austinengineering LTD
ABN 60 078 480 136

Annual Report 2007

Austin Engineering Ltd
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Highlights achieved in 2007:

- ✓ **Consolidation and growth per strategy announced at 2006 AGM**
- ✓ **Completed acquisition of Kaldura Industries in Mackay**
- ✓ **Acquired the Austbore business in Mackay**
- ✓ **EBIT (excluding gain on sale of properties) up 173% to $7.3m**
- ✓ **NPAT (excluding gain on sale of properties) up 207% to $4.9m**
- ✓ **Earnings per share (excluding gain on sale of properties) up 206% to 12.45 cents**
- ✓ **Maiden half year dividend of 0.5 cents per share**
- ✓ **Full year dividend of 4.0 cents per share, up 100%**

Key Figures:

	Increase	2007	2006
	%	$m	$m
Revenue	**18%**	**57.50**	**48.88**

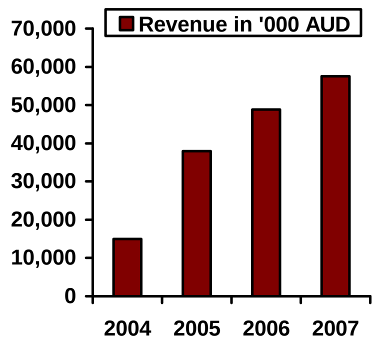
Excluding gain on sale of properties in 2005/2006:			
EBIT	**173%**	**7.31**	**2.68**
PBT	**209%**	**7.09**	**2.29**
NPAT	**207%**	**4.97**	**1.62**
Earnings per Share (cents)	**206%**	**12.45**	**4.07**

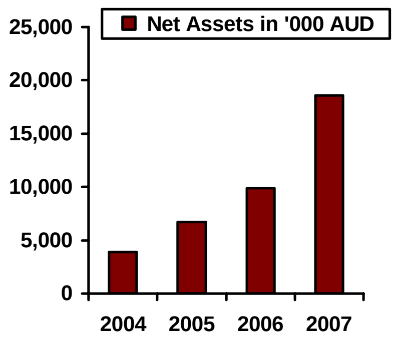
Including gain on sale of properties in 2005/2006:			
EBIT	**11%**	**7.31**	**6.59**
PBT	**15%**	**7.09**	**6.19**
NPAT	**14%**	**4.97**	**4.35**
Earnings per Share (cents)	**14%**	**12.45**	**10.93**

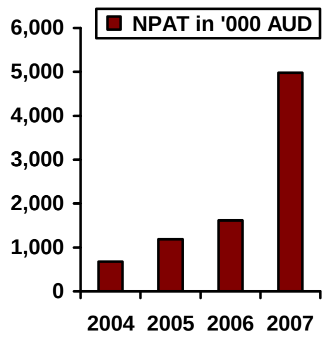
Net Assets	**88%**	**18.61**	**9.91**

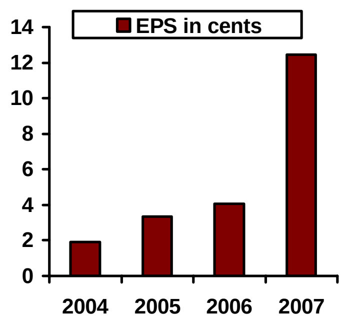
Dividends per Share (cents)	**100%**	**4.0**	**2.0**

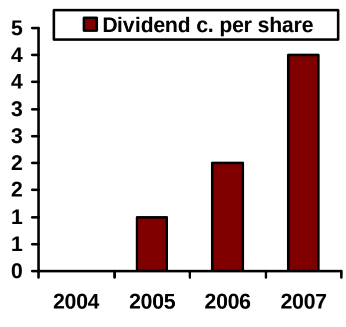
The diagrams below show the Company's development since listing on the ASX in March of 2004.

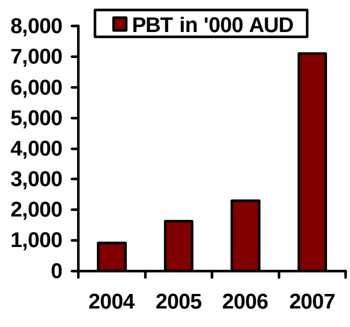












(The data for 2006 excludes the effect of the gain on sale of properties in the 2006 financial year)

Chairman's Report

In preparing my report for the fourth year of operation of your company, I am pleased to be able to confirm the company has had another successful year of growth, both in revenue and profit.

As expressed in the annual report last year we expected the strong growth in our major markets to continue. With the full year contribution from Kaldura Industries and the contribution in the last three months of the year from of our most recent acquisition, Austbore, the net operating profit after tax has risen year on year by 207% to $4.97m. EBIT increased by 173% to $7.31m. This has allowed the Board to declare a fully-franked final dividend of 3.5 cents per share, making the full year fully-franked dividend 4 cents per share. This is in line with the Board's announced policy of returning between 25% and 40% of the net profit after tax to shareholders while retaining adequate cash reserves to fund further growth.

Towards the end of the year we completed a capital raising program by way of a shareholder share purchase plan and a placement which was very well-supported by shareholders and institutional investors. This capital raising has allowed us to fully repay debt associated with the acquisition of Austbore while still retaining sufficient funds to complete our capital expansion and redevelopment programs.

The strategic goals set by the company for growth, both organically and by acquisition, continue to be our primary focus as evidenced by the extension of the facilities in Mackay and Perth, capital expenditure on additional production equipment for all facilities and the recent acquisition of Austbore. The acquisition of Austbore in Mackay brings with it new markets and capabilities in repair and refurbishment of mining machinery both locally and offshore. This is complimentary to the capabilities of Kaldura Industries, allowing us to offer both fabrication and machining facilities to customers serviced from our Mackay base.

Production from our operation in Oman is now progressing at a significant pace and the revenue flows from this operation will be realised in the 2007/2008 financial year. We believe that our successful completion of the contract could lead to further opportunities in the region.

The Board and senior management have completed their annual review of the future direction of the Company and we believe this will lead to further opportunities for expansion of operations in the near term. There is evidence that the strong demand in our primary markets in the resources sector is continuing and we expect to complete 2007/2008 with a further increase in both revenue and profit.

On behalf of the Board I would like to compliment and thank our management and staff for another strong performance.

Peter G. Fitch
Non-Executive Chairman

Directors' Report
Your Directors present their report on the Company for the financial year ended 30 June 2007.

Directors
The following persons held the position of Director of the Company during the year:

Michael D. Buckland
Peter G. Fitch
Peter L. Pursey
Eugene Fung

Secretary
Colin Anderson (appointed 31 January 2007)
Johan Andersson (resigned 31 January 2007)

Principal Activities
The principal activities of the Company during the financial year were the manufacture, repair, overhaul and supply of mining attachment products, general steelwork structures and other associated products and services for the industrial and resources-related business sectors.

Review of Results and Operations
The 2007 financial year has been a key period of consolidation and development for the Company in accordance with the strategic direction outlined by the Board at the 2006 annual general meeting.

Highlights included:

- Consolidation and growth per strategy announced at 2006 AGM
- Completed acquisition of Kaldura Industries in Mackay
- Acquired the Austbore business in Mackay
- EBIT (excluding gain on sale of properties) up 173% to $7.3m
- NPAT (excluding gain on sale of properties) up 207% to $4.9m
- Earnings per share (excluding gain on sale of properties) up 206% to 12.45 cents
- Maiden half year dividend of 0.5 cents per share
- Full year dividend of 4.0 cents per share, up 100%

Operational Review
Brisbane Operation:
The change in productive focus and work mix for the Brisbane operation that began in the previous financial year was completed during the year. 'JEC' product lines (dump truck bodies and excavator/loader buckets) now account for approximately 85% of all revenue. A wide variety of these products have now been built and a number of orders from new customers in the mining industry were secured, increasing the size and diversity of the operation's customer base.

Significant advances in the use of technology were also made during the year, resulting in increased workshop capacity, productivity and opportunities for higher product margins. The use of technology has also helped to reduce the impact of the skill shortages that continues to be experienced by the industry in general.

The operation achieved a modest financial result for the year that was less than expected at the outset of the year. Throughput and revenue was influenced by the ongoing and well-publicised transport infrastructure issues in the central Queensland coalfields which has resulted in mine operators delaying further mine expansions and capital expenditure for new earthmoving and mining equipment. As a result, the Brisbane operation did not achieve the productivity and financial benefits from a more continuous workload throughout the year.

The focus on the Brisbane operation in the new financial year is to position the operation competitively to secure further and consistent revenue growth and capacity utilisation.

West Australia Operation:
The West Australian operation in Perth continued to enjoy very high levels of activity with productive capacity being utilised predominantly for the manufacture of dump truck bodies and excavator buckets.

The buoyant market conditions resulted in orders being secured for multiple-quantity batches of dump truck bodies which enabled the operation to take advantage of bulk steel buying power. In addition, the robotic welding systems enabled the operation to increase product throughput in times when skilled labour continued to be in short supply.

The operation secured a record level of revenue and profit in the financial year, helped by near-maximum levels of capacity utilisation and the productivity benefits of the robotic welding systems.

Directors' Report (Cont'd)

Operational Review (Cont'd)

West Australia Operation:
The Perth operation enters the new financial year with around 70% of its budgeted revenue for the financial year either secured or in the process of being secured. Continued very high levels of productive activity are envisaged flowing from a strong demand for the Company's product range and capabilities. In response to this, the Company is seeking to increase productive capacity by leasing a workshop facility adjacent to the existing Perth operation. Finalisation of the contractual aspects of the lease, whilst not yet complete, is underway and the Company expects to commence operations in the additional facility in September 2007.

Mackay Operations:
Kaldura Industries
The acquisition of the Kaldura Industries business was completed on 7 July 2006 and the Company's results for the year include a full year's worth of contribution from the operation.

Kaldura experienced a very good level of productive activity during the year, with productive capacity concentrating on the assembly of dump truck bodies for a major OEM as well as the repair of components and assemblies for large mining customers. The operation mitigated the impact of the shortage of skilled labour by recruiting immigrant labour during the year.

The operation secured a good level of revenue during the year and a financial result ahead of expectations set at the beginning of the financial year, assisted by overall high capacity utilisation levels and improvements in productivity.

