



## **Annual Report 2008**

## **Chairman's Report**

Once again your company has completed a very successful year with revenue up 85% to \$106m, net profit after tax up 132% to \$11.5m and earnings per share up 97% to 24.73cps.

This has allowed the Board to declare a final fully franked dividend of 6.5cps bringing the total distribution for the year to 7.5cps, up 88% on the previous year, while retaining sufficient cash to fund the increased workload expected through 2009. The net assets of the company have also increased substantially as has the market capitalisation which now exceeds \$100m.

The strategic acquisitions of Kaldura Industries, now renamed Austin Mackay, and Austbore, also located in Mackay have contributed strongly to the results, this being the first full year contribution from Austbore.

We made our first offshore acquisition in November 2007 through the purchase of Western Technology Services Inc. ("Westech") located in Wyoming in the USA. This strategic acquisition has given Austin access to both the intellectual property from the pre-eminent designer of lightweight off highway truck bodies in the USA and the revenue from the extensive sales and manufacturing capabilities of Westech's Casper facility. In 2009 this will amount to a full 12 months contribution, which in itself will improve your company's revenue by more than 10% over 2008.

Access to Westech designs has furthermore been responsible for a major increase in orders from Australian mining companies for truck bodies for coal and iron ore mines and this interest in lightweight bodies is expected to extend to other mineral mines in 2009/2010. To support the increased sales our Perth operation has had to lease a further large workshop and we have had to move manufacture of some of the East Coast body orders from our Brisbane facility to the expanded Austin Mackay facility to maintain promised deliveries to prime customers.

We have previously reported on our initial joint venture in Oman and I am pleased to be able to report that this is now starting to produce some results as evidenced by the award of two contracts totalling \$4.5m to the joint venture company. We believe this marks the acceptance of our capabilities in the Persian Gulf and in view of the rapid expansion of aluminium production and the requirement for other specialised welding technology in the region, we see this as a very positive situation for the joint venture in the coming years.

Currently our major customers are all planning on-going expansions of their mines and we therefore feel our confidence in the continued organic growth of your company is well founded. We will continue to evaluate possible acquisitions in line with our corporate strategic planning however our performance requirements for any new purchase are stringent and only a few companies ever meet our requirements.

We are however confident that 2009 will show higher revenues and profit than 2008, whether or not we make a major acquisition. We already have a large proportion of our budgeted forward order book in place and with our dedicated management and workforce plus the additional facilities we have brought on line we expect 2009 to be another good year.

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



**Peter Fitch**  
Non-Executive Chairman

**Austin Engineering Ltd**  
*and its controlled entities*  
**Annual Report 2008**

**Directors' Report**

Your Directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Austin Engineering Limited and the entities it controlled during, and at the end of, the financial year ended 30 June 2008.

**Directors**

The following persons held the position of director throughout the course of the financial year:

*Managing Director:*  
Michael Buckland

*Chairman and Independent Non-Executive Director:*  
Peter Fitch

*Independent Non-Executive Directors:*  
Eugene Fung  
Peter Pursey

**Secretary**

Colin Anderson

**Principal Activities**

The principal activities of the group 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.

**Significant Changes in State of Affairs**

The parent entity (Austin Engineering Limited), through its newly-formed 100% owned subsidiary Austin Engineering USA Inc., acquired 100% of the issued shares of Western Technology Services Inc ("Westech") based in Casper, Wyoming, USA on 30 November 2007 for a purchase price of US\$19m.

**Review of Operations and Results**

|                                         | Increase | FY2008 | FY2007 |
|-----------------------------------------|----------|--------|--------|
|                                         | %        | \$m    | \$m    |
| Revenue                                 | 85%      | 106.34 | 57.50  |
| EBIT                                    | 133%     | 17.05  | 7.31   |
| PBT                                     | 131%     | 16.40  | 7.09   |
| NPAT                                    | 132%     | 11.54  | 4.97   |
| Basic earnings per share (cents)        | 99%      | 24.73  | 12.45  |
| Net assets                              | 70%      | 31.62  | 18.61  |
| Final dividend per share (cents)        | 86%      | 6.5    | 3.5    |
| Total annual dividend per share (cents) | 88%      | 7.5    | 4.0    |

(FY 2008 and FY2007 refers to the financial years ending 30 June 2008 and 30 June 2007 respectively)

**Operational Review**

Revenue was \$106.3m for the year ended 30 June 2008, against \$57.5m for the previous year, an increase of 85%. Over the course of FY2008 the group continued to experience strong demand for its products and services across all locations. Domestic revenue benefited from a full year's contribution from the Austbore business in Mackay (which contributed only three months in FY2007) following acquisition in April 2007) as well as a 65% growth in productive capacity in Perth and Mackay following the lease of a second workshop in Perth and the completion of a \$3.8m new workshop in Mackay. The growth in revenue across domestic operations was also achieved against a background of significantly reduced activity at the company's Kaldura operations in Mackay as a result of unprecedented flooding events and associated delays in the movement of equipment across the Central Queensland coalfields over January to March 2008.

The acquisition of Western Technology Services Inc. ("Westech") introduced new, overseas-based revenue streams to the group's operations including mining product revenue from the North American and Canadian resources sector and fees from the licensing of Westech dump truck bodies to the South American mining market. Westech contributed seven months of revenue in the financial year ended 30 June 2008 following its acquisition by the company in late November 2007.

**Result for the Financial Year**

Earnings before interest and tax increased by 133% to just under \$17.1m, up from \$7.3m in the previous financial year. The increase in EBIT profitability was largely driven by the growth in revenue, a high level of capacity utilisation across all operations and increased contributions from Austbore and Westech. As previously reported, the flooding in Central Queensland resulted in three months of lost contribution from the group's Kaldura operations in Mackay. Westech produced a result ahead of expectations and enjoyed a high workload level from a solid North American mining and resources sector, despite the adverse conditions in the wider economic environment in the region.

Profit before tax of \$16.4m, up 131% from \$7.1m in the previous financial year, reflected the increased performance from underlying operations and included the effect of seven months of US dollar-denominated interest cost resulting from a US\$19m bank loan that was drawn-down upon the acquisition of Westech.

**Financial Position**

Net assets increased from \$18.6m to \$31.6m, up 70% from the previous financial year. The increase in total assets reflected the growth in the group's profitability as well as US\$14m of net assets acquired upon the acquisition of Westech. US\$19m was expended on purchasing the Westech business and the US\$5m of corresponding goodwill, together with associated acquisition costs of \$0.6m, were included in net assets at the end of the financial year. The levels of working capital at the end of the financial year were consistent with the increased level of activity throughout and leading up to the end of the financial year.

## **Directors' Report**

### **Review of Operations and Results**

#### **Cash Flow and Liquidity**

The group generated \$13.5m of net operational cash inflow over the year, up from \$3.7m in FY2007. Increased operational cash flow was in correlation with NPAT for the year and included \$4.0m of payments in company income tax.

Operational cash inflow during the year was used to support the significant redevelopment of the Kaldura workshop in Mackay, with almost \$3.8m being expended in the establishment of a modern facility with the capacity to lift components of up to 90 tons. This new facility positions the group to take advantage of the expected growth in mining operations in the Central Queensland coalfields and the corresponding requirement for maintenance of heavy mining products. \$0.5m was also expended on a spare block of land adjacent to the Austbore facility and this has the potential for the establishment of additional workshop operations.

The purchase of Westech for US\$19m was accommodated by the utilisation of an equivalent US\$19m bank loan. Other non-operational cash flows included \$8.0m of repayments of previous borrowings, mainly associated with planned repayments of finance leases and debt associated with the purchase of Austbore. In addition, \$2.1m was raised from the completion of a share placement in early July 2007.

Free cash resources at the end of the financial year were \$5.8m, compared to \$6.3m at the end of the previous financial year. The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

#### **Debt**

At the end of the financial year, the balance sheet included two components of debt - a US\$19m bank loan for the purchase of Westech and \$2.0m of finance lease and hire purchase obligations.

The US\$19m loan, which is interest-only and not due for repayment before late November 2009, is an 'evergreen'-type facility and part of an overall \$38m bank funding facility granted by the group's Australian principal banker, reviewed annually. Interest on the loan attracts US interest rates and at the end of the financial year was less than 4%. The loan also has a facility for locking interest at a fixed rate. The loan has three covenants, none of which are related to the company's share price or market capitalisation, and the company was in compliance with these at the end of the financial year. EBIT interest cover for the financial year ended 30 June 2008 was just under 21 times.

#### **Dividends**

Dividends paid to members included a final dividend of 3.5c per share (total - \$1,623,701) on 12 October 2007 in respect of FY2007 and an interim dividend of 1.0c per share (total - \$469,414) on 28 March 2008 for FY2008. The interim dividend for FY2008 was up 100% from the interim dividend for FY2007. A final dividend of 6.5c per share (total - \$3,060,942) has been declared for FY2008, bringing the total dividend for the year to 7.5c per share, an increase of 88% over the previous full year dividend. All dividends are fully franked.

#### **After Balance Date Events**

No material event has arisen after the end of the financial year that requires to be recognised in the financial statements.

#### **Outlook**

The group enters the new FY2009 financial year with another record order book and a high level of forward activity stretching well into the year across all of its operations. Economic conditions in the mining and resources business sector are expected to remain very strong, as evidenced by further orders received more recently and a high level of enquiries from, and submission of tenders to, the group's customers. As previously reported, particular focus is being given to expanding the company's operations overseas as well as increasing productive capacity and capabilities to meet ongoing and strengthening demand for the company's products and services. Further growth in all key financial measures is expected for FY2009.

