (7,510) | (6,258) |
| Net carrying amount | 62,725 | 53,631 |

**d) Property, plant and equipment pledged as security for liabilities**

The carrying value of motor vehicles held under hire purchase contracts at 30 June 2011 is $64,451,196 (2010: $59,368,541). Additions during the year include $21,094,000 (2010: $13,849,000) held under hire purchase contracts.

Hire purchase liabilities are secured by the relevant asset.

Included in the balances of freehold land and buildings are assets on which mortgages have been granted as security over bank loans. The terms of the mortgages preclude the assets being sold or used as security for further mortgages without the permission of the mortgage holder. The mortgage also requires buildings that form part of the security to be fully insured at all times.

## 15 Intangible Assets and Goodwill

| | Consolidated IT Development Costs $'000 | Goodwill $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2011** | | | |
| At 1 July 2010 net of accumulated amortisation and impairment | 3,829 | 40,932 | 44,761 |
| Additions – Regal Transport | - | 27,528 | 27,528 |
| Amortisation | (461) | - | (461) |
| Exchange adjustment | - | (259) | (259) |
| At 30 June 2011 net of accumulated amortisation and impairment | 3,368 | 68,201 | 71,569 |
| **At 30 June 2011** | | | |
| Cost (gross carrying amount) | 3,953 | 68,201 | 72,154 |
| Accumulated amortisation and impairment | (585) | - | (585) |
| Net carrying amount | 3,368 | 68,201 | 71,569 |

## 15 Intangible Assets and Goodwill continued

| | Consolidated IT Development Costs $'000 | Goodwill $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2010** | | | |
| At 1 July 2009 net of accumulated amortisation and impairment | 3,953 | 21,669 | 25,622 |
| Additions – Pacific Transport | - | 19,201 | 19,201 |
| Amortisation | (124) | - | (124) |
| Exchange adjustment | - | 62 | 62 |
| At 30 June 2010 net of accumulated amortisation and impairment | 3,829 | 40,932 | 44,761 |
| **At 30 June 2010** | | | |
| Cost (gross carrying amount) | 3,953 | 40,932 | 44,885 |
| Accumulated amortisation and impairment | (124) | - | (124) |
| Net carrying amount | 3,829 | 40,932 | 44,761 |

IT development costs have been capitalised at cost and relate to the development of the Group's new core freight system (Panorama).

As from 1 July 2005, goodwill is no longer amortised but is now subject to annual impairment testing *(see Note 16)*.

No impairment loss was recognised for continuing operations in the 2011 financial year.

## 16 Impairment Testing of Goodwill

### Cash generating units

For the purpose of undertaking impairment testing, the Group identify cash generating units (CGU's) according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from the other assets or groups of assets.

Goodwill acquired through business combinations have been allocated across five individual cash generating units as follows:

| | Goodwill 2011 $'000 | 2010 $'000 |
|---|---|---|
| K&S Freighters Australia | **3,993** | 3,993 |
| K&S Fuels | **165** | 165 |
| Regal/Pacific Transport | **46,729** | 19,201 |
| DTM Logistics | **12,207** | 12,207 |
| K&S Freighters New Zealand | **5,107** | 5,366 |
| | **68,201** | 40,932 |

### Impairment testing

The Group's impairment testing compares the carrying value of each CGU with its recoverable amount as determined using a value in use calculation.

The assumptions for determining the recoverable amount of each CGU are based on past experience and Senior Management's expectations for the future. The cash flow projections are based on financial budgets approved by Senior Management covering a five-year period.

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## 16 Impairment Testing of Goodwill continued

The Group has used the following key assumptions in determining the recoverable amount of each CGU to which goodwill has been allocated:

| | Discount Rate | | Terminal Value Growth Rate | |
|---|---|---|---|---|
| | 2011 % | 2010 % | 2011 % | 2010 % |
| K&S Freighters Australia | **13.75** | 12.77 | **3.0** | 4.0 |
| K&S Fuels | **13.75** | 12.77 | **3.0** | 4.0 |
| Regal/Pacific Transport | **13.75** | 12.77 | **4.0** | 5.0 |
| DTM Logistics | **13.75** | 12.77 | **3.5** | 4.5 |
| K&S Freighters New Zealand | **13.18** | 13.93 | **3.0** | 2.0 |

**Discount rate**

The discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rates reflect the market determined, risk adjusted, discount rate relating to the cash generating unit.

**Terminal growth rate**

The terminal growth rate represents the growth rate applied to the extrapolated cash flows beyond the five year forecast period. This is based on Senior Management expectations of the cash generating units' long term performance in their respective markets.

***i) Sensitivity to changes in assumptions***

With regard to the assessment of the carrying amount of each of the cash generating units, Management believe that no reasonably possible change in any of the key assumptions would cause the carrying value to materially exceed its recoverable amount.

| | Consolidated | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| **17 Payables** | | |
| **Current** | | |
| Trade creditors and payables | **43,894** | 42,249 |
| Self insured workers compensation liability | **2,563** | 2,347 |
| | **46,457** | 44,596 |
| **Non-current** | | |
| Self insured workers compensation liability | **4,929** | 4,340 |
| | **4,929** | 4,340 |

**i)** Trade payables are non-interest bearing and are normally settled on 30 day terms

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **18 Interest Bearing Loans and Borrowings** | | |
| **Current** | | |
| Hire purchase liabilities – secured | **15,070** | 16,462 |
| | **15,070** | 16,462 |
| **Non-current** | | |
| Non redeemable preference shares | **60** | 60 |
| Hire purchase liabilities – secured | **32,650** | 24,026 |
| Bank loans – secured | **38,621** | 23,803 |
| | **71,331** | 47,889 |
| Commitments in respect of hire purchase agreements are payable as follows: | | |
| Not later than one year | **18,195** | 19,080 |
| Later than one year but not later than five years | **36,274** | 26,823 |
| | **54,469** | 45,903 |
| Deduct: future finance charges | **(6,749)** | (5,415) |
| Total hire purchase liability | **47,720** | 40,488 |
| Current | **15,070** | 16,462 |
| Non-current | **32,650** | 24,026 |
| | **47,720** | 40,488 |

**Fair value disclosures**

The carrying amount of the Group's current and non-current borrowings, approximate their fair value.