The $3.5m workshop redevelopment and expansion program expanded workshop facilities, which will increase capacity by 60%, is well underway and, after some delays with wet weather in the Mackay region, is expected to be complete by the end of November 2007. The focus for the Kaldura operation in the new financial year is on revenue growth and marketing initiatives are underway to grow the business further and to realise increased revenue opportunities from the co-ordination of business activities with Austbore.

Austbore
The new Austbore operation, which became part of Austin on 3 April 2007, was successfully integrated into existing operations.

Austbore experienced a very good level of productive activity during the post-acquisition period of April to June 2007. Productive capacity was largely utilised for the repair and overhaul of mining-related assemblies, including track frames, shovels and other components as well as on-site machining services. Austbore continued to overhaul mining components for a significant mining customer in Indonesia and enjoyed the benefits of a very good commercial relationship with this customer.

The operation produced a financial result for the three-month period above internal budgets set before acquisition, largely as a result of continuous work and high levels of productivity with a particular focus on product quality and customer delivery requirements.

The new financial year will see Austbore contributing a full year of revenue and profit to Austin's financial result and it is expected that the operation will continue to grow its revenue base. In addition, securing the potential synergy benefits of combining Austbore's capabilities with Kaldura's expertise and new production facilities will be pursued in the year.

Oman Operation - Majan Aluminium Services Company:
The Oman project, being the production of busbar assemblies for the Sohar Aluminium Smelter in Sohar, is progressing after a slower than expected start. Productive output is currently being increased and the project, worth around US $11.5m, is due for completion in February 2008. Profit for this project will be accounted for in the 2007/08 financial year and Austin is entitled to a 50% share of the profit.

The Middle East is undergoing a period of rapid economic and industrial expansion and the Company believes that it is well-positioned to take advantage of a number of opportunities in the region. A number of prospective projects are being considered that will enable the Company, working with capable partners, to pursue projects where the use of its expertise and technology will provide distinct cost and productivity advantages.

Technology
The Company continued to invest in new technology during the year and expended around $0.2m of labour-related cost on various programs dedicated to the development and improvement of automation and welding technology.

The new gantry-mounted automated robotic welding system developed by the Company at a cost of $0.3m was successfully installed in the Brisbane operation. During the year the system was used to perform extensive welding operations, particularly on dump truck bodies, and significant improvements in productivity and product quality were achieved.

Directors' Report (Cont'd)

Technology

The Company intends to focus on introducing technology to improve productivity, secure capacity growth and throughput and to mitigate the impact of shortages in skilled labour. An additional automated robotic welding system is being considered for the Perth operation.

Workforce

During the year the Company has continued to engage and retain high quality engineering, operational and administrative personnel. The current skills shortage, particularly with operational personnel, has continued to challenge the Company; however, the effect of this has been largely mitigated by the recruitment of overseas personnel of a high calibre.

In addition, the Company has strengthened the depth of its management capability. In the new financial year the Company will focus on attracting personnel capable of securing revenue growth and further productivity improvements.

The workforce at the end of the financial year stood at 295 compared to 292 at the end of the previous financial year.

Health and Safety

As in previous years, the Company targets a "zero time loss" policy and it continues to be very proactive in the effective promotion of health and safety of its employees. During the year particular focus was given to new health and safety initiatives in workshop operations in order to further improve the Company's health and safety record.

The Future

The Company enters the 2007/08 financial year with another record order book and, as outlined in its comments to the market in April 2007, forecasts EBIT for 2007/08 to be in excess of $10m. Conditions within the mining and resources business sector are expected to remain buoyant in the coming years.

In summary, and in line with its published strategic path, the key objectives for the 2007/08 year are:

- Growth and diversification through acquisition;
- Further implementation of the Company's technology to reduce costs and increase output;
- Revenue growth in Perth and Mackay through capacity increases;
- Acquisition of new product lines;
- Establishment of additional overseas operations.

Review of Financial Condition

Assets:

Net assets increased from $9.9m to $18.6m, up $8.7m from the previous financial year. The increase in total assets was due to three principal factors - cash flow generated from profitability during the year, assets acquired as part of the acquisition process of Kaldura Industries and Austbore and funds received from shareholders pursuant to the completion of the Shareholder Share Purchase Plan in late June 2007. Net assets at the end of the financial year included $9.6m of goodwill arising on acquisition of the Kaldura and Austbore businesses during the year.

Debt and Capital Raising:

At the end of the financial year, the balance sheet included three principal sources of debt - $4.9m of short-term bank debt associated with the purchase of Austbore, $1.2m of residual bank commercial bills arising from previous business acquisitions and $2.8m of finance lease and hire purchase obligations related to plant and equipment acquisitions. Shortly after the end of the financial year, the $4.9m of short-term bank debt was eliminated following the completion of a $6.9m capital raising program.

The capital raising program announced in May 2007, comprising a Shareholder Share Purchase Plan (SPP) and Placement, was successfully completed, raising a total of $6.9m. The SPP was supported by around 43% of shareholders and raised $4.6m. The issue of the shares for the SPP was completed on 5 July 2007. The Placement raised $2.3m and the funds were received on 11 July 2007 with the issue of shares being completed on 12 July 2007.

Cash Flow and Liquidity:

Net cash flows from operations were $3.7m during the year after payment of just under $3.2m of income tax which included $1.5m of residual tax payments from the previous financial year. Operating cash flows for the year, excluding the effect of these residual tax payments, were $4.7m against $4.5m for the previous year, which included a significant advance payment for a major project at that time. While there was an overall net $5.6m cash outflow for the year, most of this reflected the acquisition of Kaldura Industries which, as highlighted in the financial report for the previous financial year, was paid for from free cash resources at that time.

Free cash resources at the end of the financial year totalled $8.3m, of which $2.0m was offset against short-term bank debt associated with the purchase of Austbore. These cash resources included $4.6m of funds received from the SPP before the end of the financial year.

Directors' Report (Cont'd)

Review of Financial Condition

Capital Expenditure:

Capital expenditure totalled $1.4m in the 2006/07 financial year. During the year, the Company commenced a number of capital expansion and redevelopment projects, the most significant being a $3.5m expansion of the Kaldura Industries operation in Mackay. The expanded facility will increase the operation's capacity by 60% and will enable it to lift heavy components and assemblies of up to 90 tonnes, compared to 25 tonnes at present. The expansion is well underway and is expected to be complete by the end of November 2007. At 30 June 2007, $0.3m had been expended on the project, financed by existing cash resources.

The Company also expended $0.3m on a new robotic gantry-mounted welding system for the Brisbane operation which was successfully introduced in the first half of the year. This new system has provided significant improvements in productive efficiency and product quality. Expenditure on this system was also funded from existing cash resources.

Risk Management

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee. Instead, the Board deals directly with issues and risks identified.

The Board will then periodically review the risks faced by the Company to ensure that the objectives and activities are aligned with the risks identified by the Board.

The Board is continuing the development of an overarching risk management and internal compliance assurance policy.

Significant Changes in the State of Affairs

The completion of the acquisition of the Kaldura Industries business in Mackay and the acquisition of Austbore Pty Ltd, also in Mackay, and the consolidation of their revenue and profits for the financial year, has been detailed previously in this report.

After Balance Sheet Events

On 23 August 2007 the Company declared a fully-franked final dividend of 3.5 cents per share for the financial year ended 30 June 2007. This is in addition to its maiden interim dividend of 0.5 cents per share, fully-franked, paid on 30 April 2007. The record date for the final dividend will be 10 September 2007 and the dividend will be paid on 12 October 2007.

The final dividend has not been provided for in the 30 June 2007 financial statements.

Environmental Regulation

The Company operates a blasting and painting facility which is subject to environmental regulation.

The Company has a current licence to operate the facility.

Information on Directors

At the date of this report the Company has one Executive Director and three Non-Executive Directors:

Executive Director:

Michael D. Buckland, Managing Director

Michael Buckland is a mechanical engineer with 24 year's experience encompassing operational, business development and senior management positions with several large engineering organisations. He held a variety of positions with the ANI Group from 1979 to 1998, which were chiefly within fabrication and engineering operations in Australia and overseas. He held various positions up to general management level. He served as Chief Executive Officer of Kirkfield Engineering and Construction Pty Ltd and Minproc Ghana Pty Ltd from 1998 to 2000 and was Chief Executive Officer of aiEngineeering Pty Ltd from 2000 to 2001. He was a Director of West Australian Metals Ltd from January 2003 to March 2004.

Interests in shares and options at 30 June 2007: 1,963,448 ordinary shares and options to acquire 1,000,000 ordinary shares

Non-Executive Directors:

Peter G. Fitch, Non-Executive Chairman

Peter Fitch is a qualified engineer who has over 35 years' experience in the engineering and mining industries in Australia and overseas. He was previously an Executive Director of ANI with responsibility for Australian and international engineering and construction operations and was also formerly Chairman of Oldenberg Stamler Australasia and Oldenberg Mining South Africa.

Interests in shares and options at 30 June 2007: 103,448 ordinary shares and options to acquire 500,000 ordinary shares

Directors' Report (Cont'd)

Information on Directors
Peter L. Pursey, AM, Non-Executive Director
Peter Pursey has extensive experience as a Company Director of both listed and non-listed public companies in Australia and the USA. He is experienced in executive management and currently provides corporate advisory and development services to emerging and growth companies, particularly in the areas of strategic planning, capital raising and project management.

Interests in shares and options at 30 June 2007: 284,000 ordinary shares and options to acquire 500,000 ordinary shares

Eugene Fung, Non-Executive Director
Eugene Fung is a corporate lawyer and partner of a national law firm. He advises both listed and unlisted companies regularly on corporate finance matters, mergers and acquisitions, corporate governance and the ASX listing rules. He is a member of the Australian Institute of Company Directors and as Fellow of the Financial Services Institute of Australasia and holds a graduate Diploma in Applied Finance from FinSIA (formerly the Securities Institute of Australia).

Interests in shares and options at 30 June 2007: 186,448 ordinary shares and options to acquire 372,000 ordinary shares

Information on Company Secretary
Colin Anderson
Colin Anderson was previously Austin Engineering's Chief Financial Officer and Company Secretary during 2003 to 2005 and he was a member of the formative senior management team when the Austin Engineering business was purchased in 2003. He is a Chartered Accountant with over 20 years' experience encompassing strategic business planning, financial control and systems development with a number of engineering and manufacturing companies in Australia and overseas. He rejoined the Company on 31 January 2007 upon the resignation of Johan Andersson.