#### **Technology**

The group continues to have a strong focus on the development and introduction of automated welding technology to secure improvements in productivity, growth in productive capacity and to mitigate the impact of shortages in skilled labour. Further investment in automated welding technology is planned across the group in FY2009, together with expenditure on other capital equipment directed towards securing improvements in logistics and productivity.

#### **Environmental Issues**

The group has blasting and painting facilities at its Brisbane operation and these are subject to environmental regulation. A licence to operate this facility has been granted.

#### **Information on Directors**

##### **Michael Buckland, Managing Director since 2003**

Michael Buckland is a mechanical engineer with 25 years' experience encompassing operational, business development and senior management positions with several large engineering organisations. He held a variety of general management positions with the ANI Group from 1979 to 1998, which were chiefly within fabrication and engineering operations in Australia and overseas. 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 aiEngineering 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 2008: 2,463,448 ordinary shares and 1,000,000 options.

Directorships held in other listed entities: none

##### **Peter G. Fitch, Non-Executive Chairman since 2004**

Peter Fitch is a qualified engineer who has over 36 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 2008: 603,448 ordinary shares and 250,000 options.

Directorships held in other listed entities: none.

## **Directors' Report**

### **Information on Directors**

#### ***Peter Pursey, AM, Non-Executive Director since 2004***

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 2008: 534,000 ordinary shares and 500,000 options.

Directorships held in other listed entities: none.

#### ***Eugene Fung, Non-Executive Director since 2004***

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 2008: 558,448 ordinary shares and 250,000 options.

Directorships held in other listed entities: none.

### **Information on Company Secretary**

#### ***Colin Anderson, Company Secretary since January 2007***

Colin Anderson is a chartered accountant with over 23 years' experience encompassing strategic business planning, financial control and systems development with a number of engineering and manufacturing companies in Australia and overseas. He was as a member of the formative senior management team when the Austin Engineering business was purchased in 2003 and chief financial officer and company secretary up to August 2005 and he rejoined the group on 31 January 2007.

## **Remuneration Report**

Remuneration levels for directors and senior executives of the group 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 group'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 group. 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 group.

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 \$152,180 was paid in 2008.

In order to align the interests of shareholders and non-executive directors, the group's policy is to grant options over unissued shares to non-executive directors, but subject to shareholders approval.

### ***Executive directors and senior executives:***

All remuneration paid to executive directors and senior executives is valued at cost to the executive remuneration and 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

### ***Base pay and benefits:***

Executive directors and senior executives are offered a competitive base pay with due regard to current market rates. This base pay is calculated on a total cost basis and may include charges associated with the provision of 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.

## Directors' Report

### Remuneration Report

#### 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 cash bonus payments based on the achievement of the KPIs as specified in his executive service agreement. These KPIs include the achievement of each of the group's business units and the group as a whole achieving budgeted profit and cash flow targets and the completion of a new major new offshore contract generating set revenue and profit targets.

In addition to the foregoing, the managing director is entitled, after the end of any financial year, to 50,000 ordinary shares in the company at nil cost where the volume weighted average price of the company's shares in the twenty trading days after the release of the company's full year final audited financial statements exceeds a pre-determined target share price. The target share price is set at the beginning of the financial year and takes into account forecast net profit after tax for the forthcoming financial year, industry price-earnings multiples and the number of shares on issue.

Short-term incentives paid to senior executives are made on a discretionary basis as determined by the managing director. 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 budgeted profit, cash flow, and various performance targets specific for each area of operational responsibility.

The KPIs set for executive directors and senior executives are the significant profit and cash flow drivers which are linked to the company's growth and profitability and hence shareholder value. Performance is measured against budgets as this is the most accurate measure available against which to assess the achievement of the KPIs. No bonus is awarded where performance falls below the minimum acceptable KPI levels as determined by the board or the managing director.

#### Long-term incentives:

Long-term performance incentives are delivered through the grant of options to executive directors, non-executive directors and to selected senior executives. The issue of options to executive and non-executive directors and senior executives is 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.

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth since the company listed on the Australian Securities Exchange in March 2004 and forms the background against which the grant of options over the relevant periods has been considered:

|                                           | 30 June 2008 | 30 June 2007 | 30 June 2006* | 30 June 2005 | 30 June 2004** |
|-------------------------------------------|--------------|--------------|---------------|--------------|----------------|
| Revenue (\$000s)                          | 106,343      | 57,500       | 48,883        | 38,327       | 15,533         |
| Earnings before interest and tax (\$000s) | 17,050       | 7,310        | 2,680         | 2,019        | 878            |
| Profit after tax (\$000s)                 | 11,536       | 4,977        | 1,620         | 1,190        | 676            |
| Share price at start of year (\$)         | 1.83         | 0.41         | 0.29          | 0.29         | 0.20           |
| Share price at end of year (\$)           | 2.09         | 1.83         | 0.41          | 0.28         | 0.29           |
| Interim dividend - fully franked (cents)  | 1.0          | 0.5          | -             | -            | -              |
| Final dividend - fully franked (cents)    | 6.5          | 3.5          | 2.0           | 1.0          | -              |
| Basic earnings per share (cents)          | 24.73        | 12.45        | 4.07          | 3.33         | 1.89           |
| Diluted earnings per share (cents)        | 23.44        | 11.74        | 3.94          | 3.04         | 1.89           |

\*excludes gain on sale of properties      \*\*initial share price at date of listing

#### Details of remuneration

Amounts paid or payable, or otherwise made available to directors and senior executives were:

|                                 | Short-Term Benefits |            |               | Post-Employment Benefits | Equity-Settled | Total     | Total % Remuneration Linked to Performance | Total % Remuneration Represented by Options |
|---------------------------------|---------------------|------------|---------------|--------------------------|----------------|-----------|--------------------------------------------|---------------------------------------------|
|                                 | Salary & Fees       | Cash Bonus | Motor Vehicle | Super-annuation          | Options        | \$        | %                                          | %                                           |
| <b>2008:</b>                    |                     |            |               |                          |                |           |                                            |                                             |
| <b>Executive Director:</b>      |                     |            |               |                          |                |           |                                            |                                             |
| Michael Buckland                | 295,009             | 99,000     | 32,040        | 26,551                   | 135,000        | 587,600   | 17                                         | 23                                          |
| <b>Non-Executive Directors:</b> |                     |            |               |                          |                |           |                                            |                                             |
| Peter Fitch                     | 54,041              | -          | -             | -                        | 67,500         | 121,541   | -                                          | 56                                          |
| Eugene Fung                     | 49,126              | -          | -             | -                        | 67,500         | 116,626   | -                                          | 58                                          |
| Peter Pursey                    | 49,013              | -          | -             | -                        | 67,500         | 116,513   | -                                          | 58                                          |
|                                 | 152,180             | -          | -             | -                        | 202,500        | 354,680   |                                            |                                             |
| <b>Senior Executives:</b>       |                     |            |               |                          |                |           |                                            |                                             |
| Colin Anderson                  | 156,590             | -          | -             | 14,093                   | 14,535         | 185,218   | -                                          | 8                                           |
| <b>Total</b>                    | 603,779             | 99,000     | 32,040        | 40,644                   | 352,035        | 1,127,498 |                                            |                                             |

## Directors' Report

### Remuneration Report

#### Details of remuneration

The cash bonus paid to Michael Buckland in the year ended 30 June 2008 was granted in September 2007 and represented 100% of the bonus that vested. The bonus was paid on the achievement of predetermined profit and business development KPI targets set for the financial year.

|                          | Short-Term Benefits |                  |                     | Post-Employment Benefits | Equity-Settled | Total   | Total % Remuneration Linked To Performance | Total % Remuneration Represented by Options |
|--------------------------|---------------------|------------------|---------------------|--------------------------|----------------|---------|--------------------------------------------|---------------------------------------------|
|                          | Salary & Fees<br>\$ | Cash Bonus<br>\$ | Motor Vehicle<br>\$ | Super-annuation<br>\$    | Options<br>\$  | \$      | %                                          | %                                           |
| <b>2007:</b>             |                     |                  |                     |                          |                |         |                                            |                                             |
| Executive Director:      |                     |                  |                     |                          |                |         |                                            |                                             |
| Michael Buckland         | 213,340             | 63,000           | 23,226              | 19,200                   | 63,192         | 381,958 | 16                                         | 17                                          |
| Non-Executive Directors: |                     |                  |                     |                          |                |         |                                            |                                             |
| Peter Fitch              | 50,000              | -                | -                   | -                        | 31,596         | 81,596  | -                                          | 39                                          |
| Eugene Fung              | 45,000              | -                | -                   | -                        | 31,596         | 76,596  | -                                          | 41                                          |
| Peter Pursey             | 45,000              | -                | -                   | -                        | 31,596         | 76,596  | -                                          | 41                                          |
|                          | 140,000             | -                | -                   | -                        | 94,788         | 234,788 |                                            |                                             |
| Senior Executives:       |                     |                  |                     |                          |                |         |                                            |                                             |
| Colin Anderson           | 50,573              | -                | -                   | 4,552                    | -              | 55,125  | -                                          | -                                           |
| Johan Andersson          | 77,050              | -                | -                   | 6,934                    | 10,532         | 94,516  | -                                          | 11                                          |
| Total                    | 480,963             | 63,000           | 23,226              | 30,686                   | 168,512        | 766,387 |                                            |                                             |

#### Service Agreements:

Remuneration for executive directors and senior executives are formalised in service agreements.

Michael Buckland has an executive service agreement dated 30 June 2008 with Austin Engineering Limited. The agreement lasts until 30 June 2011. The agreement can be terminated by either party providing six months written notice or immediately in the case of gross misconduct. If the company terminates employment for non-performance, then the company can make a payment in lieu of notice of three months' remuneration and benefits. If the company terminates employment for a reason other than incapacity, misconduct or non-performance, then a termination payment will be paid equal to the salary and superannuation that would have been paid for the remainder of the term of the agreement.