Details of the fair value of the Group's interest bearing liabilities are set out in *Note 3*.

**Hire purchase contracts**

The consolidated entity leases plant and equipment under hire purchase agreements for periods of one to five years. At the end of the term, the consolidated entity has the option to purchase the equipment at the agreed residual value.

Hire purchase liabilities are secured by the relevant asset.

The written down value of assets secured by hire purchase agreements is $64,451,196 (2010: $59,368,541). The weighted average cost of these facilities was 7.76% (2010: 7.90%).

**Bank loans**

All bank loans are denominated in Australian dollars. Bank loans are secured by fixed and floating charges over the assets of the consolidated entity. Bank loans are also secured by registered mortgages over a number of properties of the consolidated entity to the extent of $89,325,000 (2010: $91,435,000). The non-current bank loans are subject to annual review.

The bank loan facility is available for a period beyond 22 June 2014.
The facility bears interest at 7.41% (2010: 7.68%).

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## 18 Interest Bearing Loans and Borrowings continued

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **Financing facilities available** | | |
| ***Total facilities available:*** | | |
| Bank overdrafts | **4,000** | 4,000 |
| Bank loans | **72,387** | 44,160 |
| Standby letters of credit | **13,613** | 11,840 |
| | **90,000** | 60,000 |

**Standby letters of credit**

The Group has the following guarantees at 30 June 2011:

- Bank guarantee of $11,477,000 has been provided by the Westpac Banking Corporation to Comcare for the due discharge of its liabilities to pay compensation and other amounts under the *Safety Rehabilitation and Compensation Act* 1988;
- A bank guarantee of $798,000 has been provided by the Westpac Banking Corporation to the Victorian WorkCover Authority;
- Other bank guarantees of $1,338,250 have been provided by the Westpac Banking Corporation Limited to suppliers.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| ***Facilities utilised at balance date:*** | | |
| Bank overdrafts | **-** | - |
| Bank loans | **38,621** | 23,803 |
| Standby letters of credit | **13,613** | 11,840 |
| | **52,234** | 35,643 |
| ***Facilities not utilised at balance date:*** | | |
| Bank overdrafts | **4,000** | 4,000 |
| Bank loans | **33,766** | 20,357 |
| Standby letters of credit | **-** | - |
| | **37,766** | 24,357 |
| ***Total facilities*** | **90,000** | 60,000 |
| ***Facilities used at balance date*** | **52,234** | 35,643 |
| **Facilities unused at balance date** | **37,766** | 24,357 |

**Bank overdrafts**

The bank overdrafts within the consolidated entity are secured by a guarantee from the Company. The bank overdraft is secured by fixed and floating charges over the assets of the consolidated entity. The facilities are subject to annual review by the banks concerned and have been extended to after 22 June 2014.

## 18 Interest Bearing Loans and Borrowings continued

| | Consolidated 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Assets pledged as security** | | |
| Included in the balances of freehold land and buildings are assets on which mortgages have been granted as security over bank loans. The terms of the mortgages preclude the assets being sold or used as security for further mortgages without the permission of the mortgage holder. The mortgage also requires buildings that form part of the security to be fully insured at all times. | | |
| The carrying amount of assets pledged as security for current and non-current interest bearing liabilities are: | | |
| **Non-current** | | |
| ***First mortgage*** | | |
| – Freehold land and buildings | **87,800** | 89,580 |
| – Plant and equipment | **1,525** | 1,855 |
| Total non-current assets pledged as security | **89,325** | 91,435 |

**Non-cash financing and investment activities**

During the financial year, the economic entity acquired property, plant and equipment with an aggregate fair value of $21,094,000 (2010: $13,827,000) and disposed of property, plant and equipment with an aggregate fair value of $nil (2010: $nil) by means of finance lease or hire purchase arrangements. These acquisitions and disposals are not reflected in the Statement of Cash Flows.

## 19 Provisions

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Current** | | |
| Employee benefits | **13,353** | 11,190 |
| | **13,353** | 11,190 |
| **Non-current** | | |
| Employee benefits | **2,044** | 1,618 |
| Make good provision | **121** | - |
| Directors' retirement allowance | **544** | 504 |
| | **2,709** | 2,122 |

No dividends have been provided for the year ended 30 June 2011. The extent to which dividends were franked, details of the franking account balance at balance date and franking credits available for the subsequent financial year are disclosed in *Note 8*.

## 19 Provisions continued

| | Make Good Provision $'000 | Directors' Retirement Allowance $'000 | Total $'000 |
|---|---|---|---|
| **a) Movements in provisions** | | | |
| Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below: | | | |
| CONSOLIDATED | | | |
| At 1 July 2010 | - | 504 | 504 |
| Arising during the year | 121 | 40 | 161 |
| Utilised | - | - | - |
| At 30 June 2011 | 121 | 544 | 665 |
| Current 2011 | - | - | - |
| Non-Current 2011 | 121 | 544 | 665 |
| | 121 | 544 | 665 |
| Current 2010 | - | - | - |
| Non-Current 2010 | - | 504 | 504 |
| | - | 504 | 504 |

### b) Nature and timing of provisions

*i) Make good provision*

In accordance with various lease agreements, the Group must restore leased premises in Western Australia, Victoria and New South Wales to their original condition at the end of the leases.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provisions is the costs that will ultimately be incurred.

*ii) Long service leave*

Refer to *Note 2(y)* and *Note 2(bb)* for the relevant accounting policy and a discussion of the significant estimates and assumptions applied in the measurement of this provision.

*iii) Directors retirement allowance*

Refer to *Note 2(y)* for the relevant accounting policy and a discussion of the significant estimates and assumptions applied in the measurement of this provision.