Remuneration Report
Remuneration levels for Directors and Senior Executives of the Company are competitively set to attract, motivate and retain appropriately qualified and experienced Directors and Senior Executives. The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share based compensation

Principles used to determine the nature and amount of remuneration

The objective of the Company's remuneration policy is to ensure it is competitive and appropriate for the results delivered. The remuneration of Senior Executives is reviewed annually by the Board through a process that considers the performance of individual business unit and the overall performance of the Company. In addition, external analysis and advice is sought by the Board, where considered appropriate, to ensure the Directors' and Senior Executives' remuneration is competitive in the market place. The policy attempts to align executive reward with the achievement of strategic objectives and the creation of value for shareholders. The major features are:

- Economic profit is a core component
- Attract and retain high quality executives
- Rewards capability and experience
- Reflects competitive rewards for contributing to growth in shareholders wealth
- Provides recognition for contribution

Non-Executive Directors:
Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors and their contribution towards the performance of the Company.

Non-executive Directors' fees and payments are reviewed annually by the Board. Non-Executive Directors' fees are determined with an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $200,000 of which $140,000 was paid in 2007.

In order to align the interests of shareholders and Non-Executive Directors, the Company's policy is to grant options over unissued shares to non-executive Directors, subject always to shareholders approval. The options currently granted to Non-Executive Directors are described below.

Directors' Report (Cont'd)

Remuneration Report (Cont'd)
Executive Directors and Senior Executives:
Executive remuneration comprises four components:

- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through the issue of options, and
- Other remuneration such as superannuation

During the reporting period, there was only one Executive Director, Mr. Buckland, who was the Managing Director.

Base pay and benefits:
Executive Directors and Senior Executives are offered a competitive base pay. This base pay is calculated on a total cost basis and may include charges associated with the provision or a motor vehicle, including FBT charges, as well as employer contributions to superannuation funds. The remuneration of Senior Executives is reviewed annually by the Board. There is no guaranteed base pay increases included in any Executive Directors or Senior Executive's contracts.

Short-term incentives:
Each year the Board sets the KPIs (Key Performance Indicators) for the Executive Directors, currently consisting only of the Managing Director. The Managing Director is eligible for short-term incentive bonus payments based on the achievement of the KPIs as specified in his executive service agreement. These KPIs include:

- Financial performance indicators for profit (EBITDA, NPAT) and cash flow set by the Board.
- Workplace operations performance targets including the achievement of the Company's Workplace Health and Safety Plan objectives.

The KPIs chosen by the Company are considered the most relevant and common indicators used in the business segment that the Company operates within.

The short-term incentive bonus payments may be adjusted up or down in line with achievement against the KPIs and the maximum incentive bonus payment achievable annually equals 45% of the base pay. No bonus is awarded where performance falls below the minimum acceptable KPI levels as determined by the Board.

Short-term incentives paid to Senior Executives are made on a discretionary basis as determined by the Board. These incentives, while not guaranteed, are determined by the achievements of a number of performance criteria including, but not limited to, financial performance indicators for profit (EBITDA, NPAT), cash flow, and various performance targets specific for each area of operational responsibility.

Long-term incentives:
Long-term performance incentives are delivered through the grant of options to Executive Directors, Non-Executive Directors and to selected key Senior Executives.

Details of remuneration:
Amounts paid or payable, or otherwise made available to key management personnel during the year were:

	Salary/Fees	Bonuses	Motor Vehicle Benefits	Value of options	Total
	$	$	$	$	$
Directors:					
M.D. Buckland	232,540	63,000	23,226	63,192	381,958
P.G. Fitch	50,000	-	-	31,596	81,596
P.L. Pursey	45,000	-	-	31,596	76,596
E. Fung	45,000	-	-	31,596	76,596
Management Personnel:					
J. Andersson	83,984	-	-	10,532	94,516
C. Anderson	55,125	-	-	-	55,125
Total	511,649	63,000	23,226	168,512	766,387

16% of M.D. Buckland's compensation was performance-related in 2007. The salaries and fees of Directors and Management Personnel are inclusive, where appropriate, of the 9% superannuation guarantee contribution required by the government. No other retirement benefits are payable to these individuals.

Directors' Report (Cont'd)

Remuneration Report (Cont'd)

Share-based compensation:

During the year, the following options were issued to key management personnel as part of their remuneration during the year:

	No. of Options	Exercise Price	Value per Option at Date of Grant	Date Exercisable	Date of Expiry
M.D. Buckland	500,000	60 cents	12.6 cents	1 December 2006	1 December 2009
P.G. Fitch	250,000	60 cents	12.6 cents	1 December 2006	1 December 2009
P.L. Pursey	250,000	60 cents	12.6 cents	1 December 2006	1 December 2009
E. Fung	250,000	60 cents	12.6 cents	1 December 2006	1 December 2009
J. Andersson	100,000	50 cents	7.0 cents	31 August 2006	31 August 2008

The Managing Director's service agreement provides for the issue of 100,000 options in any year where the short-term incentive bonus payments (which are conditional upon the achievement of relevant KPIs) are at least equal to 40% of the Managing Director's base pay. Any options issued under this service agreement are on the following principal terms:

- The option exercise price will be the volume-weighted average price of the Company's shares for the 20 trading days preceding 1 July in the financial year they are granted.
- The options will vest after 1 July in the financial year they are granted and will lapse on the date the Managing Director ceases to be employed by the Company.
- The options will otherwise be subject to the same terms and conditions as the options which have been previously granted to other Directors.

The future issue of options to Non-Executive Directors and key Senior Executives will be based upon a number of factors including, but not limited to:

- Achievement of financial performance, financial position and liquidity exceeding approved internal budgets.
- Comparison to other similar companies in related business segments and industries.
- Development of the Company share price and payment of dividends.
- Obtaining benchmarking advice from independent professional advisors where appropriate.

Service Agreements:

Senior Executives (including Executive Directors) are appointed as permanent employees. The employment contracts stipulate a range of one to six months as resignation period. The Managing Director, Mr. M.D. Buckland, has an executive service agreement dated 22 November 2004. The agreement specifies duties and obligations to be fulfilled by the Managing Director and has a duration period until 31 October 2007.

The agreement can be terminated by the Company providing 3 months notice and by the Managing Director providing 6 months notice. The Company may make a payment in lieu of notice of 3 months' remuneration and benefits. The Managing Director has no entitlement to termination payment in the event of removal for misconduct.

Mr. C. Anderson, Chief Financial Officer and Company Secretary, has an employment contract dated 13 December 2006. There is no prescribed duration in the contract which can be terminated. The contract can be terminated with 3 months notice by either party. There is no provision in the contract for a payout of termination.

Meetings of Directors

The number of meetings of the Board of Directors and the Audit Committee during the year was:

	Board of Directors		Audit Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended
Michael D. Buckland	9	9	-	-
Peter G. Fitch	9	9	3	2
Peter L. Pursey	9	9	3	3
Eugene Fung	9	9	3	3

Directors' Report (Cont'd)

Indemnification of Directors and Officers
The Company has previously entered into agreements to indemnify the Directors and Officers against liability (including costs and expenses) for an act or omission by them in their capacity of Directors and Officers of the Company, other than (amongst other things) conduct involving a lack of good faith. The Company has paid premiums to insure the Directors and Officers against liability and the total premium paid in the year ended 30 June 2007 for all of the foregoing individuals was $16,547.

Options
At the date of this report, the unissued ordinary shares of Austin Engineering Limited under option were as follows:

Number of Options	Issue Price of Shares	Expiry Date
1,122,000	$0.30	20 December 2007
100,000	$0.55	20 December 2007
600,000	$0.50	31 August 2008
1,250,000	$0.60	1 December 2009
3,072,000		

During the year ended 30 June 2007 the following ordinary shares of Austin Engineering Limited were issued on exercise of options granted under the Austin Engineering Limited Employee Option Plan.

Number of Shares	Issue Price of Shares	Grant Date
128,000	$0.30	20 December 2004
150,000	$0.50	25 August 2006
278,000		

Corporate Governance
In recognising the need for appropriate standards of corporate behaviour and accountability, the Directors of the Company support the principles of corporate governance. The Company has adopted comprehensive corporate governance policies and processes substantially in accordance with ASX Corporate Governance Council's Principles of Good Governance and they are summarised in the corporate governance statement contained in this annual report.

Auditors' Independence Declaration - Section 307C
The following is a copy of a letter received from the Company's auditors:

"Dear Sirs,

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2007 annual financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Frank Vrachas (Lead auditor)
Rothsay Chartered Accountants"

Non-Audit Services Disclosure

The Company may decide to employ the auditor on assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important. Details of the amounts paid or payable to the auditor Rothsay Chartered Accountants for audit and non-audit services provided during the year are set out below.

	2007 $	2006 $
Auditors' remuneration:		
- auditing the accounts	24,000	14,850
- taxation services	3,000	3,501

Directors' Report (Cont'd)

Non-Audit Services Disclosure

The Directors are satisfied that the provision of non-audit services during the 2007 financial year by Rothsay Chartered Accountants as the external auditor:

(a) was compatible with the standard of independence for auditors imposed by the Corporations Act 2001; and

(b) did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

i. non-auditor services were only provided by Rothsay where the Directors were satisfied that those services would not affect audit procedures;

ii. a description of all non-audit services undertaken by Rothsay and the relevant fees have been provided to the Board to ensure complete transparency in the provision of those services; and

iii. the declaration required by section 307C of the Corporations Act 2001 declaring the auditor's independence has been received from Rothsay and is included above under the heading 'Auditors' Independence declaration – Section 307C'.

Signed in accordance with a resolution of the Directors made pursuant to section 298 (2) of the Corporations Act 2001.

On behalf of the Directors

Michael D. Buckland

Director

20 September 2007

Corporate Governance Statement

Introduction

The Board of Austin Engineering Ltd is committed to protecting shareholders' interests and keeping investors fully informed about the performance of the Company's business. The Directors have undertaken to perform their duties with honesty, integrity, care and diligence, according to the law and in a manner that reflects the highest standards of governance.