Colin Anderson, Chief Financial Officer and Company Secretary, has an employment contract with Austin Engineering Limited dated 13 December 2006. There is no prescribed duration in the contract, which can be terminated with three months notice by either party. There is no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments.

#### Share-based compensation

Options are issued to directors and senior executives from time to time as part of their remuneration. The options are not based on performance criteria but are issued to align the interests of directors, executives and shareholders. During the year, the following options were issued:

|                          | Number  | Grant Date  | Vesting Period | First Exercise Date | Last Exercise And Expiry Date | Value per Option at Grant Date | Exercise Price | Number and % Vested |
|--------------------------|---------|-------------|----------------|---------------------|-------------------------------|--------------------------------|----------------|---------------------|
|                          |         |             |                |                     |                               | \$                             | \$             |                     |
| Executive Director:      |         |             |                |                     |                               |                                |                |                     |
| Michael Buckland         | 500,000 | 23 Nov 2007 | Nil            | 23 Nov 2007         | 23 Nov 2010                   | 0.27                           | 2.00           | 500,000 (100%)      |
| Non-Executive Directors: |         |             |                |                     |                               |                                |                |                     |
| Peter Fitch              | 250,000 | 23 Nov 2007 | Nil            | 23 Nov 2007         | 23 Nov 2010                   | 0.27                           | 2.00           | 250,000 (100%)      |
| Eugene Fung              | 250,000 | 23 Nov 2007 | Nil            | 23 Nov 2007         | 23 Nov 2010                   | 0.27                           | 2.00           | 250,000 (100%)      |
| Peter Pursey             | 250,000 | 23 Nov 2007 | Nil            | 23 Nov 2007         | 23 Nov 2010                   | 0.27                           | 2.00           | 250,000 (100%)      |
| Senior Executives:       |         |             |                |                     |                               |                                |                |                     |
| Colin Anderson           | 200,000 | 1 Sept 2007 | 2 years        | 1 Sept 2009         | 1 Sept 2010                   | 0.32                           | 1.90           | Nil                 |

None of the options detailed above were forfeited. The options were issued at no cost to the recipients. Options carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The amounts disclosed for emoluments relating to options are the assessed fair values at grant date using, where appropriate, a Black Scholes pricing model that takes into account the exercise price, the term of the option, the share price at grant date, expected price volatility and dividend yield of the underlying share and the risk-free interest rate for the term of the option. The options of the executive and non-executive directors vested immediately on issue. The options of Colin Anderson vest after two years of employment with the company.

**Austin Engineering Ltd**  
and its controlled entities  
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**Directors' Report**

**Remuneration Report**  
**Share-based compensation**

During the year, the following options were exercised:

|                                         | Number of<br>Ordinary<br>Shares<br>Issued | Amount<br>Paid<br>per Share | Fair Value of<br>Options at<br>Exercise Date | Fair Value of<br>Options<br>Lapsed |
|-----------------------------------------|-------------------------------------------|-----------------------------|----------------------------------------------|------------------------------------|
|                                         | No.                                       | \$                          | \$                                           | \$                                 |
| Executive Director:<br>Michael Buckland | 500,000                                   | 0.30                        | 1.79                                         | -                                  |
| Non-Executive Directors:                |                                           |                             |                                              |                                    |
| Peter Fitch                             | 250,000                                   | 0.30                        | 1.79                                         | -                                  |
| Peter Fitch                             | 250,000                                   | 0.60                        | 1.79                                         | -                                  |
| Eugene Fung                             | 122,000                                   | 0.30                        | 1.79                                         | -                                  |
| Eugene Fung                             | 250,000                                   | 0.60                        | 3.21                                         | -                                  |
| Peter Pursey                            | 250,000                                   | 0.30                        | 1.79                                         | -                                  |
| Senior Executives:                      |                                           |                             |                                              |                                    |
| Colin Anderson                          | 100,000                                   | 0.55                        | 1.79                                         | -                                  |

The number of shares issued was equivalent to the number of options exercised. The fair value represents the market price of the company's shares on the date of exercise of the options. There were no amounts unpaid on shares issued as a result of the exercise of options in 2008.

Unexercised options at 30 June 2008 were as follows:

|                             | Number  | Grant<br>Date | Vesting<br>Period | First<br>Exercise<br>Date | Last<br>Exercise<br>and Expiry<br>Date | Value per<br>Option at<br>Grant Date | Exercise<br>Price | Number and %<br>Vested |
|-----------------------------|---------|---------------|-------------------|---------------------------|----------------------------------------|--------------------------------------|-------------------|------------------------|
|                             |         |               |                   |                           |                                        | \$                                   | \$                |                        |
| Executive<br>Director:      |         |               |                   |                           |                                        |                                      |                   |                        |
| Michael Buckland            | 500,000 | 23 Nov 2007   | Nil               | 23 Nov 2007               | 23 Nov 2010                            | 0.27                                 | 2.00              | 500,000 (100%)         |
| Michael Buckland            | 500,000 | 17 Nov 2006   | Nil               | 1 Dec 2006                | 1 Dec 2009                             | 0.13                                 | 0.60              | 500,000 (100%)         |
| Non-Executive<br>Directors: |         |               |                   |                           |                                        |                                      |                   |                        |
| Peter Fitch                 | 250,000 | 23 Nov 2007   | Nil               | 23 Nov 2007               | 23 Nov 2010                            | 0.27                                 | 2.00              | 250,000 (100%)         |
| Eugene Fung                 | 250,000 | 23 Nov 2007   | Nil               | 23 Nov 2007               | 23 Nov 2010                            | 0.27                                 | 2.00              | 250,000 (100%)         |
| Peter Pursey                | 250,000 | 23 Nov 2007   | Nil               | 23 Nov 2007               | 23 Nov 2010                            | 0.27                                 | 2.00              | 250,000 (100%)         |
| Peter Pursey                | 250,000 | 17 Nov 2006   | Nil               | 1 Dec 2006                | 1 Dec 2009                             | 0.13                                 | 0.60              | 250,000 (100%)         |
| Senior<br>Executives:       |         |               |                   |                           |                                        |                                      |                   |                        |
| Colin Anderson              | 200,000 | 1 Sept 2007   | 2 years           | 1 Sept 2009               | 1 Sept 2010                            | 0.32                                 | 1.90              | Nil                    |

**Options**

At the date of this report, the total number of unissued ordinary shares of Austin Engineering Limited under option was as follows:

| Number<br>of Options | Exercise<br>Price | Expiry<br>Date |
|----------------------|-------------------|----------------|
| 100,000              | \$0.50            | 31 Aug 2008    |
| 750,000              | \$0.60            | 1 Dec 2009     |
| 650,000              | \$1.90            | 1 Sept 2010    |
| 1,250,000            | \$2.00            | 23 Nov 2010    |
| <u>2,750,000</u>     |                   |                |

During the year ended 30 June 2008 the following ordinary shares of Austin Engineering Limited were issued on exercise of options granted previously to directors and under the Austin Engineering Limited employee option plan.

| Number<br>of Shares | Issue Price<br>of<br>Shares | Grant<br>Date |
|---------------------|-----------------------------|---------------|
| 1,122,000           | \$0.30                      | 20 Dec 2004   |
| 100,000             | \$0.55                      | 20 Dec 2004   |
| 500,000             | \$0.50                      | 31 Aug 2008   |
| 500,000             | \$0.60                      | 1 Dec 2009    |
| <u>2,222,000</u>    |                             |               |

## Directors' Report

### Meetings of Directors

The number of meetings of the board of directors and the audit committee during the year was:

|                  | <u>Board of Directors</u> |                 | <u>Audit Committee</u>    |                 |
|------------------|---------------------------|-----------------|---------------------------|-----------------|
|                  | <u>Eligible to Attend</u> | <u>Attended</u> | <u>Eligible to Attend</u> | <u>Attended</u> |
| Michael Buckland | 11                        | 11              | -                         | -               |
| Peter Fitch      | 11                        | 10              | 3                         | 2               |
| Peter Pursey     | 11                        | 11              | 3                         | 3               |
| Eugene Fung      | 11                        | 11              | 3                         | 3               |

### 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 also paid premiums in respect of directors and officers liability. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### Proceedings on behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the company or group or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company or group was not a party to any such proceedings during the year.

### Non-Audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditors' independence for the following reasons:

- All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure that they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110; Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standard Board.

The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2008:

|                                   |               |
|-----------------------------------|---------------|
|                                   | \$            |
| Auditors of the parent entity:    |               |
| Taxation services                 | 2,406         |
| Corporate advisory services       | <u>19,537</u> |
|                                   | <u>21,943</u> |
| Auditors of subsidiary companies: |               |
| Taxation services                 | <u>16,034</u> |

### Auditors' Independence Declaration

A copy of the lead auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out in page 9.

### Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the directors:



**Michael Buckland**

Director  
16 September 2008



**DECLARATION OF INDEPENDENCE  
BY PAUL GALLAGHER TO THE DIRECTORS OF AUSTIN ENGINEERING LIMITED**

As lead auditor of Austin Engineering Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Austin Engineering Limited and the entities it controlled during the period.

**BDO Kendalls (Qld)**  
Chartered Accountants



**P Gallagher**  
Partner

Dated at Brisbane this 15<sup>th</sup> day of September 2008

## **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 processes to protect the interests and assets of shareholders and to ensure the highest standard of integrity and governance of the company.