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **20 Contributed Equity and Reserves** | | |
| **a) Ordinary shares** | | |
| **Contributed equity** | | |
| 86,285,496 (2010: 72,592,501) ordinary shares fully paid | **94,276** | 64,528 |
| | **94,276** | 64,528 |

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

Fully paid ordinary shares carry one vote per share, either in person or by proxy, at a meeting of the Company and carry the right to receive dividends as declared.

| | Thousands | $'000 |
|---|---|---|
| **Movements in ordinary shares on issue** | | |
| At 1 July 2009 | 69,870 | 57,425 |
| Issued through Employee Share Plan – 330,500 ordinary shares at $2.40 per share | 331 | 793 |
| Issued through Dividend Re-investment Plan – 108,137 ordinary shares at $2.86 | 108 | 310 |
| Issued to acquire Pacific Transport – 500,000 ordinary shares at $2.80 | 500 | 1,400 |
| Issued through Dividend Re-investment Plan – 165,955 ordinary shares at $2.75 | 166 | 457 |
| Issued through Share Purchase Plan – 1,618,199 ordinary shares at $2.56 | 1,618 | 4,143 |
| At 30 June 2010 | 72,593 | 64,528 |
| Issued to acquire Regal Transport – 950,000 ordinary shares at $2.80 | 950 | 2,660 |
| Issued through Dividend Re-investment Plan – 225,552 ordinary shares at $2.68 | 225 | 604 |
| Issued through Rights Issue – 12,295,560 ordinary shares at $2.15 | 12,296 | 26,435 |
| Issued through Dividend Re-investment Plan – 221,883 ordinary shares at $2.00 | 222 | 444 |
| Transaction costs – Rights Issue | - | (395) |
| At 30 June 2011 | 86,286 | 94,276 |

**(b) Capital management**

When managing capital, the Group's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to Shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group is not subject to any externally imposed capital requirements.

During 2011, the Group paid dividends of $9,451,000 (2010: $8,467,000).

## 20 Contributed Equity and Reserves continued

| | Consolidated 2011 $'000 | 2010 $'000 |
|---|---|---|
| Management monitor capital through the gearing ratio (net debt/net debt + Shareholders funds). The gearing ratios based on continuing operations at 30 June were as follows: | | |
| Total interest bearing loans and borrowings | **86,401** | 64,351 |
| Less cash and cash equivalents | **(9,747)** | (12,042) |
| Net debt | **76,654** | 52,309 |
| Net debt + Shareholders funds | **290,260** | 213,378 |
| Gearing ratio | **26.4%** | 24.5% |

**Nature and purpose of reserves**

***Asset revaluation reserve***

The asset revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

***Foreign currency translation reserve***

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

## 21 Derivative Financial Instruments

### a) Hedging activities

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in interest rates.

The Group has the following interest rate swap agreements in place at 30 June 2011:

– with a notional amount of $20,000,000 whereby it receives a variable rate equal to the AUS-BBR-BBSW and pays a fixed interest rate of 7.68% on the notional amount. This agreement commenced in April 2009 and expires in March 2012.

– with a notional amount of $4,000,000 NZD whereby it receives a variable rate equal to the NZD-BBR-BID and pays a fixed interest rate of 7.97% on the notional amount. This agreement commenced in April 2009 and expires in March 2012.

The interest rate swaps require settlement of net interest receivable or payable each 90 days. All swaps do not qualify for hedge accounting and as a result any gains or losses arising from changes in fair value are taken directly to profit or loss. The net loss is reported within other expenses.

### b) Interest rate risk

Information regarding interest rate risk exposure is set out in *Note 3*.

| | Consolidated 2011 $'000 | Consolidated 2010 $'000 |
|---|---|---|
| **22 Commitments** | | |
| The estimated maximum amount of commitments not provided for in the accounts as at 30 June 2011 are: | | |
| **Capital expenditure commitments** | | |
| The aggregate amount of contracts for capital expenditure on plant and equipment due no later than one year | **3,253** | 14,974 |
| **Lease rental commitments** | | |
| Operating lease and hire commitments: | | |
| – Not later than one year | **9,980** | 6,916 |
| – Later than one year but not later than five years | **24,220** | 13,433 |
| – Later than five years | **17,228** | 11,141 |
| | **51,428** | 31,490 |

The consolidated entity leases property under non-cancellable operating leases expiring from one to ten years.
Leases generally provide the consolidated entity with a right of renewal, at which time all terms are renegotiated.
Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Finance lease commitments are disclosed in *Note 18*.

## 23 Contingent Liabilities

**Guarantees**

Cross guarantees given by the Company and its wholly owned controlled entities are described in *Note 24*.

**Legal claim**

There are a number of minor legal actions pending against companies within the consolidated entity.
Liability has not been admitted and the claims will be defended.
The Directors do not believe these actions will result in any significant cost to the consolidated entity.

## 24 Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the *Corporations Act* 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act* 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

Reid Bros Pty Ltd
Kain & Shelton Pty Ltd
K&S Freighters Pty Ltd
K&S Group Administrative Services Pty Ltd
Kain & Shelton (Agencies) Pty Ltd
K&S Transport Management Pty Ltd
Blakistons-Gibb Pty Ltd
K&S Logistics Pty Ltd
K&S Project Services Pty Ltd
K&S Integrated Distribution Pty Ltd
K&S Group Pty Ltd
DTM Holdings (No. 2) Pty Ltd
Alento Pty Ltd
DTM Holdings Pty Ltd
DTM Pty Ltd
Regal Transport Group Pty Ltd
Strategic Transport Pty Ltd
Vortex Nominees Pty Ltd
K&S Freighters Limited *
Cochrane's Transport Limited *

* *Both K&S Freighters Limited and Cochrane's Transport Limited are New Zealand entities.*

A consolidated Statement of Comprehensive Income and consolidated Statement of Financial Position, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2011 is set out below:

| | Closed Group 2011 $'000 | Closed Group 2010 $'000 |
|---|---|---|
| **Statement of Comprehensive Income** | | |
| **Profit before income tax** | **21,168** | 26,317 |
| Income tax expense | **(6,340)** | (7,578) |
| **Profit after income tax** | **14,828** | 18,739 |
| Retained profits at the beginning of the year | **89,446** | 79,174 |
| Dividends provided for or paid | **(9,451)** | (8,467) |
| **Retained earnings at the end of the year** | **94,823** | 89,446 |