The Directors have established the following processes to protect the interests and assets of shareholders and to ensure the highest standard of integrity and governance of the Company.

This corporate governance statement is segmented according to the 10 *Principles of Good Governance* recommended by the ASX Corporate Governance Council.

Except as highlighted, the Board believes that since its admission to the official list of the ASX on 4 March 2004 the Company has adopted the spirit of, and demonstrated a commitment to embracing, the ASX Corporate Governance Council's *Principles of Good Governance* as they are relevant to the size and complexity of the Company and its operations. The Board has adopted a formal Board Charter, Audit Committee Charter, Audit Policy, External Communications policy (including a continuous disclosure policy), Securities Trading Policy and Code of Conduct for Directors and officers. Copies of these codes and policies are available to shareholders on request.

PRINCIPLE 1: LAY A SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

Functions and Responsibilities of the Board and Management

The Directors of the Company are accountable to shareholders for the proper management of business and affairs of the Company.

The key responsibilities of the Board are to:

- establish, monitor and modify the corporate strategies of the Company;
- ensure proper corporate governance;
- monitor the performance of management of the Company;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- assess the necessary and desirable competencies of Board members, review Board succession plans, evaluate its own performance and consider the appointment and removal of Directors;
- consider executive remuneration and incentive policies, the Company's recruitment, retention and termination policies and procedures for senior management and the remuneration framework for non-executive Directors
- monitor financial results;
- approve decisions concerning the capital, including capital restructures, and dividend policy of the Company; and
- comply with the reporting and other requirements of the law.

The Board delegates responsibility for day-to-day management of the Company to the Managing Director, subject to certain financial limits. The Managing Director must consult the Board on matters that are sensitive, extraordinary, of a strategic nature or matters outside the permitted financial limits.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Board presently comprises four Directors, three of whom, including the Chairman, are Non-Executive and independent Directors. The Managing Director is an Executive Director. Profiles of the Directors are set out on pages 6 to 7 of this Annual Report. The profiles outline the skills, experience and expertise of each Director. All Directors (except the Managing Director) are subject to retirement by rotation but may stand for re-election by the shareholders every three years. The terms of the Managing Director's appointment are governed by his terms of engagement.

The composition of the Board is determined by the Board and, where appropriate, external advice is sought. The Board has adopted the following principles and guidelines in determining the composition of the Board:

Corporate Governance Statement (Cont'd)

Composition of the Board

- *The Majority of Directors ought to be independent*.

  To be independent, a Director ought to be Non-Executive and:

  (i) not be a substantial shareholder of the Company or an officer of, or be otherwise associated directly with a substantial shareholder of the Company;

  (ii) not be employed in an executive capacity with the Company in the last three years or been a Director after ceasing to hold such employment

  (iii) not within the last three years been a principal of, professional adviser or a consultant to the Company or an employee materially associated with the service provider, whose annual billings to the Company represent more than 1% of the Company's annual revenue or more than 5% of the professional advisor's or consultant's total annual billings

  (iv) not be a supplier or customer of the Company or an officer of, or otherwise associated directly with a supplier or customer whose annual billings to the Company represent more than 1% of the Company's annual revenue or more than 5% of the supplier's or customer's total annual revenue

  (v) not have a material contractual relationship with the Company other than as Director of the Company

  (vi) not been on the Board for a period which could materially interfere with the Director's ability to act in the best interests of the Company

  (vii) is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

- *The Board ought to comprise a wide range of skills and competencies.*

  The Board is responsible for ensuring that there are Directors with appropriate skills and experience to competently discharge their duty to the other stakeholders in the Company and to manage the Company in a manner that protects the interest of all stakeholders and maximises the return to and value of the Company for the members of the Company. In determining this matter the Board should specifically consider whether it is structured and composed in such a way that it:

  (i) has a proper understanding of, and competence to deal with, the current and emerging issues of the business of the Company; and

  (ii) can effectively review and challenge the performance of management and exercise independent judgement.

Director Selection

When a vacancy exists through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed which includes a review of the candidates' independence, and the Board appoints the most suitable candidate who, in accordance with reg 3.3 of the Company's constitution, must retire but may stand for re-election at the next annual general meeting of shareholders.

Board Committees

The Board has established an Audit Committee which operates under a formal Charter – see Principle 4. The Directors have not established separate nomination, remuneration or risk management committees as recommended in the Guidelines because these matters are appropriately addressed by the full Board.

Independent Professional Advice

A procedure has been determined for each Director to have the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, but such approval is not withheld unreasonably.

Corporate Governance Statement (Cont'd)

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Codes of Conduct

The Company has developed codes of conduct to guide all of the Company's employees, particularly Directors, the Managing Director, the Chief Financial Officer and other Senior Executives, in respect of ethical behavior. These codes are designed to maintain confidence in the Company's integrity and the responsibility and accountability of all individuals within the Company for reporting unlawful and unethical practices. These codes of conduct embrace such areas as:

- Conflicts of interest
- Corporate opportunities
- Confidentiality
- Fair dealing and trade practices
- Protection of assets
- Compliance with laws, regulations and industry codes
- Whistle blowing
- Security trading
- Commitment to and recognition of the legitimate interests of stakeholders

Share Trading Policy

Directors and other shareholders are encouraged to be long-term holders of the Company's shares.

For Directors and Officers, the Company has adopted a formal Securities Trading policy. Officers may not deal in any of the Company's securities at any time if they have inside information. An Officer may trade in securities in the four-week period after the release to the ASX of the half-yearly and annual results, the end of the annual general meeting or at any time the Company has a prospectus open, but only if they have no inside information and the trading is not for short-term or speculative gain.

An Officer may trade in securities at other times only if they are personally satisfied that they are not in possession of inside information and have obtained the approval of the Chairman or in the case of any proposed trade by the Chairman, of another Non-Executive Director nominated by the Chairman for the purpose.

Officers must advise the Company Secretary in writing of the details of completed transactions within two business days following each transaction. Such notification is necessary whether or not prior authority has been required. The Secretary must maintain a register of securities transactions. The Company must comply with its obligations to notify the ASX in writing of any changes in the holdings of Securities or interest in Securities by Directors.

PRINCIPLE 4: SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

Managing Director and Chief Financial Officer certification of financial reports

The Managing Director and the Chief Financial Officer have certified to the Board in writing, prior to Board approval of the 2007 annual financial report, that:

- the Company has in place a financial accounting system to correctly record and explain all transactions and financial position and performance of the Company and that would enable true and fair financial statements to be prepared and audited;
- the Company's financial reports:
    - present a true and fair view, in all material respects, of the Company's financial condition and operating results;
    - are in accordance with relevant accounting standards; and
    - are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Corporate Governance Statement (Cont'd)

Audit Committee

The Audit Committee formed on 24 September 2004 consists of:

Mr Peter Pursey (Chairman)

Mr Peter Fitch

Mr Eugene Fung

Each of the members of the committee are independent Non-Executive Directors and the Chairman of the committee is not the Chairman of the Board. Meetings of the committee may be attended by invitation by the Managing Director and the Chief Financial Officer/Company Secretary.

All members of the Committee are financially literate (i.e. they are able to read and understand financial statements) and have an understanding of the industry in which the Company operates. However, none of the Committee members are qualified accountants or financial professionals and, in this regard, the Committee does not comply with Recommendation 4.3. The Directors do not believe that at this stage the Company is of a size, or has affairs of such complexity, to warrant the appointment of a Director who is a qualified accountant or financial professional. However, the Board will monitor that position regularly and assess the composition of the Audit Committee if circumstances change.

The Audit Committee will provide an independent review of:

- the effectiveness of the accounting and internal control systems and management reporting which are designed to safeguard Company assets;
- financial information produced by the Company;
- the accounting policies adopted by the Company;
- the quality of the internal and external audit functions;
- external auditor's performance and independence as well as considering such matters as replacing the external auditor where and when necessary; and
- approving internal audit plans including identified risk areas.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Board recognizes that the Company as a publicly-listed entity has an obligation to make timely and balanced disclosure in accordance with the requirements of the Australian Securities Exchange Listing Rules and the Corporations Act 2001. The Board also is of the view that an appropriately informed shareholder base, and market in general, is essential to an efficient market for the Company's securities. The Board is committed to ensuring that shareholders and the market have timely and balanced disclosure of matters concerning the Company. In demonstration of this commitment, the Company has adopted a formal external communications policy including a continuous disclosure policy.

In order to ensure the Company meets its obligations of timely disclosure of such information, the Company has adopted the following policies:

- immediate notification to ASX of information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities as prescribed under listing rule 3.1, except where such information is not required to be disclosed in accordance with the exception provisions of the listing rules.
- the Company has during the year established a website and all information disclosed to ASX will be promptly placed on the Company's website following receipt of confirmation from ASX and, if deemed desirable, released to the wider media.
- the Company will not respond to market rumors or speculation, except where required to do so under the listing rules.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Board recognizes that shareholders are the beneficial owners of the Company and respects their rights and is continually seeking ways to assist shareholders in the exercise of those rights.

The Board also recognizes that as owners of the Company the shareholders may best contribute to the Company's growth, value and prosperity if they are informed. To this end the Board seeks to empower shareholders by:

- communicating effectively with shareholders;
- enabling shareholders to have to access to balanced and understandable information about the Company, its operations and proposals;
- assisting shareholders participation in general meetings.

Corporate Governance Statement (Cont'd)

Communications Strategy

All shareholders are entitled to receive a copy of the Company's annual and half-yearly reports. In addition, the Company established a website, which will provide opportunities for shareholders to access Company announcements, media releases and financial reports through electronic means.

The Board is committed to assisting shareholders participation in meetings and has adopted the following measures:

- adoption of the ASX Corporate Governance Council's recommendation and guidelines as published in the Council's *Principles of Good Governance and Best Practice Recommendations* in respect of notices of meetings; and
- ensuring that a representative of the Company's external auditor, subject to availability, is present at all Annual General Meetings and that shareholders have adequate opportunity to ask questions of the auditor at that meeting concerning the audit and preparation and content of the auditor's report.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk oversight and management policy

The Board carries overall responsibility to all stakeholders for the identification, assessment, management and monitoring of the risks faced by the Company. The Company has in place informal policies and procedures for risk management and expects to document and adopt a formal risk management policy by 31 December 2007. Once adopted, it will be available to shareholders on request and, after 31 December 2007, it will be available for inspection on the Company's website.

PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE

The Board has determined a process for evaluating the performance of the Board, individual Directors and key executives as follows:

- the Non-Executive Chairman reviews the performance of each Director and interviews each Director individually on their role as Director and their achievement of goals.
- independent members of the Board interview the Non-Executive Chairman and are responsible for reviewing his performance.

As mentioned previously (refer Principle 2 above), the Directors consider that at this stage, the Company is not of a size nor are its affairs of such complexity to warrant the formation of a separate nomination committee and the responsibilities of the nomination committee are carried out by the full Board.

PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBILY

Remuneration Policy

The Board believes that it is in the interest of all stakeholders in the Company for there to be in place a remuneration policy that:

- attracts and retains talented and motivated Directors, managers and employees so as to encourage enhanced performance of the Company;
- recognizes and rewards superior performance by any individual or group to which the individual has made a significant contribution;
- enables the Company's stakeholders and the investment community to understand:
  - (i) the costs and benefits of that policy; and
  - (ii) the link between remuneration paid to Directors and key executives and the Company's performance
- distinguishes the structure of Non-Executive Directors' remuneration from that of executives using the following guidelines for Non-Executive Directors' remuneration:
  - (i) non-Executive Directors should not be provided with retirement benefits other than statutory superannuation; and
  - (ii) non-Executive Directors ought to receive equity-based remuneration only subject to shareholder approval.
  - (ii) payment of equity-based executive remuneration should only be made in accordance with such schemes that have been approved by shareholders.

To this end, the Board has established a process of transparency in remuneration matters that relates remuneration to performance and clearly communicates the policy underlying executive remuneration to shareholders.

Corporate Governance Statement (Cont'd)

Remuneration Objectives and Structure
Remuneration Objectives:

The Board's remuneration objectives are as follows:

- to motivate Directors and management to pursue the long-term growth and success of the Company within an appropriate control framework;
- to demonstrate a clear relationship between key executive performance and remuneration.

Structure:

The Board has determined that executive remuneration may comprise any of the following:

- Base salary (Cash)
- Shares in the Company and/or options to acquire shares in the Company
- Other incentive schemes
- Allowances
- Provision of motor vehicle
- Holiday, sick and long-service leave
- Superannuation
- Any other component that the Company can lawfully provide to an officer to salary sacrifice
- Any other component that the Board considers relevant and desirable
- Fringe Benefits Tax (howsoever called) associated with components of remuneration requested by the officer to be salary-sacrificed

The remuneration, and its elements, paid to Directors and the highest paid executives are set out in the Director's Report. It is not the policy of the Company to make loans to Directors or executives except on full commercial terms.

Remuneration Committee

As mentioned previously, the Directors consider that at this stage the Company is not of a size nor are its affairs of such complexity to warrant the formation of a separate remuneration committee and the responsibilities of the remuneration committee are carried out by the full Board.

PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTEREST OF STAKEHOLDERS

The Board recognizes the interests of stakeholders other than shareholders of the Company. The Company has a number of legal and other obligations to stakeholders such as employees, customers, suppliers and the community as a whole and it is the Board's view that the Company can create value by better managing its natural, human, social and other forms of capital.

Accordingly, the Board has adopted a code of conduct in respect of dealings with these stakeholders to guide Directors, executives and all staff in matters such as:

- shareholder, customer and community relations
- fair trading and dealing with the Company
- employment practices
- compliance, compliance monitoring and adherence to this code

Income Statement for the Financial Year Ended 30 June 2007

		2007		2006
	Notes	Economic Entity	Parent Entity	Economic Entity
		$	$	$
Revenues from continuing operations	2	57,499,585	54,578,194	48,882,661
Gain on sale of properties		-	-	3,901,654
		57,499,585	54,578,194	52,784,315
Raw materials and consumables expenses		(19,588,983)	(18,880,051)	(21,099,188)
Employment expenses		(21,115,882)	(20,315,040)	(16,837,930)
Subcontractor expenses		(2,361,250)	(2,265,406)	(3,007,861)
Occupancy and utility expenses		(1,790,374)	(1,710,693)	(1,029,100)
Depreciation and amortisation expense		(1,147,514)	(1,007,689)	(876,286)
Other expenses	3	(3,992,131)	(3,833,244)	(3,199,401)
Borrowing expenses		(406,389)	(373,095)	(539,609)
Profit before income tax		7,097,062	6,192,976	6,194,940
Income tax expense	4	(2,119,834)	(1,857,893)	(1,843,856)
Profit attributable to members of the Parent Entity		**4,977,228**	**4,335,083**	**4,351,084**

The accompanying notes form an integral part of the Income Statement.

Balance Sheet as at 30 June 2007

		2007		2006
	Notes	Economic Entity	Parent Entity	Economic Entity
		$	$	$
Current Assets				
Cash assets	6	6,311,352	6,094,800	11,934,395
Receivables	7	10,239,016	7,869,603	7,925,891
Inventories	8	3,158,762	2,724,439	4,825,894
Other	9	1,852,229	1,775,717	665,490
Total Current Assets		**21,561,359**	**18,464,559**	**25,351,670**
Non-Current Assets				
Property, plant and equipment	10	9,989,518	6,626,045	3,352,522
Investments	11	-	9,479,969	-
Intangible assets	12	9,596,334	2,705,768	-
Total Non-Current Assets		**19,585,852**	**18,811,782**	**3,352,522**
Total Assets		**41,147,211**	**37,276,341**	**28,704,192**
Current Liabilities				
Payables	13	10,615,909	10,178,948	13,566,877
Interest-bearing liabilities	14	6,105,636	5,457,285	692,106
Current tax liabilities	15	1,711,448	1,151,367	1,604,097
Provisions	16	1,354,680	1,147,563	1,109,252
Total Current Liabilities		**19,787,673**	**17,935,163**	**16,972,332**
Non-Current Liabilities				
Interest-bearing liabilities	17	2,747,567	1,371,352	1,818,502
Total Non-Current Liabilities		**2,747,567**	**1,371,352**	**1,818,502**
Total Liabilities		**22,535,240**	**19,306,515**	**18,790,834**
Net Assets		**18,611,971**	**17,969,826**	**9,913,358**
Equity				
Contributed equity	18	9,694,133	9,694,133	4,973,354
Retained profits	19	8,917,838	8,275,693	4,940,004
Total Equity		**18,611,971**	**17,969,826**	**9,913,358**

Statement of Changes in Equity			
Total equity at beginning of the year	9,913,358	9,913,358	5,960,818
Profit for the year	4,977,228	4,335,083	4,351,084
Issue of shares	4,732,625	4,732,625	-
Cost of share issues	(11,846)	(11,846)	-
Dividends paid	(999,394)	(999,394)	(398,544)
Total equity at end of the year	**18,611,971**	**17,969,826**	**9,913,358**

The accompanying notes form an integral part of the Balance Sheet and Statement of Changes in Equity.

Statement of Cash Flows for the Financial Year Ended 30 June 2007

	Notes	2007 Economic Entity $	2007 Parent Entity $	2006 Economic Entity $
Cash flows from operating activities				
Receipts from customers		56,264,537	54,394,267	52,599,461
Payments to suppliers and employees		(49,185,302)	(48,631,017)	(46,735,298)
Interest received		188,784	186,996	149,417
Borrowing costs		(406,389)	(373,095)	(838,285)
Income tax paid		(3,191,578)	(2,989,210)	(689,268)
Net cash provided by operating activities	20a	**3,670,052**	**2,587,941**	**4,486,027**
Cash flows from investing activities				
Purchase of business and company	20b	(17,037,244)	(15,056,164)	-
Purchase of property, plant and equipment		(1,435,722)	(1,410,785)	(792,703)
Proceeds from sale of property, plant and equipment		-	-	15,930,986
Net cash provided/(used) by investing activities		**(18,472,966)**	**(16,466,949)**	**15,138,283**
Cash flows from financing activities				
Proceeds from issue of shares		4,720,778	4,720,778	-
Proceeds from borrowings		8,294,721	6,889,400	-
Repayment of borrowings		(2,769,896)	(2,505,033)	(6,952,580)
Payment of deferred consideration on purchase of business		-	-	(375,000)
Dividend payment		(999,394)	(999,394)	(399,057)
Net cash provided/(used) by financing activities		**9,246,209**	**8,105,751**	**(7,726,637)**
Net increase/(decrease) in cash held		**(5,556,705)**	**(5,773,257)**	**11,897,673**
Cash at the beginning of the year	20c	11,868,057	11,868,057	(29,616)
Cash at the end of the year	20c	**6,311,352**	**6,094,800**	**11,868,057**

The accompanying notes form an integral part of the Statement of Cash Flow.

Notes to the Financial Statements

Note 1: Statement of Compliance and Significant Accounting Policies

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, other authoritative prouncements of the Australian Accounting Standards board and the Corporations Act 2001.

The financial report covers the economic entity of Austin Engineering Ltd and controlled entities and Austin Engineeering Ltd as an individual parent entity. Austin Engineering Ltd is a listed public company incorporated and domiciled in Australia.

The financial report of Austin Engineering Ltd and its controlled entities and Austin Engineering Ltd as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the significant and material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

It has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuation of non-current assets. The following specific accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

A controlled entity is any entity Austin Engineering Ltd has the power to control the financial and operating policies of, so as to obtain benefits from its activities. A list of controlled entitities is contained in note 11 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and material transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered the economic entity during the year their operating results have been included from the date control was obtained.

(b) Taxes

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Goods and Services Tax (GST)

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

- where 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 balance sheet.

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.

Notes to the Financial Statements

Note 1: Statement of Compliance and Significant Accounting Policies (Cont'd)

(c) Cash
For the purposes of the statement of cash flows, cash includes cash on hand and at call, deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(d) Inventories and Work-in-Progress
Inventories consist of raw materials, consumables and work in progress and are valued at the lower of cost and net realisable value.

Work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under payables.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms and conditions of the contract and an allocation of overhead expenses incurred in connection with the Company's activities in general.