The Australian Securities Exchange Corporate Governance Council sets out best practice recommendations including corporate governance practices and suggested disclosures. ASX Listing Rule 4.10.3 requires companies to disclose the extent to which they have complied with the ASX recommendations and to give reasons for not following them.

Unless otherwise indicated, the best practice recommendations of the ASX Corporate Governance Council, including corporate governance practices and suggested disclosures, have been adopted by the company for the year ended 30 June 2008 as 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.

### **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 3 and 4 of this annual report. 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:

- *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

## **Corporate Governance Statement**

### **Composition of the Board**

- (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.

## **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. Directors and officers may not deal in any of the company's securities at any time if they have inside information. A director or 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.

A director or 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.

Directors and 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.

## **Corporate Governance Statement**

### **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 2008 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.

#### ***Audit Committee***

The audit committee consists of:

Peter Pursey (Chairman)

Peter Fitch

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 continue to 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 recognises 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 a website and all information disclosed to ASX will be promptly placed on the 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.

## **Corporate Governance Statement**

### **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 recognises 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 them;
- enabling them to have access to balanced and understandable information about the company, its operations and proposals;
- assisting shareholders participation in general meetings.

#### ***Communications Strategy***

All shareholders are entitled to receive a copy of the company's annual and half-yearly reports. In addition, the company's website provides 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.

### **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 RESPONSIBLY**

#### ***Remuneration Policy***

Details on the remuneration of directors and executives are set out in the remuneration report contained in the directors report as well as in notes 5 and 27.

#### ***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 recognises 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 monitoring and adherence to this code.

**Income statement for the year ended 30 June 2008**

|                                                                              | Notes | 2008          |              | 2007         |              |
|------------------------------------------------------------------------------|-------|---------------|--------------|--------------|--------------|
|                                                                              |       | Consolidated  | Parent       | Consolidated | Parent       |
|                                                                              |       | Entity        | Entity       | Entity       | Entity       |
|                                                                              |       | \$000         | \$000        | \$000        | \$000        |
| Revenues from continuing operations                                          | 2     | 106,343       | 71,156       | 57,500       | 54,578       |
| Raw materials and consumables expenses                                       |       | (36,524)      | (27,897)     | (19,589)     | (18,880)     |
| Employment expenses                                                          |       | (37,184)      | (23,203)     | (21,116)     | (20,315)     |
| Subcontractor expenses                                                       |       | (2,160)       | (1,558)      | (2,361)      | (2,265)      |
| Occupancy and utility expenses                                               |       | (2,932)       | (2,310)      | (1,790)      | (1,711)      |
| Depreciation and amortisation expense                                        |       | (1,807)       | (1,105)      | (1,148)      | (1,008)      |
| Other expenses from ordinary activities                                      |       | (8,503)       | (5,068)      | (3,992)      | (3,833)      |
| Finance costs                                                                | 3     | (834)         | (683)        | (407)        | (373)        |
| Profit before income tax                                                     | 3     | 16,399        | 9,332        | 7,097        | 6,193        |
| Income tax expense                                                           | 4     | (4,863)       | (2,569)      | (2,120)      | (1,858)      |
| <b>Profit for the full year attributable to members of the parent entity</b> |       | <b>11,536</b> | <b>6,763</b> | <b>4,977</b> | <b>4,335</b> |
| <b>Earnings per share:</b>                                                   |       |               |              |              |              |
| Basic earnings per share (cents)                                             | 8     | 24.73         |              | 12.45        |              |
| Diluted earnings per share (cents)                                           | 8     | 23.44         |              | 11.74        |              |

The accompanying notes form an integral part of the income statement.

**Austin Engineering Ltd**  
*and its controlled entities*  
**Annual Report 2008**

**Balance Sheet as at 30 June 2008**

|                                      |       | 2008                            |                           | 2007                            |                           |
|--------------------------------------|-------|---------------------------------|---------------------------|---------------------------------|---------------------------|
|                                      | Notes | Consolidated<br>Entity<br>\$000 | Parent<br>Entity<br>\$000 | Consolidated<br>Entity<br>\$000 | Parent<br>Entity<br>\$000 |
| <b>Current Assets</b>                |       |                                 |                           |                                 |                           |
| Cash and cash equivalents            | 9     | 5,810                           | 4,535                     | 6,311                           | 6,095                     |
| Trade and other receivables          | 10    | 22,695                          | 16,074                    | 10,239                          | 7,870                     |
| Inventories                          | 11    | 11,500                          | 5,233                     | 3,159                           | 2,724                     |
| Other                                | 12    | 1,172                           | 18,897                    | 1,852                           | 1,776                     |
| <b>Total Current Assets</b>          |       | <b>41,177</b>                   | <b>44,739</b>             | <b>21,561</b>                   | <b>18,465</b>             |
| <b>Non-Current Assets</b>            |       |                                 |                           |                                 |                           |
| Property, plant and equipment        | 13    | 21,846                          | 10,176                    | 9,990                           | 6,626                     |
| Other financial assets               | 14    | 1,717                           | 20,135                    | -                               | 9,480                     |
| Intangible assets                    | 15    | 16,752                          | 2,706                     | 9,596                           | 2,705                     |
| Deferred tax assets                  | 19    | 1,329                           | 333                       | -                               | -                         |
| <b>Total Non-Current Assets</b>      |       | <b>41,644</b>                   | <b>33,350</b>             | <b>19,586</b>                   | <b>18,811</b>             |
| <b>Total Assets</b>                  |       | <b>82,821</b>                   | <b>78,089</b>             | <b>41,147</b>                   | <b>37,276</b>             |
| <b>Current Liabilities</b>           |       |                                 |                           |                                 |                           |
| Trade and other payables             | 16    | 26,044                          | 29,279                    | 10,616                          | 10,179                    |
| Financial liabilities                | 17    | 548                             | 120                       | 6,106                           | 5,457                     |
| Current tax liabilities              | 18    | 1,124                           | 1,088                     | 1,711                           | 1,151                     |
| Provisions                           | 20    | 1,867                           | 887                       | 1,355                           | 1,148                     |
| <b>Total Current Liabilities</b>     |       | <b>29,583</b>                   | <b>31,374</b>             | <b>19,788</b>                   | <b>17,935</b>             |
| <b>Non-Current Liabilities</b>       |       |                                 |                           |                                 |                           |
| Financial liabilities                | 17    | 21,291                          | 20,379                    | 2,747                           | 1,371                     |
| Deferred tax liabilities             | 19    | 324                             | 5                         | -                               | -                         |
| <b>Total Non-Current Liabilities</b> |       | <b>21,615</b>                   | <b>20,384</b>             | <b>2,747</b>                    | <b>1,371</b>              |
| <b>Total Liabilities</b>             |       | <b>51,198</b>                   | <b>51,758</b>             | <b>22,535</b>                   | <b>19,306</b>             |
| <b>Net Assets</b>                    |       | <b>31,623</b>                   | <b>26,331</b>             | <b>18,612</b>                   | <b>17,970</b>             |
| <b>Equity</b>                        |       |                                 |                           |                                 |                           |
| Contributed equity                   | 21    | 13,000                          | 13,000                    | 9,694                           | 9,694                     |
| Retained profits                     |       | 18,361                          | 12,946                    | 8,918                           | 8,276                     |
| Reserves                             | 22    | 262                             | 385                       | -                               | -                         |
| <b>Total Equity</b>                  |       | <b>31,623</b>                   | <b>26,331</b>             | <b>18,612</b>                   | <b>17,970</b>             |

The accompanying notes form an integral part of the balance sheet

**Statement of changes in equity for the year ended 30 June 2008**

|                                              | Contributed<br>Equity<br>\$000 | Retained<br>Profits<br>\$000 | Reserves<br>\$000 | Total<br>\$000 |
|----------------------------------------------|--------------------------------|------------------------------|-------------------|----------------|
| <b>Consolidated Entity</b>                   |                                |                              |                   |                |
| Opening balance at 1 July 2006               | 4,973                          | 4,940                        | -                 | 9,913          |
| Profit for the year                          | -                              | 4,977                        | -                 | 4,977          |
| Issue of shares                              | 4,721                          | -                            | -                 | 4,721          |
| Dividends paid                               | -                              | (999)                        | -                 | (999)          |
| Closing balance at 30 June 2007              | 9,694                          | 8,918                        | -                 | 18,612         |
| Opening balance at 1 July 2007               | 9,694                          | 8,918                        | -                 | 18,612         |
| Profit for the year                          | -                              | 11,536                       | -                 | 11,536         |
| Issue of shares                              | 3,136                          | -                            | -                 | 3,136          |
| Dividends paid                               | -                              | (2,093)                      | -                 | (2,093)        |
| Deferred tax adjustment on share issue costs | 170                            | -                            | -                 | 170            |
| Options reserve movement                     | -                              | -                            | 385               | 385            |
| Foreign exchange reserve movement            | -                              | -                            | (123)             | (123)          |
| <b>Closing balance at 30 June 2008</b>       | <b>13,000</b>                  | <b>18,361</b>                | <b>262</b>        | <b>31,623</b>  |
| <b>Parent Entity</b>                         |                                |                              |                   |                |
| Opening balance at 1 July 2006               | 4,973                          | 4,940                        | -                 | 9,913          |
| Profit for the year                          | -                              | 4,335                        | -                 | 4,335          |
| Issue of shares                              | 4,721                          | -                            | -                 | 4,721          |
| Dividends paid                               | -                              | (999)                        | -                 | (999)          |
| Closing balance at 30 June 2007              | 9,694                          | 8,276                        | -                 | 17,970         |
| Opening balance at 1 July 2007               | 9,694                          | 8,276                        | -                 | 17,970         |
| Profit for the year                          | -                              | 6,763                        | -                 | 6,763          |
| Issue of shares                              | 3,136                          | -                            | -                 | 3,136          |
| Dividends paid                               | -                              | (2,093)                      | -                 | (2,093)        |
| Deferred tax adjustment on share issue costs | 170                            | -                            | -                 | 170            |
| Options reserve movement                     | -                              | -                            | 385               | 385            |
| Foreign exchange reserve movement            | -                              | -                            | -                 | -              |
| <b>Closing balance at 30 June 2008</b>       | <b>13,000</b>                  | <b>12,946</b>                | <b>385</b>        | <b>26,331</b>  |

The accompanying notes form an integral part of the statement of changes in equity.