## 24 Deed of Cross Guarantee continued

| | Closed Group | |
|---|---|---|
| | 2011 $'000 | 2010 $'000 |
| **Statement of Financial Position** | | |
| Cash | 9,747 | 12,042 |
| Trade and other receivables | 67,496 | 56,747 |
| Inventories | 2,981 | 2,696 |
| Prepayments | 5,277 | 4,809 |
| **Total current assets** | 85,501 | 76,294 |
| Other receivables | 2,034 | 2,093 |
| Investment in associates | 199 | - |
| Property, plant and equipment | 221,968 | 197,169 |
| Intangibles | 71,569 | 44,761 |
| Deferred tax assets | 6,731 | 5,776 |
| **Total non-current assets** | 302,501 | 249,799 |
| **Total assets** | 388,002 | 326,093 |
| Trade and other payables | 46,457 | 44,596 |
| Interest bearing loans and borrowings | 15,070 | 16,462 |
| Current tax liabilities | 894 | 1,270 |
| Provisions | 13,353 | 11,190 |
| Derivatives | 712 | 1,123 |
| **Total current liabilities** | 76,486 | 74,641 |
| Other payables | 4,929 | 4,340 |
| Interest bearing loans and borrowings | 71,331 | 47,889 |
| Deferred tax liabilities | 18,941 | 18,032 |
| Provisions | 2,709 | 2,122 |
| **Total non-current liabilities** | 97,910 | 72,383 |
| **Total liabilities** | 174,396 | 147,024 |
| **Net assets** | 213,606 | 179,069 |
| Contributed equity | 94,276 | 64,528 |
| Reserves | 24,507 | 25,095 |
| Retained earnings | 94,823 | 89,446 |
| **Total equity** | 213,606 | 179,069 |

| | Class of Share | Country of Incorporation | % Equity Interest 2011 | 2010 |
|---|---|---|---|---|
| **25 Controlled Entities** | | | | |
| **Particulars in relation to controlled entities** | | | | |
| **Name** | | | | |
| K&S Corporation Limited | | | | |
| **Controlled Entities** | | | | |
| Reid Bros Pty Ltd | Ord | Australia | **100** | 100 |
| Kain & Shelton Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Freighters Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Group Administrative Services Pty Ltd | Ord | Australia | **100** | 100 |
| Kain & Shelton (Agencies) Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Transport Management Pty Ltd | Ord | Australia | **100** | 100 |
| Blakistons-Gibb Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Logistics Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Integrated Distribution Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Group Pty Ltd | Ord | Australia | **100** | 100 |
| DTM Holdings (No. 2) Pty Ltd | Ord | Australia | **100** | 100 |
| Alento Pty Ltd | Ord | Australia | **100** | 100 |
| DTM Holdings Pty Ltd | Ord | Australia | **100** | 100 |
| DTM Pty Ltd | Ord | Australia | **100** | 100 |
| K&S Project Services Pty Ltd | Ord | Australia | **100** | 100 |
| Regal Transport Group Pty Ltd | Ord | Australia | **100** | - |
| Strategic Transport Services Pty Ltd | Ord | Australia | **100** | - |
| Vortex Nominees Pty Ltd | Ord | Australia | **100** | - |
| K&S Freighters Limited | Ord | New Zealand | **100** | 100 |
| Cochrane's Transport Limited | Ord | New Zealand | **100** | 100 |

## 26 Related Party Disclosures

DIRECTORS

The names of each person holding the position of Director of K&S Corporation Limited during the financial year and up to the date of signing the financial report are Messrs. T Johnson, R Nicholson, G Boulton, B Grubb, R Smith and L Winser.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

**Other transactions with the Company or its Controlled Entities**

The estate of Mr A A Scott, the major Shareholder of the following entities which provide goods and services to the economic entity.

AA Scott Pty Ltd
Ascot Haulage (NT) Pty Ltd
The Border Watch Pty Ltd
Scott Corporation Limited
Northern Territory Freight Services Pty Ltd
Scott's Agencies Pty Ltd
Scott's Management Pty Ltd
Scott's Transport Industries Pty Ltd
First Radio Pty Ltd

Mr Grubb has an interest as Director of AA Scott Pty Ltd, Scott's Transport Industries Pty Ltd, Ascot Haulage (NT) Pty Ltd, Northern Territory Freight Services Pty Ltd, Scott's Agencies Pty Ltd, The Border Watch Pty Ltd and Scott's Management Pty Ltd. Transactions with these companies include sale and purchase of cartage services, advertising services, sale and purchase of fuel and other related products.

First Radio Pty Ltd has an interest in a transport facility in Adelaide which the Company rents on a commercial basis. Rent in 2011 was $362,861 (2010: $352,170)

Mr Johnson has an interest as a Director of AA Scott Pty Ltd.

Mr Johnson has an interest as Chairman and Mr Grubb as Non-Executive Director in the publicly listed company Scott Corporation Limited. Transactions with this company during 2011 included sales of $12,200 (2010: $24,717) and purchase of transport related services totalling $5,060,208 (2010: $4,537,894).

## 26 Related Party Disclosures continued

| | Purchases | | Sales | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | $ | $ | $ | $ |
| The aggregate amount of dealings with these companies during 2011 were as follows: | | | | |
| Ascot Haulage (NT) Pty Ltd | **1,137,414** | 939,673 | - | - |
| Northern Territory Freight Services Pty Ltd | **13,397** | 376,435 | **9,270** | 49,449 |
| Scott's Transport Industries Pty Ltd | **190,398** | 179,593 | **1,987,179** | 1,152,772 |
| Scott's Agencies Pty Ltd | **3,016,382** | 1,404,117 | **64,258** | - |
| The Border Watch Pty Ltd | **5,261** | 2,831 | - | - |

A Director of the Company, Mr Johnson, had an interest during 2010/11 as a partner in Johnson, Winter & Slattery, a firm of solicitors. This firm renders legal advice to the economic entity. The aggregate amount of dealings with this firm during 2011 was $1,879 (2010: $75,890) in professional service fees.