(e) Property, Plant and Equipment
Property, plant and equipment are carried at cost, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employed and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amount.

All fixed assets, including capitalised leased assets, are depreciated using a straight line basis over their useful lives commencing from the time the assets are held ready for use.

The depreciation rates used for each class of assets are:

Class of Fixed Asset	Depreciation Rates
Property	2% - 3%
Plant & Equipment	5% - 40%
Furniture and Fittings and Office Equipment	20% - 40%
Motor Vehicles	20% - 40%
Computer Equipment	33.33%

(f) Intangibles - Goodwill
Where a Company or operation is acquired, the identifiable net assets are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is measured at cost less accumulated impairment losses.

(g) Project Revenue Recognition
All revenue is stated net of the amount of Goods and Services Tax (GST). Project revenue and expenses are recognised on an individual project basis using the percentage of completion method when the stage of the project can be reasonably determined, costs to date can be clearly identified and total contract revenue and costs to complete can be reliably estimated.

Profit recognition in general does not commence until a project is at least 75% complete, measured by reference to an assessment of total labour hours incurred to date as a percentage of estimated total hours to complete for each contract. An expected loss is recognised immediately as an expense.

(h) Payables
Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(i) Employee Benefits
Provision is made for the Company's liability for employee benefits arising from services rendered by employees. Employee benefits expected to be settled within one year, together with benefits arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Benefits paid in relation to sick leave are expensed in the period in which payment is made. Contributions are made by the Company to employee superannuation funds and are charged to expenses as incurred.

Notes to the Financial Statements

Note 1: Statement of Compliance and Significant Accounting Policies (Cont'd)

(j) Leases
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(k) Dividends
A provision for dividends is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance sheet date.

(l) Comparative Figures
Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(m) Earnings per share
Basic earnings per share are determined by dividing the profit after income tax attributable to equity to holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2007		2006
	Economic Entity	Parent Entity	Economic Entity
	$	$	$
Note 2: Revenue and Segment Reporting			
Revenue from Operating Activities			
Mining equipment manufacture and repair and steelwork fabrication - Domestic	52,355,463	50,607,211	45,883,822
Mining equipment manufacture and repair and steelwork fabrication - Export	4,955,338	3,783,987	2,801,817
Revenue from Non-Operating Activities			
Interest received	188,784	186,996	149,417
Other revenue	-	-	47,605
	57,499,585	54,578,194	48,882,661
Note 3: Profit from Ordinary Activities			
Profit from ordinary activities before income tax has been determined after:			
Rental expense on operating leases	1,338,865	1,278,100	302,608
Legal and selling expenses associated with sale of properties in previous financial year	242,964	242,964	-
Note 4: Income Tax			
The prima facie tax on profit from ordinary activities is reconciled to income tax provided in the accounts as follows:			
Profit from ordinary activities before income tax	7,097,062	6,192,976	6,194,940
Prima facie tax thereon at 30%	2,129,119	1,857,893	1,858,482
Tax effect of permanent differences:			
Research and development expenses	(20,303)	(20,303)	(12,203)
Other non-deductible/(non-assessable) items	11,018	20,303	(2,423)
Income tax expense attributable to profit from ordinary activities	2,119,834	1,857,893	1,843,856

Notes to the Financial Statements (Cont'd)

	2007 Economic Entity	2007 Parent Entity	2006 Economic Entity
	$	$	$
Note 5: Earnings per Share			
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:			
Net profit attributable to members of the Company used in calculating basic and diluted earnings per share	4,977,228		4,351,084
	No.		No.
Weighted average number of ordinary shares used in calculating basic earnings per share	39,964,240		39,805,740
Effect of dilutive securities - share options	2,420,667		1,350,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	42,384,907		41,155,740
Earnings per Share:			
Excluding gain on sale of properties in 2005/2006:			
Basic earnings per share (cents per share)	12.45		4.07
Diluted earnings per share (cents per share)	11.74		3.94
Including gain on sale of properties in 2005/2006:			
Basic earnings per share (cents per share)	12.45		10.93
Diluted earnings per share (cents per share)	11.74		10.57
Note 6: Current Assets – Cash Assets			
Cash at bank	6,308,750	6,092,200	11,931,714
Cash on hand	2,602	2,600	2,681
	6,311,352	6,094,800	11,934,395
Note 7: Current Assets – Receivables			
Trade debtors (nil provision)	10,239,016	7,869,603	7,925,891
Note 8: Current Assets – Inventories			
Raw materials and consumables	317,170	263,401	101,027
Work-in-progress	2,841,592	2,461,038	4,724,867
	3,158,762	2,724,439	4,825,894
Note 9: Current Assets – Other			
Prepayments	482,915	421,235	219,299
Other debtors	1,050,712	1,035,880	127,589
Investment	318,602	318,602	318,602
	1,852,229	1,775,717	665,490

Notes to the Financial Statements (Cont'd)

	2007 Economic Entity	2007 Parent Entity	2006 Economic Entity
	$	$	$
Note 10: Non-Current Assets – Plant and Equipment			
Land:			
Freehold land at fair value	1,051,999	1,005,000	-
Buildings:			
At fair value	1,803,011	1,341,000	-
Less: accumulated depreciation	(29,429)	(28,920)	-
Total buildings	1,773,582	1,312,080	-
Capital work-in-progress:			
At cost	296,017	296,017	-
Plant and equipment:			
At cost	6,034,754	6,015,383	4,912,548
At fair value	3,493,977	524,427	-
Less: accumulated depreciation	(2,660,811)	(2,526,862)	(1,560,026)
Total plant and equipment	6,867,920	4,012,948	3,352,522
Total property, plant and equipment	9,989,518	6,626,045	3,352,522

The land and buildings were valued in April 2006 and April 2007 by independent valuers. Valuations were made on the basis of open market values.

Movements in Carrying Amounts:

	Freehold Land	Buildings	Capital Work in Progress	Plant & Equipment	Total
	$	$	$	$	$
Economic Entity:					
Balance at beginning of year	-	-	-	3,352,522	3,352,522
Additions	-	-	296,017	1,148,244	1,444,261
Additions through acquisition of entities	1,051,999	1,803,011	-	3,493,777	6,348,787
Disposals	-	-	-	(8,538)	(8,538)
Depreciation expense	-	(29,429)	-	(1,118,085)	(1,147,514)
Balance at end of year	1,051,999	1,773,582	296,017	6,867,920	9,989,518
Parent Entity:					
Balance at beginning of year	-	-	-	3,352,522	3,352,522
Additions	-	-	296,017	1,123,306	1,419,323
Additions through acquisition of entities	1,005,000	1,341,000	-	524,427	2,870,427
Disposals	-	-	-	(8,538)	(8,538)
Depreciation expense	-	(28,920)	-	(978,769)	(1,007,689)
Balance at end of year	1,005,000	1,312,080	296,017	4,012,948	6,626,045

Notes to the Financial Statements (Cont'd)

Note 11: Controlled Entities

On 3 April 2007, the company acquired 100% of Austbore Pty Ltd, a company incorporated in Australia, and was entitled to all profits earned from that date for a purchase consideration of $9,479,969. Full details of the effect of the acquisition are included in note 20b of these financial statements.

	2007		2006
	Economic Entity	Parent Entity	Economic Entity
	$	$	$
Note 12: Non-Current Assets – Intangible Assets			
Goodwill:			
Cost	9,596,334	2,705,768	-
Impairment losses	-	-	-
Net carrying value	9,596,334	2,705,768	-

Goodwill has arisen on the acquisition of the business of Kaldura Industries on 7 July 2006 and the acquisition of Austbore Pty Ltd on 3 April 2007.

Note 13: Current Liabilities – Payables			
Unsecured liabilities:			-
Trade creditors and accruals	10,615,909	10,178,948	9,558,441
Progress payments in advance	-	-	4,008,436
	10,615,909	10,178,948	13,566,877

Note 14: Current Liabilities – Interest-Bearing Liabilities			
Secured liabilities:			
Bank bill business loans	4,851,729	4,851,729	-
Bank commercial bill	430,000	430,000	430,000
Bank overdraft	-	-	66,338
Hire purchase and lease liabilities	823,907	175,556	195,768
	6,105,636	5,457,285	692,106

Hire purchase and lease liabilities are secured by a charge over the relevant assets.

Note 15: Current Liabilities – Income Tax Payable			
Income tax payable	1,711,448	1,151,367	1,604,097

Note 16: Current Liabilities – Provisions			
Employee leave entitlements	934,377	727,260	888,718
Other provisions	420,303	420,303	220,534
	1,354,680	1,147,563	1,109,252

Note 17: Non-Current Liabilities – Interest-Bearing Liabilities			
Bank commercial bill	750,000	750,000	1,150,000
Hire purchase and lease liabilities	1,997,567	621,352	668,502
	2,747,567	1,371,352	1,818,502

Security provided for the Company's banking facilities is in the form of a mortgage debenture (fixed and floating charge) over all assets and uncalled capital of the Company. Hire purchase and lease liabilities are secured by a charge over the relevant assets.