**Cash flow statement for the year ended 30 June 2008**

|                                                  | Notes | 2008            |                 | 2007            |                 |
|--------------------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
|                                                  |       | Consolidated    | Parent          | Consolidated    | Parent          |
|                                                  |       | Entity          | Entity          | Entity          | Entity          |
|                                                  |       | \$000           | \$000           | \$000           | \$000           |
| <b>Cash flows from operating activities</b>      |       |                 |                 |                 |                 |
| Receipts from customers                          |       | 116,037         | 76,817          | 56,264          | 54,394          |
| Payments to suppliers and employees              |       | (97,887)        | (62,763)        | (49,185)        | (48,631)        |
| Interest received                                |       | 183             | 164             | 189             | 187             |
| Borrowing costs                                  |       | (834)           | (683)           | (406)           | (373)           |
| Income tax paid                                  |       | (4,015)         | (2,789)         | (3,192)         | (2,989)         |
| <b>Net cash provided by operating activities</b> | 26    | <b>13,484</b>   | <b>10,746</b>   | <b>3,670</b>    | <b>2,588</b>    |
| <b>Cash flows from investing activities</b>      |       |                 |                 |                 |                 |
| Purchase of business and company                 | 26    | (22,683)        | (9,616)         | (17,037)        | (15,056)        |
| Investment in joint venture                      | 14    | (1,399)         | (1,399)         | -               | -               |
| Purchase of property, plant and equipment        |       | (5,670)         | (4,655)         | (1,436)         | (1,411)         |
| <b>Net cash used in investing activities</b>     |       | <b>(29,752)</b> | <b>(15,670)</b> | <b>(18,473)</b> | <b>(16,467)</b> |
| <b>Cash flows from financing activities</b>      |       |                 |                 |                 |                 |
| Proceeds from issue of shares                    |       | 3,136           | 3,136           | 4,721           | 4,721           |
| Proceeds from borrowings                         |       | 21,590          | 21,590          | 8,294           | 6,889           |
| Issue of inter-company loans                     |       | -               | (13,068)        | -               | -               |
| Repayment of borrowings                          |       | (6,866)         | (6,201)         | (2,770)         | (2,505)         |
| Dividend payment                                 |       | (2,093)         | (2,093)         | (999)           | (999)           |
| <b>Net cash provided by financing activities</b> |       | <b>15,767</b>   | <b>3,364</b>    | <b>9,246</b>    | <b>8,106</b>    |
| Net (decrease)/increase in cash held             |       | (501)           | (1,560)         | (5,557)         | (5,773)         |
| Cash at the beginning of the year                | 9     | 6,311           | 6,095           | 11,868          | 11,868          |
| <b>Cash at the end of the year</b>               | 9     | <b>5,810</b>    | <b>4,535</b>    | <b>6,311</b>    | <b>6,095</b>    |

The accompanying notes form an integral part of the statement of cash flow.

## **Notes to the financial statements for the year ended 30 June 2008**

The registered office and principal place of business of Austin Engineering Limited is 173 Cobalt Street, Carole Park, Queensland, 4300, Australia.

### **Note 1: Statement of Compliance and Significant Accounting Policies**

This financial report includes the consolidated financial statements and notes of Austin Engineering Limited and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Austin Engineering Limited as an individual parent entity ('Parent Entity'). Austin Engineering Limited is a listed public company incorporated and domiciled in Australia.

### **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The financial report is presented in Australian dollars.

#### **a. Principles of Consolidation**

A controlled entity is any entity over which Austin Engineering Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered. A list of controlled entities is contained in note 14 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

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

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

#### **b. Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**Notes to the financial statements for the year ended 30 June 2008**

**c. Inventories**

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.

**d. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

**Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

| <b>Class of Fixed Asset</b>              | <b>Depreciation Rate</b> |
|------------------------------------------|--------------------------|
| Buildings                                | 2%-3%                    |
| Leasehold improvements                   | 10%                      |
| Plant and equipment                      | 5%-40%                   |
| Furniture, fittings and office equipment | 20%-40%                  |
| Motor vehicles                           | 20%-40%                  |
| Computer equipment                       | 33.33%                   |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**e. Research and Development Expenditure**

Costs associated with research and development activities are expensed in the year incurred.

**f. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**Notes to the financial statements for the year ended 30 June 2008**

**g. Financial Instruments**

**Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**Classification and Subsequent Measurement**

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

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

ii. **Loans and receivables**

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

iii. **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

iv. **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

v. **Financial Liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

**Derivative instruments**

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.

Austin Engineering Limited and its controlled entities designates certain derivatives as either:

- i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- ii. hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

*(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in the hedge reserve in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement. The group did not enter into any derivative hedging transactions during or since the end of the financial year.

**Financial Guarantees**

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the portion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

**Notes to the financial statements for the year ended 30 June 2008**

**h. Impairment of Assets**

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

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

**i. Interests in Joint Ventures**

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the consolidated group's interests are shown at Note 14.

The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

**j. Intangibles**

**Goodwill**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**k. Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**Group companies**

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

**l. Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within twelve months of the reporting date have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than twelve months of the reporting date have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

**m. Equity-settled compensation**

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**o. Provision for Warranties**

Provision is made in respect of the consolidated group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the consolidated group's history of warranty claims.

**Notes to the financial statements for the year ended 30 June 2008**

**p. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**q. Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

**r. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**s. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**t. Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

**u. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**v. Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars.

**w. Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key Estimates:*

*Options*

The amounts disclosed for emoluments relating to options are the assessed fair values at grant date using, where appropriate, a Black Scholes pricing model that takes into account the exercise price, the term of the option, the share price at grant date, expected price volatility and dividend yield of the underlying share and the risk-free interest rate for the term of the option. The assumptions and estimates used in the valuation process are based on reasonable forward estimates and expectations which may subsequently be different over time due to market and wider economic factors.

*Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and require the group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

**Notes to the financial statements for the year ended 30 June 2008**

|                                   | 2008                  |                      | 2007                 |                      |
|-----------------------------------|-----------------------|----------------------|----------------------|----------------------|
|                                   | Consolidated Entity   | Parent Entity        | Consolidated Entity  | Parent Entity        |
|                                   | \$000                 | \$000                | \$000                | \$000                |
| <b>Note 2: Revenue</b>            |                       |                      |                      |                      |
| <b>Operating activities:</b>      |                       |                      |                      |                      |
| Sale of goods                     | 105,108               | 70,847               | 57,311               | 54,391               |
| Royalties                         | 894                   | -                    | -                    | -                    |
| Other                             | 158                   | 145                  | -                    | -                    |
|                                   | <u>106,160</u>        | <u>70,992</u>        | <u>57,311</u>        | <u>54,391</u>        |
| <b>Non-operating activities:</b>  |                       |                      |                      |                      |
| Interest received - bank deposits | 183                   | 164                  | 189                  | 187                  |
| <b>Total</b>                      | <b><u>106,343</u></b> | <b><u>71,156</u></b> | <b><u>57,500</u></b> | <b><u>54,578</u></b> |

**Note 3: Profit for the year**

Profit for the year is derived after charging:

|                                                             |       |       |       |       |
|-------------------------------------------------------------|-------|-------|-------|-------|
| Finance costs - bank loans                                  | 834   | 683   | 406   | 373   |
| Rental expense on operating leases - minimum lease payments | 2,053 | 1,811 | 1,339 | 1,278 |

**Note 4: Income tax expense**

**Components of tax expense:**

The components of tax expense comprise:

|                                                                  |              |              |              |              |
|------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| Current tax - current period                                     | 4,779        | 2,836        | 2,119        | 1,858        |
| Deferred tax - origination and reversal of temporary differences | 375          | 59           | -            | -            |
| Over-provision in respect of prior years                         | (291)        | (326)        | -            | -            |
|                                                                  | <u>4,863</u> | <u>2,569</u> | <u>2,119</u> | <u>1,858</u> |

**Prima facie tax reconciliation:**

The prima facie tax on profit before income tax is reconciled to the income tax charge as follows:

|                                                                       |                     |                     |                     |                     |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Prima facie tax payable on profit before income tax at 30% (2007:30%) | 4,920               | 2,800               | 2,129               | 1,858               |
| Add tax effect of:                                                    |                     |                     |                     |                     |
| Non-deductible depreciation and amortisation                          | 13                  | 13                  | -                   | -                   |
| Other non-allowable items                                             | 15                  | 13                  | 11                  | 21                  |
| Accounting expenditure on research and development                    | 133                 | 133                 | 81                  | 81                  |
| Share options expensed in the year                                    | 116                 | 116                 | -                   | -                   |
| Under-provision for tax in prior years                                | 35                  | -                   | -                   | -                   |
| Differences in overseas tax rates                                     | 141                 | -                   | -                   | -                   |
| Less tax effect of:                                                   |                     |                     |                     |                     |
| Research and development expenses                                     | (166)               | (166)               | (102)               | (102)               |
| Other capital allowances                                              | (13)                | (13)                | -                   | -                   |
| Under provision for tax in prior years                                | (326)               | (326)               | -                   | -                   |
| Other items                                                           | (5)                 | (1)                 | -                   | -                   |
| <b>Income tax attributable to entity</b>                              | <b><u>4,863</u></b> | <b><u>2,569</u></b> | <b><u>2,119</u></b> | <b><u>1,858</u></b> |

|                                                 |     |     |     |     |
|-------------------------------------------------|-----|-----|-----|-----|
| Applicable weighted average effective tax rates | 30% | 28% | 30% | 30% |
|-------------------------------------------------|-----|-----|-----|-----|