The Managing Director of all wholly owned controlled entities, Mr L Winser, had an interest as Director of Smart Logistics Pty Ltd (an associated entity). Transactions with this company include the sale of cartage. The aggregate amount of sales to this company during 2011 was $30,521,000 (2010: $29,289,000).

The Managing Director of all wholly owned controlled entities, Mr L Winser, has an interest as Director (resigned 19 July 2010 of Dairy Transport Logistics Ltd (an associated entity). Transactions with this company include the sale of cartage. The aggregate amount of sales to this company during 2011 was $6,046,000 (2010: $6,108,000).

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $'000 | $'000 |
| Amounts payable to and receivable from Directors and their Director related entities at balance date arising from these transactions were as follows: | | |
| **Current receivables (included within trade debtors)** | | |
| Scott's Transport Industries Pty Ltd | **196** | 154 |
| Northern Territory Freight Services Pty Ltd | **2** | 2 |
| Smart Logistics Pty Ltd | **2,078** | 1,839 |
| Dairy Transport Logistics Ltd | **95** | 352 |
| No provision for doubtful debts has been recognised in respect of these balances as they are considered recoverable. | | |
| **Current payables (included within trade payables)** | | |
| Ascot Haulage (NT) Pty Ltd | **78** | 139 |
| Scott's Transport Industries Pty Ltd | **17** | 4 |
| Scott Corporation Ltd | **508** | - |

**Wholly-owned Group**
Details of interests in wholly-owned controlled entities are set out at *Note 25*.

## 26 Related Party Disclosures continued

| | Parent 2011 $'000 | Parent 2010 $'000 |
|---|---|---|
| Details of dealings with these entities are set out below: | | |
| ***Balances with entities within the wholly-owned group*** | | |
| The aggregate amounts receivable from, and payable to, wholly-owned controlled entities by the Company at balance date: | | |
| Receivables | | |
| – Current | **110,690** | 99,003 |
| – Non-current | **17,961** | 17,961 |
| | **128,651** | 116,964 |
| Payables – Current | | |
| – Other loans | **10,967** | 64,587 |
| | **10,967** | 64,587 |

**Terms and conditions of transactions within the wholly-owned group**

Sales to and purchases from within the wholly-owned group are made at arm's length. Terms and conditions of the tax funding agreement are set out in *Note 6*. Outstanding balances at year-end are unsecured and interest free.

**Dividends**

Dividends received or due and receivable by the Company from wholly-owned controlled entities amount to $10,000,000 (2010:$10,000,000).

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| DIRECTORS' SHARE TRANSACTIONS | | |
| **Shareholdings** | | |
| Aggregate number of shares held by Directors and their Director-related entities at balance date: | | |
| – Ordinary shares | **1,707,740** | 967,595 |
| – Preference shares | - | - |
| All share transactions were with the parent Company, K&S Corporation Limited. | | |
| | **$'000** | **$'000** |
| **Dividends** | | |
| Aggregate amount of dividends paid in respect of shares held by Directors or their Director-related entities during the year: | | |
| – Ordinary shares | **122** | 108 |
| – Preference shares | - | - |

**Directors' transactions in shares and share options**
Purchases of shares by Directors and Director-related entities are set out in *Note 27*.

**Ultimate parent entity**
The immediate parent entity and ultimate controlling entity of K&S Corporation Ltd is AA Scott Pty Ltd, a company incorporated in South Australia.

## 27 Key Management Personnel

### a) Details of Key Management Personnel

*i) Directors*

| | |
|---|---|
| Mr T Johnson | Non-Executive Chairman |
| Mr G Boulton | Non-Executive Deputy Chairman |
| Mr R Smith | Non-Executive |
| Mr R Nicholson | Non-Executive |
| Mr B Grubb | Non-Executive |
| Mr L Winser | Managing Director |

*ii) Executives*

| | | |
|---|---|---|
| Mr B Walsh | Chief Financial Officer | |
| Mr C Bright | Group Legal Counsel & Company Secretary | |
| Mr G Wooller | Chief Operating Officer | |
| Mr P Sarant | Executive General Manager DTM | |
| Mr G Everest | Executive General Manager Regal Transport | – Appointed 10 October 2010 |
| Ms K Evans | General Manager Human Resources | |
| Mr S Fanning | General Manager – K&S Freighters | – Resigned 27 August 2010 |
| Ms C De Gois | Chief Information Officer | – Resigned 9 July 2010 |

### b) Compensation for Key Management Personnel

| | Consolidated 2011 $ | Consolidated 2010 $ |
|---|---|---|
| Short-term | **2,595,811** | 2,695,218 |
| Long-term | **40,323** | 38,989 |
| Post employment | **316,972** | 296,448 |
| | **2,953,106** | 3,030,655 |

### c) Loans to Key Management Personnel

Details of aggregates of loans to Key Management Personnel are as follows:

| Total | Balance at Beginning of Period $'000 | Write-off $'000 | Balance at End of Period $'000 | Number in Group |
|---|---|---|---|---|
| **2011** | **346** | - | **247** | **5** |
| 2010 | 224 | - | 346 | 6 |

There are no loans to any Key Management Personnel above $100,000 in the reporting period.

Loans to Key Management Personnel are made pursuant to the K&S Corporation Limited Employee Share Plan ("Plan"). As part of the Plan, loans are interest free with K&S Corporation, to fund the purchase of shares in the Company. Shares issued under the Plan are subject to a holding lock until the loan is repaid in full. Non-Executive Directors are not eligible to participate in the Plan.

No other loans are made to any Key Management Personnel.

### d) Remuneration options: granted and vested during the year

K&S Corporation Limited does not operate any option based schemes for its executives, employees or Directors.