Notes to the Financial Statements (Cont'd)

	Economic and Parent Entity			
	2007	2007	2006	2006
	No.	$	No.	$
Note 18: Contributed Equity				
Ordinary shares:				
Balance at beginning of year	39,805,740	4,973,354	39,805,740	4,973,354
Issue of shares on exercise of Directors options	128,000	38,400	-	-
Issue of shares on exercise of Employee options	150,000	75,000	-	-
Issue of shares on completion of Shareholder Share Purchase plan (shares issued on 5 July 2007)	3,185,672	4,619,225	-	-
Transaction costs relating to share issues	-	(11,846)	-	-
Balance at end of year	43,269,412	9,694,133	39,805,740	4,973,354

	2007		2006
	Economic Entity	Parent Entity	Economic Entity
	$	$	$
Note 19: Retained Profits			
Balance at beginning of year	4,940,004	4,940,004	987,464
Net profit for the year	4,977,228	4,335,083	4,351,084
Dividends paid	(999,394)	(999,394)	(398,544)
Balance at end of year	8,917,838	8,275,693	4,940,004
Note 20: Cash Flow Information			
a) Reconciliation of cash flow from operations with profit from ordinary activities after tax			
Profit after income tax	4,977,228	4,335,083	4,351,084
Adjustment to profit after tax for non-cash flows:			
Depreciation	1,147,514	1,007,689	876,286
Gain on sale of property, plant and equipment	-	-	(2,731,158)
Changes in assets and liabilities:			
(Increase)/Decrease in trade debtors	325,555	56,288	(1,247,644)
Decrease in inventories	1,930,147	2,101,455	92,164
(Increase)/Decrease in prepayments and other assets	(1,153,020)	(1,110,227)	93,258
Increase/(Decrease) in trade creditors and accruals	(3,217,669)	(3,387,929)	1,439,809
Increase/(Decrease) in income taxes payable	(393,157)	(452,730)	1,164,588
Increase in provisions	53,454	38,312	447,640
Cash flow from operations	3,670,052	2,587,941	4,486,027

Notes to the Financial Statements (Cont'd)

	2007 Economic Entity	2007 Parent Entity	2006 Economic Entity
	$	$	$
Note 20: Cash Flow Information			
b) Acquisition of business and company			
The Company finalised and settled on the transaction to acquire the business of Kaldura Industries in Mackay on 7 July 2006. The details of the acquisition are as follows:			
Fair value of assets acquired:			
Property	2,346,000	2,346,000	-
Plant and equipment	524,427	524,427	-
Goodwill on acquisition	2,705,768	2,705,768	-
	5,576,195	5,576,195	-
The Company finalised and settled on the transaction to acquire Austbore Pty Ltd in Mackay on 3 April 2007. The details of the acquisition are as follows:			
Net purchase price paid on acquisition		9,479,969	-
Fair value of net assets acquired:			
Property	340,000	-	-
Plant and equipment	3,138,361	-	-
Inventories and work-in-progress	263,015	-	-
Trade receivables	2,638,680	-	-
Trade payables	(46,544)	-	-
Interest bearing liabilities	(884,111)	-	-
Provisions for employee leave liabilities and tax	(878,918)	-	-
Goodwill on acquisition	6,890,566	-	-
	11,461,049	9,479,969	-
Total acquisition costs	17,037,244	15,056,164	-
c) Reconciliation of cash			
Cash in bank and on hand	6,311,352	6,094,800	11,934,395
Bank overdraft	-	-	(66,338)
	6,311,352	6,094,800	11,868,057

Note 21: Leasing and Capital Commitments

	2007 Economic Entity	2007 Parent Entity	2006 Economic Entity
a) Hire purchase and finance lease commitments			
Payable:			
Not later than one year	977,425	225,324	225,324
Between one year and five years	2,254,649	653,499	878,823
Minimum Lease Payments	3,232,074	878,823	1,104,147
Less: future finance charges	(410,600)	(81,915)	(239,427)
	2,821,474	796,908	864,270

Plant and equipment is leased from Westpac Banking Corporation for periods lasting between one and five years. Lease payments are for fixed amounts over the term of the leases. Lease liabilities are secured by a charge over the leased assets.

	2007 Economic Entity	2007 Parent Entity	2006 Economic Entity
b) Operating lease commitments			
Payable:			
Not later than one year	1,514,028	1,275,528	1,137,312
Between one year and five years	5,280,987	5,102,112	4,549,248
Greater than five years	11,002,636	11,002,636	10,951,322
Total	17,797,651	17,380,276	16,637,882

Notes to the Financial Statements (Cont'd)

The Company has various property leases under non-cancellable arrangements expiring between 2 years and 15 years with rent payable monthly in advance. Contingent rental provisions within the lease agreements require that the minimum payments be increased by CPI or current market rental at various review periods. Options exist to renew the leases at the end of their term for additional periods and conditions. The leases allow for subletting of the lease areas.

	2007		2006
	Economic Entity	Parent Entity	Economic Entity
Note 21: Leasing and Capital Commitments	$	$	$
c) Capital commitments			
Property redevelopment and expansion	3,200,000	3,200,000	-
Plant and equipment purchases	-	-	358,000
Total	3,200,000	3,200,000	358,000
Note 22: Finance Facilities			
Commercial and bank business development loan facilities:			
Utilised	6,031,729	6,031,729	1,580,000
Unused facilities	5,538,271	5,538,271	-
	11,570,000	11,570,000	1,580,000
Overdraft facilities:			
Utilised	-	-	66,338
Unused facilities	1,450,000	850,000	783,662
	1,450,000	850,000	850,000
Guarantee facilities:			
Utilised	1,022,325	1,022,325	1,093,738
Unused facilities	487,675	487,675	416,262
	1,510,000	1,510,000	1,510,000

All banking facilities have been provided by Westpac Banking Corporation. Security is provided for the Company's banking facilities is in the form of a mortgage debenture (fixed and floating charge) over all assets and uncalled capital of the Company.

Commercial and bank business development loan facilities consist of the following:

$1,180,000 bank commercial bill facility:
A 10 year facility provided until 31 December 2014 with a fixed interest rate of 7.97% until 31 December 2009. The conditions of the facility require repayments rising from $70,000 per quarter during the first year to $130,000 per quarter in the fifth year. At 31 December 2009 the facility will be reviewed for repayments and interest rates applicable for the remaining five years of the term of the facility.

$10,390,000 bank business development loan facility:
A facility provided until the completion of the capital raising program, consisting of the Shareholder Share Purchase Plan and Placement as announced in May 2007, with a variable interest of 8.42% until 1 April 2009. After completion of the capital raising program, the facility reduces to $5,390,000. The conditions of the facility do not require any capital repayments in the period to 1 April 2009, at which time the facility will be reviewed for commencement of principal reductions.

Notes to the Financial Statements (Cont'd)

Note 23: Financial Instruments

a) Interest Rate Risk:
The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Floating Interest Rate	Fixed Rate Maturing Within: 1 Year	1 to 5 Years	Non Interest Bearing	Total	Weighted Average Interest Rate
	$	$	$	$	$	%
2007:						
Financial Assets:						
Cash	6,308,750	-	-	2,602	6,311,352	5.80
Receivables - trade	-	-	-	10,239,016	10,239,016	-
Other debtors	-	-	-	1,852,229	1,852,229	-
Total Financial Assets	6,308,750	-	-	12,093,847	18,402,597	
Financial Liabilities:						
Payables	-	-	-	10,615,909	10,615,909	-
Commercial bill	-	430,000	750,000	-	1,180,000	7.97
Business development loan	4,851,729	-	-	-	4,851,729	8.42
Bank overdraft	-	-	-	-	-	-
Lease liabilities	-	823,097	1,997,567	-	2,820,664	8.00
Total Financial Liabilities	4,851,729	1,253,097	2,747,567	10,615,909	19,468,302	
2006:						
Financial Assets:						
Cash	11,931,714	-	-	2,681	11,934,395	5.65
Receivables - trade	-	-	-	7,925,890	7,925,890	-
Other debtors	-	-	-	127,589	127,589	-
Total Financial Assets	11,931,714	-	-	8,056,160	19,987,875	
Financial Liabilities:						
Payables	-	-	-	13,566,877	13,566,877	-
Commercial bill	-	430,000	1,150,000	-	1,580,000	7.97
Bank bill business loans	-	-	-	-	-	-
Bank overdraft	66,338	-	-	-	66,338	9.45
Lease liabilities	-	195,768	668,502	-	864,270	7.95
Total Financial Liabilities	66,338	625,768	1,818,502	13,566,877	16,077,485	

b) Credit Risk:
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient security where appropriate as a means of mitigating the risk of financial loss from defaults. The Company measures credit risk on a fair-value basis. There is no significant concentration of credit risk and there are no expectations of non-performance of any obligations.

c) Net Fair-Value:
The carrying value of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk.

Note 24: Related Party Transactions
The persons who have held the positions of Director and executives of the Company during the year are detailed on page 3 of the Directors report. Director - related transactions are as follows:

Mr E. Fung is a partner in the law firm Phillips Fox. The firm provided legal services to the Company on normal commercial terms to the value of $32,577 during the year (2006: $48,807).

Mr P. Fitch was the Chairman of Oldenberg Stamler Australasia. The Company did not sell goods to Oldenberg Stamler during the year (2006: $12,166).

Notes to the Financial Statements (Cont'd)

Note 25: Contingent Liabilities

Bank guarantees are issued to third parties arising out of dealings in the normal course of business. The values of guarantees issued are shown in note 22.

Note 26: Post Balance Sheet Events

On 23 August 2007 the Company declared a fully-franked dividend of 3.5 cents per share for the financial year ended 30 June 2007. The dividend record date will be on 10 September 2007 and the dividend will be paid on 12 October 2007. This dividend has not been provided for in the 30 June 2007 financial statements.

On 5 July 2007 the Company completed the $6.9m capital raising program announced on 29 May 2007. Of this, $4,619,225 was raised from the Shareholder Share Purchase Plan aspect of the capital raising, involving the issue of 3,185,672 ordinary shares at $1.45 per share on 5 July 2007. A further $2,295,000 was raised from a Placement of shares, involving the issue of 1,500,000 ordinary shares at $1.53 per share on 12 July 2007.

Note 27: Key Management Personnel Compensation

a) Key Management Personnel
The names and positions of key management personnel of the economic and parent entities in office during the financial year are:

Person	Position
Michael Douglas Buckland	Managing Director
Peter George Fitch	Chairman (Non-Executive)
Eugene Fung	Director (Non-Executive)
Peter Louis George Pursey	Director (Non-Executive)
Colin Anderson	Chief Financial Officer and Company Secretary (Appointed 31 January 2007)
Johan Andersson	Chief Financial Officer and Company Secretary (Resigned 31 January 2007)

b) Compensation Practices
Refer to pages 7 to 9 of the Directors Report.

c) Key Management Compensation

	Salary/Fees	Bonuses	Motor Vehicle Benefits	Value of Options	Total
2007:	$	$	$	$	$
M.D. Buckland	232,540	63,000	23,226	63,192	381,958
P.G. Fitch	50,000	-	-	31,596	81,596
P.L. Pursey	45,000	-	-	31,596	76,596
E. Fung	45,000	-	-	31,596	76,596
C. Anderson (from 31 January 2007)	55,125	-	-	-	55,125
J. Andersson (to 31 January 2007)	83,984	-	-	10,532	94,516
Total	511,649	63,000	23,226	168,512	766,387
2006:					
M.D. Buckland	196,200	45,000	19,752	-	260,952
P.G. Fitch	50,000	-	-	-	50,000
P.L. Pursey	45,000	-	-	-	45,000
E. Fung	45,000	-	-	-	45,000
J. Andersson (from 19 August 2005)	115,687	-	-	-	115,687
C. Anderson (to 19 August 2005)	13,138	-	-	-	13,138
Total	465,025	45,000	19,752	-	529,777

The salaries and fees of Directors and Management Personnel are inclusive, where appropriate, of the 9% superannuation guarantee contribution required by the government. No other retirement benefits are payable to these individuals. 16% of M.D. Buckland's compensation was performance-related in 2007 (2006 - 17%).