**Note 5: Key management personnel and compensation**

**Key management personnel:**

The names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year were:

| <b>Person</b>    | <b>Position</b>                               |
|------------------|-----------------------------------------------|
| Michael Buckland | Managing Director                             |
| Colin Anderson   | Chief Financial Officer and Company Secretary |
| Peter Fitch      | Non-Executive Chairman                        |
| Eugene Fung      | Non-Executive Director                        |
| Peter Pursey     | Non-Executive Director                        |

**Notes to the financial statements for the year ended 30 June 2008**

**Note 5: Key management personnel and compensation**

**Options held by key management personnel:**

|                  | Balance at<br>beginning<br>of year | Granted<br>during the<br>year as<br>compensation | Exercised<br>during the<br>year | Balance at<br>end of<br>year | Total<br>vested at<br>reporting date | Total<br>exercisable<br>at reporting<br>date |
|------------------|------------------------------------|--------------------------------------------------|---------------------------------|------------------------------|--------------------------------------|----------------------------------------------|
|                  | No.                                | No.                                              | No.                             | No.                          | No.                                  | No.                                          |
| Michael Buckland | 1,000,000                          | 500,000                                          | (500,000)                       | 1,000,000                    | 1,000,000                            | 1,000,000                                    |
| Peter Fitch      | 500,000                            | 250,000                                          | (500,000)                       | 250,000                      | 250,000                              | 250,000                                      |
| Eugene Fung      | 372,000                            | 250,000                                          | (372,000)                       | 250,000                      | 250,000                              | 250,000                                      |
| Peter Pursey     | 500,000                            | 250,000                                          | (250,000)                       | 500,000                      | 500,000                              | 500,000                                      |
| Colin Anderson   | 100,000                            | 200,000                                          | (100,000)                       | 200,000                      | -                                    | -                                            |
| <b>Total</b>     | <b>2,472,000</b>                   | <b>1,450,000</b>                                 | <b>(1,722,000)</b>              | <b>2,200,000</b>             | <b>2,000,000</b>                     | <b>2,000,000</b>                             |

**Shares held by key management personnel:**

|                  | Balance at<br>beginning of<br>year | Options<br>exercised<br>during the year | Purchased<br>during the<br>year | Sold<br>during the<br>year | Balance at<br>end of<br>year |
|------------------|------------------------------------|-----------------------------------------|---------------------------------|----------------------------|------------------------------|
|                  | No.                                | No.                                     | No.                             | No.                        | No.                          |
| Michael Buckland | 1,963,448                          | 500,000                                 | -                               | -                          | 2,463,448                    |
| Peter Fitch      | 103,448                            | 500,000                                 | -                               | -                          | 603,448                      |
| Eugene Fung      | 186,448                            | 372,000                                 | -                               | -                          | 558,448                      |
| Peter Pursey     | 284,000                            | 250,000                                 | -                               | -                          | 534,000                      |
| Colin Anderson   | 23,448                             | 100,000                                 | -                               | -                          | 123,448                      |
| Johan Andersson  | 150,000                            | -                                       | -                               | (150,000)                  | -                            |
| <b>Total</b>     | <b>2,710,792</b>                   | <b>1,722,000</b>                        | <b>-</b>                        | <b>(150,000)</b>           | <b>4,282,792</b>             |

None of the shares are held nominally.

|                                                                       | 2008                   |                  | 2007                   |                  |
|-----------------------------------------------------------------------|------------------------|------------------|------------------------|------------------|
|                                                                       | Consolidated<br>Entity | Parent<br>Entity | Consolidated<br>Entity | Parent<br>Entity |
|                                                                       | \$                     | \$               | \$                     | \$               |
| <b>Note 6: Auditor's remuneration</b>                                 |                        |                  |                        |                  |
| Remuneration of the auditor of the parent entity for:                 |                        |                  |                        |                  |
| Auditing or reviewing the financial report of any entity in the group | 51,000                 | 51,000           | 24,000                 | 24,000           |
| Taxation services                                                     | 2,406                  | 2,406            | 3,000                  | 3,000            |
| Corporate advisory services                                           | 19,537                 | 19,537           | -                      | -                |
|                                                                       | <u>72,943</u>          | <u>72,943</u>    | <u>27,000</u>          | <u>27,000</u>    |
| Remuneration of other auditors of subsidiaries for:                   |                        |                  |                        |                  |
| Auditing or reviewing the financial report                            | 54,864                 | -                | -                      | -                |
| Taxation services                                                     | 16,034                 | -                | -                      | -                |
|                                                                       | <u>70,898</u>          | <u>-</u>         | <u>-</u>               | <u>-</u>         |
|                                                                       | \$000                  | \$000            | \$000                  | \$000            |

**Note 7: Dividends**

Distributions paid - final dividends:

Fully franked ordinary dividend of 3.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2007, paid on 12 October 2007

1,624 1,624 - -

Fully franked ordinary dividend of 2.0 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2006, paid on 31 October 2006

- - 799 799

Distributions paid - interim dividends:

Fully franked ordinary dividend of 1.0 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2008, paid on 28 March 2008

469 469 - -

Fully franked ordinary dividend of 0.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2007, paid on 30 April 2007

- - 200 200

2,093 2,093 999 999

Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax

5,756 5,756 3,858 3,858

**Notes to the financial statements for the year ended 30 June 2008**

|                                                                                                                                                                                                                               | 2008                |               | 2007                |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------|---------------------|---------------|
|                                                                                                                                                                                                                               | Consolidated Entity | Parent Entity | Consolidated Entity | Parent Entity |
|                                                                                                                                                                                                                               | \$000               | \$000         | \$000               | \$000         |
| <b>Note 8: Earnings per share</b>                                                                                                                                                                                             |                     |               |                     |               |
| <b>Reconciliation of earnings to profit:</b>                                                                                                                                                                                  |                     |               |                     |               |
| Profit after tax                                                                                                                                                                                                              | 11,536              |               | 4,977               |               |
| Earnings used to calculate basic and diluted earnings per share                                                                                                                                                               | 11,536              |               | 4,977               |               |
| <b>Weighted average number of ordinary shares:</b>                                                                                                                                                                            | No. (000)           |               | No. (000)           |               |
| Used to calculate basic earnings per share                                                                                                                                                                                    | 46,641              |               | 39,964              |               |
| Effect of dilutive securities - share options                                                                                                                                                                                 | 2,575               |               | 2,421               |               |
| Used to calculate diluted earnings per share                                                                                                                                                                                  | 49,216              |               | 42,385              |               |
| <b>Note 9: Cash and cash equivalents</b>                                                                                                                                                                                      |                     |               |                     |               |
| Cash at bank and in hand                                                                                                                                                                                                      | 5,810               | 4,535         | 6,311               | 6,095         |
|                                                                                                                                                                                                                               | <b>5,810</b>        | <b>4,535</b>  | <b>6,311</b>        | <b>6,095</b>  |
| <b>Note 10: Trade and other receivables</b>                                                                                                                                                                                   |                     |               |                     |               |
| Trade receivables                                                                                                                                                                                                             | 22,695              | 16,074        | 10,239              | 7,870         |
| Provision for impairment of receivables                                                                                                                                                                                       | -                   | -             | -                   | -             |
|                                                                                                                                                                                                                               | <b>22,695</b>       | <b>16,074</b> | <b>10,239</b>       | <b>7,870</b>  |
| The carrying amounts of the consolidated entity's trade receivables are denominated in the following currencies:                                                                                                              |                     |               |                     |               |
| Australian dollars                                                                                                                                                                                                            | 17,891              |               | 10,239              |               |
| US dollars (Australian dollar equivalent)                                                                                                                                                                                     | 4,804               |               | -                   |               |
|                                                                                                                                                                                                                               | <b>22,695</b>       |               | <b>10,239</b>       |               |
| At 30 June 2008, no current trade receivables of the consolidated and parent entities are considered impaired (2007: nil). The ageing analysis of trade receivables was as follows:                                           |                     |               |                     |               |
| Current                                                                                                                                                                                                                       | 15,386              | 10,643        | 8,786               | 7,147         |
| 0-30 days                                                                                                                                                                                                                     | 6,155               | 5,221         | 883                 | 424           |
| 31-60 days                                                                                                                                                                                                                    | 369                 | 147           | 368                 | 97            |
| 61-90 days                                                                                                                                                                                                                    | 351                 | -             | 202                 | 202           |
| 91+days                                                                                                                                                                                                                       | 434                 | 63            | -                   | -             |
|                                                                                                                                                                                                                               | <b>22,695</b>       | <b>16,074</b> | <b>10,239</b>       | <b>7,870</b>  |
| At 30 June 2008, \$7,309,000 of trade receivables were past due but not impaired (2007: \$1,453,000). These relate to a number of customers for whom there is no recent history of default or other indicators of impairment. |                     |               |                     |               |
| <b>Note 11: Inventories</b>                                                                                                                                                                                                   |                     |               |                     |               |
| Raw materials and consumables                                                                                                                                                                                                 | 4,031               | 391           | 317                 | 263           |
| Work-in-progress                                                                                                                                                                                                              | 6,253               | 4,842         | 2,842               | 2,461         |
| Finished goods                                                                                                                                                                                                                | 1,216               | -             | -                   | -             |
|                                                                                                                                                                                                                               | <b>11,500</b>       | <b>5,233</b>  | <b>3,159</b>        | <b>2,724</b>  |
| <b>Note 12: Other assets</b>                                                                                                                                                                                                  |                     |               |                     |               |
| Prepayments                                                                                                                                                                                                                   | 617                 | 436           | 483                 | 422           |
| Deferred tax assets                                                                                                                                                                                                           | 439                 | -             | -                   | -             |
| Investment in joint venture                                                                                                                                                                                                   | -                   | -             | 318                 | 318           |
| Inter-company loans and trading accounts                                                                                                                                                                                      | -                   | 18,348        | -                   | -             |
| Other assets                                                                                                                                                                                                                  | 116                 | 113           | 1,051               | 1,036         |
|                                                                                                                                                                                                                               | <b>1,172</b>        | <b>18,897</b> | <b>1,852</b>        | <b>1,776</b>  |