K&S CORPORATION LIMITED

## 27 Key Management Personnel continued

### e) Shareholding of Key Management Personnel

| Shares held in K&S Corporation Limited: | Balance 1 July 2010 Ordinary | Net Change Ordinary | Balance 30 June 2011 Ordinary |
|---|---|---|---|
| **30 June 2011** | | | |
| *Non-Executive Directors* | | | |
| T Johnson | **210,088** | **47,701** | **257,789** |
| G Boulton | **150,258** | **34,117** | **184,375** |
| R Smith | **17,819** | **2,970** | **20,789** |
| R Nicholson | **21,642** | **4,916** | **26,558** |
| B Grubb | **107,317** | **17,888** | **125,205** |
| *Executive Director* | | | |
| L Winser | **460,471** | **632,553** | **1,093,024** |
| *Other Key Management Personnel* | | | |
| B Walsh | **73,860** | **11,472** | **85,332** |
| C Bright | **19,000** | **2,000** | **21,000** |
| G Wooller | **32,392** | **5,837** | **38,229** |
| P Sarant | **20,000** | **18,000** | **38,000** |
| G Everest | - | - | - |
| K Evans | **15,000** | - | **15,000** |
| **Total** | **1,127,847** | **777,454** | **1,905,301** |

| Shares held in K&S Corporation Limited: | Balance 1 July 2009 Ordinary | Net Change Ordinary | Balance 30 June 2010 Ordinary |
|---|---|---|---|
| **30 June 2010** | | | |
| *Non-Executive Directors* | | | |
| T Johnson | 195,749 | 14,339 | 210,088 |
| G Boulton | 138,403 | 11,855 | 150,258 |
| R Smith | 10,000 | 7,819 | 17,819 |
| R Nicholson | 15,128 | 6,514 | 21,642 |
| B Grubb | 107,317 | - | 107,317 |
| *Executive Director* | | | |
| L Winser | 414,503 | 45,968 | 460,471 |
| *Other Key Management Personnel* | | | |
| B Walsh | 53,483 | 20,377 | 73,860 |
| C Bright | 12,000 | 7,000 | 19,000 |
| S Fanning | 20,000 | 10,000 | 30,000 |
| G Wooller | 22,168 | 10,224 | 32,392 |
| P Sarant | 10,000 | 10,000 | 20,000 |
| K Evans | 10,000 | 5,000 | 15,000 |
| C De Gois | - | - | - |
| **Total** | 1,008,751 | 149,096 | 1,157,847 |

All equity transactions with specified Directors and specified Executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

## 28 Events Subsequent to Balance Date

On 18 August 2011, the Directors of K&S Corporation Limited declared a final dividend on ordinary shares in respect of the 2011 financial year. The total amount of the dividend is $4,314,275, which represents a fully franked dividend of 5.0 cents per share. The dividend is payable on 31 October 2011 and has not been provided for in the 30 June 2011 financial statements. The Dividend Reinvestment Plan (DRP) will apply to the final dividend and the issue price for shares under the DRP will be based on the weighted average trading price of K&S shares in the five business days ending on 17 October 2011 (the record date of the final dividend), less a discount of 2.5%.

Other than the matters above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

| | Consolidated | |
|---|---|---|
| | 2011 | 2010 |
| | $ | $ |
| **29 Auditor's Remuneration** | | |
| The auditor of K&S Corporation Limited is Ernst & Young. | | |
| **Audit services:** | | |
| Audit and review of the statutory financial reports | **179,000** | 154,000 |
| | **179,000** | 154,000 |
| **Other services:** | | |
| Other services – Ernst & Young: | | |
| – GST review | - | 10,000 |
| | - | 10,000 |

## 30 Business Combinations

### Acquisition of Regal Transport

On 8 July 2010, K&S Corporation Limited acquired the Perth based Regal Transport Group ("Regal"). Regal was formed in March 2009 with the merger of N&L Transport and Strategic Transport Services Pty Ltd. At the time of acquisition, Regal generated annual revenues of $50 million and employed over 120 people.

The consideration transferred was $41,845,000 and comprised an issue of equity instruments and cash. The Group issued 950,000 ordinary shares with a fair value of $2.80 each. The provisional fair value of identifiable net assets is $14,317,000.

Key factors contributing to the $27,528,000 of goodwill are the synergies existing within the acquired business and synergies expected to be achieved as a result of combining Regal Transport with Pacific Transport and the rest of the Group. The Regal acquisition will extend the footprint achieved by the Pacific Transport acquisition to the oil, gas and resources sectors of Western Australia.

The provisional fair values of identifiable assets and liabilities is as follows:

| | Fair Value at Acquisition Date $'000 | Carrying value $'000 |
|---|---|---|
| Trade and other receivables | 7,715 | 7,715 |
| Plant & equipment | 17,757 | 15,608 |
| Prepayments | 206 | 67 |
| Deferred tax assets | 269 | - |
| | 25,947 | 23,390 |
| Trade and other payables | (3,110) | (3,110) |
| Interest bearing loans and borrowings | (7,048) | (7,048) |
| Income tax payable | (80) | (80) |
| Provision for employee entitlements | (896) | (747) |
| Deferred tax liability | (496) | - |
| | (11,630) | (10,985) |
| Provisional fair value of identifiable net assets | 14,317 | |
| Goodwill arising on acquisition | 27,528 | |
| | 41,845 | |
| Acquisition-date fair-value of consideration transferred | | |
| Shares issued | 2,660 | |
| Cash paid | 39,185 | |
| Consideration transferred | 41,845 | |
| Direct costs relating to the acquisition | 150 | |
| Cash outflow on acquisition is as follows: | | |
| Cash paid | (39,185) | |
| Cash outflow on acquisition | (39,185) | |

The consolidated Statement of Comprehensive Income includes sales revenue and net profit before tax for the year ended 30 June 2011 of $60,450,000 and $4,329,000 respectively, as a result of the acquisition of Regal Transport.

| | Parent 2011 $'000 | Parent 2010 $'000 |
|---|---|---|
| **31 Parent Entity Information** | | |
| Current assets | **110,690** | 99,003 |
| Total assets | **162,627** | 151,125 |
| Current liabilities | **(12,695)** | (66,530) |
| Total liabilities | **(48,367)** | (67,163) |
| Issued capital | **94,276** | 64,528 |
| Asset revaluation reserve | **161** | 161 |
| Retained earnings | **19,823** | 19,273 |
| Total Shareholders' equity | **114,260** | 83,962 |
| Profit after tax of the Parent entity | **10,000** | 10,000 |
| Total comprehensive income of the Parent entity | **10,000** | 10,000 |

**Guarantees**

Cross guarantees given by the Company and its wholly owned controlled entities are described in *Note 24*.