The value of the options at the grant date were independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the options (where applicable), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Notes to the Financial Statements (Cont'd)

Note 27: Key Management Personnel Compensation

d) Shares issued on Exercise of Compensation Options

Options exercised during the year that were granted as compensation in prior or current periods were:

Key Management Personnel	No. of Ordinary Shares Issued	Amount Paid per Share (Fully Paid)
E. Fung	128,000	30 cents
J. Andersson	150,000	50 cents

e) Options Held by Key Management Personnel

	Balance at beginning of year	Granted during the year	Exercised during the year	Balance at end of year	Total Vested	Total Exercisable
	No.	No.	No.	No.	No.	No.
M.D. Buckland	500,000	500,000	-	1,000,000	1,000,000	1,000,000
P.G. Fitch	250,000	250,000	-	500,000	500,000	500,000
P.L. Pursey	250,000	250,000	-	500,000	500,000	500,000
E. Fung	250,000	250,000	(128,000)	372,000	372,000	372,000
C. Anderson	100,000	-	-	100,000	100,000	100,000
J. Andersson	-	150,000	(150,000)	-	-	-
Total	1,350,000	1,400,000	(278,000)	2,472,000	2,472,000	2,472,000

f) Shares held by Key Management Personnel

	Balance at beginning of year	Options exercised during the year	Purchased during the year	Sold during the year	Balance at end of year
	No.	No.	No.	No.	No.
M.D. Buckland	1,950,000	-	13,448	-	1,963,448
P.G. Fitch	100,000	-	3,448	-	103,448
P.L. Pursey	284,000	-	-	-	284,000
E. Fung	55,000	128,000	3,448	-	186,448
C. Anderson	20,000	-	3,448	-	23,448
J. Andersson	-	150,000	-	-	150,000
Total	2,409,000	278,000	23,792	-	2,710,792

Purchases during the year for M.D. Buckland, P.G. Fitch, E. Fung and C. Anderson include shares acquired under the Company's 2007 Shareholder Share Purchase Plan. The shares were issued on 5 July 2007.

g) Share-Based Payments

The following share-based payment arrangements existed at 30 June 2007:

- On 22 December 2004 a total of 1,250,000 share options were approved by shareholders and granted to M.D Buckland, P.G. Fitch, E. Fung and P.L. Pursey to take up ordinary shares at an exercise price of 30 cents each. The options are exercisable between 20 December 2004 and 20 December 2007. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, 128,000 of options were exercised by E. Fung, leaving 1,122,000 unexercised at the balance date.

- On 22 December 2004, 100,000 share options were approved by shareholders and granted to C. Anderson to take up ordinary shares at an exercise price of 55 cents each. The options are exercisable between 20 December 2004 and 20 December 2007. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, no options were exercised, leaving 100,000 unexercised at the balance date.

- On 25 August 2006 150,000 share options were granted to J. Andersson to take up ordinary shares at an exercise price of 50 cents each. The options are exercisable between 31 August 2006 and 31 August 2008. Shares issued upon exercise of the options are unable to be traded until after 31 August 2007. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, 150,000 were exercised, leaving none unexercised at the balance date.

Notes to the Financial Statements (Cont'd)

Note 27: Key Management Personnel Compensation

g) Share-Based Payments

- On 25 August 2006, 600,000 share options were granted to employees to take up ordinary shares at an exercise price of 50 cents each. The options are exercisable between 31 August 2006 and 31 August 2008. Shares issued upon exercise of the options are unable to be traded until after 31 August 2007. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, no options were exercised, leaving 600,000 unexercised at the balance date.

- On 17 November 2006, 1,250,000 share options were approved by shareholders and granted to M.D Buckland, P.G. Fitch, E. Fung and P.L. Pursey to take up ordinary shares at an exercise price of 60 cents each. The options are exercisable between 1 December 2006 and 1 December 2009. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, none of the options were exercised leaving 1,250,000 unexercised at the balance date.

All options granted are for ordinary shares in Austin Engineering Ltd which confer a right of one ordinary share for every option held. Share options outstanding and exercisable at the balance date are as follows:

	No.	Weighted Average Exercise Price $
Balance at beginning of year	1,350,000	0.32
Granted	2,000,000	0.56
Exercised	(278,000)	0.41
Balance at end of year	3,072,000	0.47

Directors' Declaration

In the opinion of the Directors of the Company:

a) the financial statements and notes, as set out in pages 18 to 33 of this report, are in accordance with the Corporations Act 2001 and:

   i) comply with the Accounting Standards in Australia and the Corporations Regulations 2001;

   ii) give a true and fair view of the financial position of the Company as at 30 June 2007 and of the Company's financial performance for the financial year ending on that date; and

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

The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from each of the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2007.

This declaration is made in accordance with a resolution of the Board of Directors on 20 September 2007 and is signed for and on behalf of the Board by:

Michael D. Buckland
Director

20 September 2007

ROTHSAY

Level 1, 2 Barrack Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001
Phone 9299 0091 Facsimile 9299 2595 E-mail swan2000@bigpond.com

The Directors
Austin Engineering Ltd
PO Box 64
Carole Park QLD 4300

Dear Sirs,

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2007 annual financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Frank Vrachas (Lead auditor)

Rothsay Chartered Accountants

19 September 2007

ROTHSAY

Level 1, 2 Barrack Street, Sydney NSW 2000 G.P.O. Box 2759, Sydney NSW 2001
Phone 9299 0091 Facsimile 9299 2595 E-mail swan2000@bigpond.com

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTIN ENGINEERING LTD

Scope

The financial report comprises the income statement, statement of changes in equity, balance sheet, statement of cashflows, accompanying notes, the disclosures made as required by AASB 124 *Related party disclosures* of the remuneration report in the Directors' report and the Directors' declaration of the Group comprising Austin Engineering Limited, the Company, and the entities it controlled at 30 June 2007 or from time to time during the financial year.

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

Audit approach

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

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

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

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

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

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.

Audit opinion

In our opinion:

1 the financial report of Austin Engineering Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of Austin Engineering Ltd and the consolidated entity as at 30 June 2007 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001;

2 the remuneration disclosures in the Directors' report comply with AASB 124 *Related Party Disclosures*.

Rothsay

Frank Vrachas
Partner

Dated 20 September 2007

Additional Information for Public Listed Companies

1. Substantial Shareholders at 12 September 2007
Michael D. Buckland, through direct and indirect shareholdings, was a substantial shareholder at 12 September 2007 and held 5.31% of the Company's issued share capital on that date.

2. Distribution of Shareholdings at 12 September 2007

Range of Holding	Number of Shareholders
1 - 1,000	517
1,001 – 5,000	1,153
5,001 – 10,000	522
10,001 – 100,000	620
100,001 and over	52
	2,864

3. Voting Rights
All ordinary shares issued by the Company carry one vote per share without restriction.

4. Twenty Largest Shareholders at 12 September 2007

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
ANZ Nominees Ltd	2,324,235	4.994
S J Quinlivan Pty Ltd	2,018,448	4.337
Invia Custodian Pty Ltd	1,753,448	3.768
Mr Michael Douglas Buckland	1,704,827	3.663
RBC Dexia Investor Services Australia Nominees Pty Ltd	1,515,475	3.256
National Nominees Ltd	1,209,491	2.599
Redcentre Pty Ltd	698,621	1.501
Mr Peter Fitch & Mrs Noreen Fitch (Vasbyt Superannuation Fund)	603,448	1.297
UBS Nominees Pty Ltd	567,113	1.219
Mr Peter Pursey & Mrs Helen Pursey (VB Account)	534,000	1.147
Deckeon Pty Ltd	513,376	1.103
Newfund Pty Ltd	500,000	1.074
Mt Livio Pietro Divitini (L P Divitini Family Account)	403,892	0.868
Mr Iain and Mrs Rachael Frances Hepburn (Hepburn Super Fund)	399,999	0.859
UBS Nominees Pty Ltd (TP00014 15 Account)	368,232	0.791
Katana Capital Ltd	366,000	0.786
WRG Investments Pty Ltd	330,010	0.709
Mr. Peter Howells	303,448	0.652
Newvest Pty Ltd (Country Lane Investment Account)	300,000	0.645
Vinelake Pty Ltd (Lamprecht Family Disc Account)	300,000	0.645
	16,714,063	35.912

5. Additional Information
There is no on-market buy-back currently in effect.

The Company has used cash and assets in a form readily convertible to cash at the date of admission in a manner consistent with its business activities.

Company Information

Registered Office and Brisbane Operation:
173 Cobalt Street
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Queensland, 4300
P: +61 7 3271 2622
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Western Australia Operation:
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Mackay Operations:
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55 Len Shield St.
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P: +61 7 4952 4533
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Austbore Pty Ltd
12-16 Progress Drive
Mackay
Queensland, 4740
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F: +61 7 4952 6223

Share Registry:
Advanced Share Registry Services
110 Stirling Highway, Nedlands, WA 6009
P.O. Box 1156
Nedlands
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P: +61 8 9389 8033
F: +61 7 9389 7871

Lawyers:
Phillips Fox
Waterfront Place
1 Eagle Street
Brisbane, 4000

Auditors:
Rothsay Chartered Accountants
Level 1
2 Barrack Street
Sydney
New South Wales, 2000

Bankers:
Westpac Banking Corporation
260 Queen Street
Brisbane
Queensland, 4000

Secretary:
Colin Anderson

Stock Exchange:
Australian Securities Exchange Limited

Home Exchange:
Brisbane

ASX Code:
ANG

Website:
www.austineng.com.au