**Notes to the financial statements for the year ended 30 June 2008**

|                                               | 2008                |               | 2007                |               |
|-----------------------------------------------|---------------------|---------------|---------------------|---------------|
|                                               | Consolidated Entity | Parent Entity | Consolidated Entity | Parent Entity |
|                                               | \$000               | \$000         | \$000               | \$000         |
| <b>Note 13: Property, plant and equipment</b> |                     |               |                     |               |
| <b>Land:</b>                                  |                     |               |                     |               |
| Freehold land at:                             |                     |               |                     |               |
| Fair value on acquisition                     | 1,970               | 18            | 1,051               | 1,005         |
| Cost                                          | 556                 | 1,005         | -                   | -             |
| Total land                                    | 2,526               | 1,023         | 1,051               | 1,005         |
| <b>Buildings:</b>                             |                     |               |                     |               |
| Buildings at:                                 |                     |               |                     |               |
| Fair value on acquisition                     | 7,813               | 1,341         | 1,803               | 1,341         |
| Cost                                          | 3,523               | 3,476         | -                   | -             |
| Less accumulated depreciation                 | (128)               | (66)          | (29)                | (29)          |
| Total buildings                               | 11,208              | 4,751         | 1,774               | 1,312         |
| Total land and buildings                      | 13,734              | 5,774         | 2,825               | 2,317         |
| <b>Capital work in progress:</b>              |                     |               |                     |               |
| Capital work in progress at:                  |                     |               |                     |               |
| Cost                                          | -                   | -             | 296                 | 296           |
| <b>Plant and equipment:</b>                   |                     |               |                     |               |
| Plant and equipment at:                       |                     |               |                     |               |
| Fair value on acquisition                     | 3,364               | 511           | 3,494               | 524           |
| Cost                                          | 9,083               | 7,478         | 6,036               | 6,014         |
| Less accumulated depreciation                 | (4,335)             | (3,587)       | (2,661)             | (2,527)       |
|                                               | 8,112               | 4,402         | 6,869               | 4,011         |
| <b>Total property, plant and equipment</b>    | <b>21,846</b>       | <b>10,176</b> | <b>9,990</b>        | <b>6,625</b>  |

**Movements in carrying amounts:**

|                                            | Freehold Land | Buildings     | Capital Work in Progress | Plant And Equipment | Total         |
|--------------------------------------------|---------------|---------------|--------------------------|---------------------|---------------|
|                                            | \$000         | \$000         | \$000                    | \$000               | \$000         |
| <b>Consolidated Entity:</b>                |               |               |                          |                     |               |
| Balance at 1 July 2006                     | -             | -             | -                        | 3,353               | 3,353         |
| Additions                                  | -             | -             | 296                      | 1,148               | 1,444         |
| Additions through acquisitions of entities | 1,052         | 1,803         | -                        | 3,494               | 6,349         |
| Disposals                                  | -             | -             | -                        | (8)                 | (8)           |
| Depreciation expense                       | -             | (29)          | -                        | (1,118)             | (1,148)       |
| Balance at 30 June 2007                    | 1,052         | 1,774         | 296                      | 6,868               | 9,990         |
| Additions                                  | 555           | 3,523         | (296)                    | 1,968               | 5,750         |
| Additions through acquisitions of entities | 998           | 6,530         | -                        | 1,203               | 8,731         |
| Disposals                                  | -             | -             | -                        | (125)               | (125)         |
| Foreign currency exchange movements        | (79)          | (516)         | -                        | (98)                | (693)         |
| Depreciation expense                       | -             | (98)          | -                        | (1,709)             | (1,807)       |
| <b>Balance at 30 June 2008</b>             | <b>2,526</b>  | <b>11,213</b> | <b>-</b>                 | <b>8,107</b>        | <b>21,846</b> |
| <b>Parent Entity:</b>                      |               |               |                          |                     |               |
| Balance at 1 July 2006                     | -             | -             | -                        | 3,352               | 3,352         |
| Additions                                  | -             | -             | 296                      | 1,124               | 1,420         |
| Additions through acquisitions of entities | 1,005         | 1,341         | -                        | 524                 | 2,870         |
| Disposals                                  | -             | -             | -                        | (8)                 | (8)           |
| Depreciation expense                       | -             | (29)          | -                        | (979)               | (1,008)       |
| Balance at 30 June 2007                    | 1,005         | 1,312         | 296                      | 4,013               | 6,626         |
| Additions                                  | 20            | 3,477         | (296)                    | 1,468               | 4,669         |
| Disposals                                  | -             | -             | -                        | (14)                | (14)          |
| Depreciation expense                       | -             | (38)          | -                        | (1,067)             | (1,105)       |
| <b>Balance at 30 June 2008</b>             | <b>1,025</b>  | <b>4,751</b>  | <b>-</b>                 | <b>4,400</b>        | <b>10,176</b> |

The group's properties were revalued in April and November 2007 by independent valuers as part of the acquisition of Kaldura Industries, Austbore Pty Ltd and Western Technology Services Inc.

**Notes to the financial statements for the year ended 30 June 2008**

|                                                            | 2008                     |               | 2007                |               |
|------------------------------------------------------------|--------------------------|---------------|---------------------|---------------|
|                                                            | Consolidated Entity      | Parent Entity | Consolidated Entity | Parent Entity |
|                                                            | \$000                    | \$000         | \$000               | \$000         |
| <b>Note 14: Other financial assets</b>                     |                          |               |                     |               |
| <b>Investment accounted for using the equity method:</b>   |                          |               |                     |               |
| Majan Aluminium Services Company LLC:                      | 1,717                    | 1,717         | -                   | -             |
| Austbore Pty Ltd                                           | -                        | 9,961         | -                   | 9,480         |
| Western Technology Services Inc.                           | -                        | 612           | -                   | -             |
| Austin Engineering USA Inc.                                | -                        | 7,845         | -                   | -             |
| <b>Net carrying value</b>                                  | <b>1,717</b>             | <b>20,135</b> | <b>-</b>            | <b>9,480</b>  |
| <b>Movements during the year:</b>                          |                          |               |                     |               |
| Majan Aluminium Services Company LLC:                      |                          |               |                     |               |
| Balance at beginning of year (within other assets in 2007) | 318                      | 318           | -                   | -             |
| New investments during the year                            | 1,399                    | 1,399         | -                   | -             |
| Balance at end of year                                     | 1,717                    | 1,717         | -                   | -             |
| Austbore Pty Ltd:                                          |                          |               |                     |               |
| Balance at beginning of year                               | -                        | 9,480         | -                   | -             |
| Provision for earn-out payment                             | -                        | 500           | -                   | -             |
| Adjustment to prior period acquisition costs               | -                        | (19)          | -                   | -             |
| New investments during the year                            | -                        | -             | -                   | 9,480         |
| Balance at end of year                                     | -                        | 9,961         | -                   | 9,480         |
| Western Technology Services Inc.:                          |                          |               |                     |               |
| Balance at beginning of year                               | -                        | -             | -                   | -             |
| New investments during the year                            | -                        | 612           | -                   | -             |
| Balance at end of year                                     | -                        | 612           | -                   | -             |
| Austin Engineering USA Inc.:                               |                          |               |                     |               |
| Balance at beginning of year                               | -                        | -             | -                   | -             |
| New investments during the year                            | -                        | 8,523         | -                   | -             |
| Effect of foreign currency exchange movements              | -                        | (678)         | -                   | -             |
| Balance at end of year                                     | -                        | 7,845         | -                   | -             |
|                                                            | Country of Incorporation |               | Percentage Owned    |               |
|                                                            |                          |               | 2008                | 2007          |
| <b>Parent entity:</b>                                      |                          |               |                     |               |
| Austin Engineering Ltd                                     | Australia                |               |                     |               |
| <b>Subsidiaries of Austin Engineering Limited:</b>         |                          |               |                     |               |
| Austbore Pty Ltd                                           | Australia                |               | 100%                | 100%          |
| Austin Engineering USA Inc.                                | USA                      |               | 100%                | -             |
| <b>Subsidiaries of Austin Engineering USA Inc.:</b>        |                          |               |                     |               |
| Western Technology Services inc.                           | USA                      |               | 100%                | -             |

Austin Engineering Limited has a 50% interest in Majan Aluminium Services Company LLC, incorporated in Oman, which was formed for the purpose of manufacturing aluminium busbars for the Sohar Aluminium Company, which is constructing a new aluminium smelter facility at Sohar in Oman.