**Contingent liabilities**

Contingent liabilities of the Company and its wholly owned controlled entities are outlined in *Note 23*.

# DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2011

K&S CORPORATION LIMITED

In accordance with a resolution of the Directors of K&S Corporation Limited, we state that:

In the opinion of the Directors:

**a)** the financial report of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

*i)* giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

*ii)* complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

**b)** the financial statements and notes also comply with International Financial Reporting Standards as disclosed in *Note 2 (b)*.

**c)** there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

**d)** this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2011.

**e)** as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in *Note 24* will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

Dated at Sydney this 18th day of August 2011.

On behalf of the Board:

AJ Johnson

Tony Johnson
Chairman

Legh Winser
Managing Director

# AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF K&S CORPORATION LIMITED

In relation to our audit of the financial report of K&S Corporation Limited for the financial year ended 30 June 2011, 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.

Ernst & Young

Ernst & Young

David Sanders
Partner

Adelaide
18 August 2011

Liability Limited by a scheme approved under Professional Standards Legislation

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF K&S CORPORATION LIMITED

**Report on the Financial Report**

We have audited the accompanying financial report of K&S Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In *Note 2*, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Independence**

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Liability Limited by a scheme approved under Professional Standards Legislation

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF K&S CORPORATION LIMITED

**Opinion**

In our opinion:

**a.** the financial report of K&S Corporation Limited is in accordance with the *Corporations Act 2001*, including:

*i)* giving a true and fair view of the consolidated entity's financial position at 30 June 2011 and of their performance for the year ended on that date; and

*ii)* complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

**b.** the financial report also complies with *International Financial Reporting Standards* as disclosed in *Note 2*.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 24 to 27 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of K&S Corporation Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Sanders
Partner

Adelaide
18 August 2011

Liability Limited by a scheme approved under Professional Standards Legislation

# INFORMATION ON SHAREHOLDINGS

RELATING TO SECURITY HOLDERS AS AT 16 SEPTEMBER 2011

## DISTRIBUTION OF SHAREHOLDINGS

| Ordinary Shares | Number of Shareholders |
|---|---|
| 1-1,000 Shares | 409 |
| 1,001 - 5,000 Shares | 899 |
| 5,001 - 10,000 Shares | 382 |
| 10,001 - 100,000 Shares | 468 |
| 100,001 and more Shares | 46 |
| | 2,204 |

140 shareholders hold less than a marketable parcel (376 shares).

## TWENTY LARGEST SHAREHOLDERS

| | Name | Number of Ordinary Shares Held | % |
|---|---|---|---|
| 1 | AA Scott Pty Ltd | 43,074,396 | 49.92 |
| 2 | Citicorp Nominees Pty Limited | 4,646,404 | 5.38 |
| 3 | Bell Potter Nominees Ltd | 2,726,732 | 3.16 |
| 4 | National Nominees Limited | 2,308,373 | 2.68 |
| 5 | Ascot Media Investments Pty Ltd | 1,801,016 | 2.09 |
| 6 | HSBC Custody Nominees Australia | 1,010,315 | 1.17 |
| 7 | Diversified United Investment Limited | 1,000,000 | 1.16 |
| 8 | J P Morgan Nominees Australia Limited | 998,046 | 1.16 |
| 9 | Zena Kaye Winser | 922,708 | 1.07 |
| 10 | Winscott Investments Pty Ltd | 870,992 | 1.01 |
| 11 | Sabadin Petroleum Pty Ltd | 758,746 | 0.88 |
| 12 | Tribridge Holdings Pty Ltd | 750,000 | 0.87 |
| 13 | Mr Eric Joseph Roughana | 700,000 | 0.81 |
| 14 | Mirrabooka Investments Limited | 690,595 | 0.80 |
| 15 | Oakcroft Nominees Pty Ltd <Oakcroft Super Fund A/C> | 574,670 | 0.66 |
| 16 | Mr Adrian Keith & Mrs Samantha Jane Crook <Pacific Group Inv Share A/C> | 500,000 | 0.58 |
| 17 | Mr Barry William Page & Mrs Janice Mary Page <Ardmore Super Fund A/C> | 481,241 | 0.56 |
| 18 | Mr William Clifton Anderson | 435,000 | 0.50 |
| 19 | John Legh Winser | 423,750 | 0.49 |
| 20 | Mr John Irving Stepnell & Mrs Valerie Iris Stepnell <Stepnell Super Fund A/C> | 421,500 | 0.49 |
| | | 65,094,484 | 75.44 |

AA Scott Pty Limited is the registered holder of all the 6% Non Redeemable Cumulative Preference Shares, participating to 8%.

The 20 largest Shareholders hold 75.36% of the ordinary shares of the Company, and 100% of the preference shares.

The following is an extract from the Company's Register of Substantial Shareholders as at 16th September 2011:

| | Number | % of Class |
|---|---|---|
| Estate of Mr A A Scott | 46,159,908 | 53.50 |

## VOTING RIGHTS

The voting rights are as follows:

| | |
|---|---|
| Preference Shares: | Nil |
| Ordinary Shares: | 1 vote per share |

# CORPORATE DIRECTORY

K&S CORPORATION LIMITED

## REGISTERED OFFICE

141-147 Jubilee Highway West
Mount Gambier
South Australia 5290
Phone: (08) 8721 1700
Facsimile: (08) 8721 1799

## CORPORATE OFFICE

Cnr Boundary & Palmers Roads
Truganina, Victoria 3029
Phone: (03) 8744 3500
Facsimile: (03) 8744 3599

## STOCK EXCHANGE

The Company is on the official list of the Australian Stock Exchange Limited. The Company's Home Exchange is Australian Stock Exchange (Adelaide) Limited.

## SHARE REGISTRY

c/o Computershare Investor Services Pty Ltd
Level 5, 115 Grenfell Street
Adelaide, South Australia 5000
Phone: (08) 8236 2300
Facsimile: (08) 8236 2305

GPO Box 1903
Adelaide SA 5001

Enquiries within Australia:
1300 556 161

Enquiries outside Australia:
61 3 9415 5000

Email:
web.queries@computershare.com.au

Website: www.computershare.com

## WEBSITE

www.ksgroup.com.au

## OPERATIONS

## *ROAD, RAIL AND SEA*

### Melbourne

Cnr Boundary & Palmers Roads
Truganina, Victoria 3029
Phone: (03) 8744 3700
Facsimile: (03) 8744 3799

### Portland

53 Fitzgerald Street
Portland, Victoria 3305
Phone: (03) 5523 4144
Facsimile: (03) 5523 5647

### Geelong

325 Thompson Road
North Geelong, Victoria 3215
Phone: (03) 5278 5777
Facsimile: (03) 5278 5230

### Ballarat

c/o Laminex Industries
16 Trewin Street
Wendouree, Victoria 3355
Phone: (03) 5338 1710
Facsimile: (03) 5338 1136

### Sydney

1 Hope Street
Enfield, New South Wales 2136
Phone: (02) 9735 2400
Facsimile: (02) 9735 2499

### Brisbane

34 Postle Street
Coopers Plains, Queensland 4108
Phone: (07) 3137 4400
Facsimile: (07) 3137 4441

### Rockhampton

197-206 Wade Street
Parkhurst, Queensland 4702
Phone: (07) 4936 2272
Facsimile: (07) 4936 2972

### Bundaberg

Old Qunaba Mill, Grange Road
Bundaberg, Queensland 4670
Phone: (07) 4159 2150
Facsimile: (07) 4159 1825

### Perth

Lot 1 Kewdale Freight Precinct
Off Fenton Street
Kewdale, Western Australia 6105
Phone: (08) 6466 6600
Facsimile: (08) 6466 6699

### Bunbury

91 Moore Road
Dardanup, Western Australia 6236
Phone: (08) 9725 4400
Facsimile: (08) 9725 4949

### Adelaide

Cnr Bedford Street & Kapara Road
Gillman, South Australia 5013
Phone:(08) 7224 5400
Facsimile:(08) 7224 5497

### Mount Gambier

141-147 Jubilee Highway West
Mount Gambier,
South Australia 5290
Phone: (08) 8721 1700
Facsimile: (08) 8721 1799

### *New Zealand*

### Cambridge

3847 Te Awamutu Road
Cambridge, New Zealand
Phone: (07) 827 6002
Facsimile: (07) 827 5606

### Mount Maunganui

35 Portside Drive
Mount Maunganui, New Zealand
Phone: (07) 575 8265
Facsimile: (07) 575 8480

### Napier

31 Pandora Road
Ahuriri, Napier, New Zealand
Phone: (06) 835 0162
Facsimile: (06) 835 0192

### Auckland

4 Tinley Street
Auckland, New Zealand
Phone: (09) 307 0061
Facsimile: (09) 307 0027

## *PAPER SERVICES*

### Maryvale

Maryvale Road
Maryvale via Morwell,
Victoria 3840
Phone: (03) 5134 1211
Facsimile: (03) 5136 0217

### Shoalhaven

340 Bolong Road
Bomaderry,
New South Wales 2541
Phone: (02) 4428 6473
Facsimile: (02) 4428 6493

### Townsville

121 Hubert Street
South Townsville,
Queensland 4810
Phone: (07) 4772 5651
Facsimile: (07) 4772 7433

### Fisherman Islands

67-68 Bishop Drive
Fisherman Islands,
Queensland 4178
Phone: (07) 3137 4480
Facsimile: (07) 3137 4489

## *DTM*

### Sydney

2 Hope Street
Enfield, New South Wales 2136
Phone: (02) 9735 2300
Facsimile: (02) 9735 2399

### Melbourne

2-10 Gaine Road
Dandenong Sth, Victoria 3175
Phone: (03) 9215 4700
Facsimile: (03) 9215 4799

### Adelaide

128-138 Bedford Street
Gillman, South Australia 5013
Phone: (08) 7224 5480
Facsimile: (08) 7224 5496

### Brisbane

34 Postle Street
Coopers Plains, Queensland 4108
Phone: (07) 3137 4406
Facsimile: (07) 3137 4441

### Perth

16-30 Sheffield Road
Kewdale, Western Australia 6105
Phone: (08) 6466 6646
Facsimile: (08) 6466 6697

## Regal Transport

5 Kalamunda Road
South Guildford,
Western Australia 6935
Phone: (08) 9376 9600
Facsimile: (08) 9376 9666

### Broome

18 McDaniel Road
Broome, Western Australia 6725
Phone: (08) 9192 6599
Facsimile: (08) 9192 6588

### Derby

23 Rodgers Street
Derby, Western Australia 6728
Phone: (08) 9193 1771
Facsimile: (08) 9191 2880

### Karratha

Lot 102 Mooligun Road
Karratha, Western Australia 6714
Phone: (08) 9144 1151
Facsimile: (08) 9144 1122

### Newman

Lot 1583 Woodstock Street
Newman, Western Australia 6753
Phone: (08) 9175 2300
Facsimile: (08) 9175 2878

### Port Hedland

Lot 2521 Miller Street
Port Hedland,
Western Australia 6725
Phone: (08) 9140 2778
Facsimile: (08) 9140 2740

## K&S Project Services

15 Meliador Way
Midvale, Western Australia 6936
Phone: (08) 9374 3777
Facsimile: (08) 9374 3799

K&S CORPORATION LIMITED

ABN 67 007 561 837

www.ksgroup.com.au

2011