On 30 November 2007, the company, through its newly-formed 100%-owned subsidiary Austin Engineering Inc., acquired all of the issued share capital of Western Technology Services Inc., for a cash consideration of US\$19m and was entitled to all profits earned from that date.

|                                            | 2008                |               | 2007                |               |
|--------------------------------------------|---------------------|---------------|---------------------|---------------|
|                                            | Consolidated Entity | Parent Entity | Consolidated Entity | Parent Entity |
|                                            | \$000               | \$000         | \$000               | \$000         |
| <b>Note 15: Intangible assets</b>          |                     |               |                     |               |
| <b>Goodwill</b>                            |                     |               |                     |               |
| Cost                                       | 16,752              | 2,706         | 9,596               | 2,706         |
| Accumulated impairment losses              | -                   | -             | -                   | -             |
| <b>Net carrying value</b>                  | <b>16,752</b>       | <b>2,706</b>  | <b>9,596</b>        | <b>2,706</b>  |
| <b>Movements:</b>                          |                     |               |                     |               |
| Balance at beginning of year               | 9,596               | 2,706         | -                   | -             |
| Acquisitions through business combinations | 7,598               | -             | 9,596               | 2,706         |
| Effect of foreign exchange movements       | (442)               | -             | -                   | -             |
| Balance at end of year                     | 16,752              | 2,706         | 9,596               | 2,706         |

**Notes to the financial statements for the year ended 30 June 2008**

**Note 15: Intangible assets**

Goodwill has an infinite life. The allocation of goodwill, including that arising from business acquisitions during the year, has been made to the consolidated group's business units and at the balance date this goodwill has been tested for impairment across those business units. Goodwill allocated to the business units is as follows:

|                                  | <b>2008</b>                |                      | <b>2007</b>                |                      |
|----------------------------------|----------------------------|----------------------|----------------------------|----------------------|
|                                  | <b>Consolidated Entity</b> | <b>Parent Entity</b> | <b>Consolidated Entity</b> | <b>Parent Entity</b> |
|                                  | \$000                      | \$000                | \$000                      | \$000                |
| Kaldura Industries               | 2,706                      | 2,706                | 2,706                      | 2,706                |
| Austbore Pty Ltd                 | 8,310                      | -                    | 6,890                      | -                    |
| Western Technology Services Inc. | 5,736                      | -                    | -                          | -                    |
| Net carrying value               | 16,752                     | 2,706                | 9,596                      | 2,706                |

The recoverable amount of goodwill in each cash generating unit is based on value in-use calculations, using cash flow projections based on the following year's budget, extended over five years. A pre-tax discount rate has been applied, after adjustment for industry risk. The principal assumptions used across all business units are annual growth rates of 10%, an average discount rate of 6.3% and CPI of 4%.

**Note 16: Trade and other payables**

**Current unsecured liabilities:**

|                                          |               |               |               |               |
|------------------------------------------|---------------|---------------|---------------|---------------|
| Trade payables                           | 18,025        | 13,898        | 8,682         | 7,826         |
| Sundry payables and accrued expenses     | 4,611         | 2,951         | 1,934         | 1,716         |
| Progress payments in advance             | 3,408         | 3,408         | -             | -             |
| Inter-company loans and trading accounts | -             | 9,022         | -             | 637           |
|                                          | <b>26,044</b> | <b>29,279</b> | <b>10,616</b> | <b>10,179</b> |

The carrying amounts of the consolidated entity's trade payables are denominated in the following currencies:

|                                           |               |              |
|-------------------------------------------|---------------|--------------|
| Australian dollars                        | 14,647        | 8,682        |
| US dollars (Australian dollar equivalent) | 3,378         | -            |
|                                           | <b>18,025</b> | <b>8,682</b> |

**Note 17: Financial liabilities**

**Current secured liabilities:**

|                                     |            |            |              |              |
|-------------------------------------|------------|------------|--------------|--------------|
| Hire purchase and lease obligations | 548        | 120        | 824          | 175          |
| Bank business development loan      | -          | -          | 4,852        | 4,852        |
| Bank commercial bill                | -          | -          | 430          | 430          |
|                                     | <b>548</b> | <b>120</b> | <b>6,106</b> | <b>5,457</b> |

**Non-current secured liabilities:**

|                                     |               |               |              |              |
|-------------------------------------|---------------|---------------|--------------|--------------|
| Hire purchase and lease obligations | 1,417         | 505           | 1,997        | 621          |
| Bank loan                           | 19,874        | 19,874        | -            | -            |
| Bank commercial bill                | -             | -             | 750          | 750          |
|                                     | <b>21,291</b> | <b>20,379</b> | <b>2,747</b> | <b>1,371</b> |

**Total of current and non-secured liabilities:**

|                                     |               |               |              |              |
|-------------------------------------|---------------|---------------|--------------|--------------|
| Hire purchase and lease obligations | 1,965         | 625           | 2,821        | 796          |
| Bank loan                           | 19,874        | 19,874        | 4,852        | 4,852        |
| Bank commercial bill                | -             | -             | 1,180        | 1,180        |
|                                     | <b>21,839</b> | <b>20,499</b> | <b>8,852</b> | <b>6,828</b> |

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

**Note 18: Current tax liabilities**

|            |              |              |              |              |
|------------|--------------|--------------|--------------|--------------|
| Income tax | 1,124        | 1,088        | 1,711        | 1,151        |
|            | <b>1,124</b> | <b>1,088</b> | <b>1,711</b> | <b>1,151</b> |

**Notes to the financial statements for the year ended 30 June 2008**

|                                                                                                       | <b>2008</b>                    |                          | <b>2007</b>                    |                          |
|-------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|
|                                                                                                       | <b>Consolidated<br/>Entity</b> | <b>Parent<br/>Entity</b> | <b>Consolidated<br/>Entity</b> | <b>Parent<br/>Entity</b> |
|                                                                                                       | <b>\$000</b>                   | <b>\$000</b>             | <b>\$000</b>                   | <b>\$000</b>             |
| <b>Note 19: Deferred tax</b>                                                                          |                                |                          |                                |                          |
| <b>Deferred tax assets - current</b>                                                                  |                                |                          |                                |                          |
| Current deferred tax assets comprise:                                                                 |                                |                          |                                |                          |
| Prior period losses and other                                                                         | 439                            | -                        | -                              | -                        |
| <b>Deferred tax assets - non-current</b>                                                              |                                |                          |                                |                          |
| Non-current deferred tax assets comprise:                                                             |                                |                          |                                |                          |
| Employee leave entitlements                                                                           | 331                            | 266                      | -                              | -                        |
| Transaction costs on equity issue                                                                     | 32                             | 33                       | -                              | -                        |
| Prior period losses                                                                                   | 966                            | 34                       |                                |                          |
|                                                                                                       | <b>1,329</b>                   | <b>333</b>               | <b>-</b>                       | <b>-</b>                 |
| <b>Total deferred tax assets</b>                                                                      | <b>1,768</b>                   | <b>332</b>               | <b>-</b>                       | <b>-</b>                 |
| <b>Deferred tax liabilities - non-current</b>                                                         |                                |                          |                                |                          |
| Non-current deferred tax assets comprise:                                                             |                                |                          |                                |                          |
| Revaluation of assets on acquisition                                                                  | 324                            | 5                        | -                              | -                        |
|                                                                                                       | <b>324</b>                     | <b>5</b>                 | <b>-</b>                       | <b>-</b>                 |
| <b>Total deferred tax liabilities</b>                                                                 | <b>324</b>                     | <b>5</b>                 | <b>-</b>                       | <b>-</b>                 |
| <b>Movements - deferred tax assets:</b>                                                               |                                |                          |                                |                          |
| The movement in deferred tax assets for each temporary difference during the year is as follows:      |                                |                          |                                |                          |
| <b>Current - prior period losses</b>                                                                  |                                |                          |                                |                          |
| Opening balance                                                                                       | -                              | -                        | -                              | -                        |
| Acquired on acquisition of subsidiaries                                                               | 629                            | -                        | -                              | -                        |
| Movement to income statement                                                                          | (146)                          | -                        | -                              | -                        |
| Foreign currency exchange differences                                                                 | (44)                           | -                        |                                |                          |
|                                                                                                       | <b>439</b>                     | <b>-</b>                 | <b>-</b>                       | <b>-</b>                 |
| <b>Non-current - provisions</b>                                                                       |                                |                          |                                |                          |
| Opening balance                                                                                       | -                              | -                        | -                              | -                        |
| Under provision from prior year                                                                       | 355                            | 293                      | -                              | -                        |
| Movement to income statement                                                                          | (24)                           | (27)                     | -                              | -                        |
|                                                                                                       | <b>331</b>                     | <b>266</b>               | <b>-</b>                       | <b>-</b>                 |
| <b>Non-current - transaction costs on equity issue</b>                                                |                                |                          |                                |                          |
| Opening balance                                                                                       | -                              | -                        | -                              | -                        |
| Costs of equity issues                                                                                | 36                             | 37                       | -                              | -                        |
| Movement to income statement                                                                          | (4)                            | (4)                      | -                              | -                        |
|                                                                                                       | <b>32</b>                      | <b>33</b>                | <b>-</b>                       | <b>-</b>                 |
| <b>Non-current - other</b>                                                                            |                                |                          |                                |                          |
| Opening balance                                                                                       | -                              | -                        | -                              | -                        |
| Under provision from prior year                                                                       | 35                             | 27                       | -                              | -                        |
| Acquired on acquisition of subsidiaries                                                               | 1,160                          | -                        | -                              | -                        |
| Movement to income statement                                                                          | (143)                          | 7                        | -                              | -                        |
| Foreign currency exchange differences                                                                 | (86)                           | -                        | -                              | -                        |
|                                                                                                       | <b>966</b>                     | <b>34</b>                | <b>-</b>                       | <b>-</b>                 |
| <b>Movements - deferred tax liabilities:</b>                                                          |                                |                          |                                |                          |
| The movement in deferred tax liabilities for each temporary difference during the year is as follows: |                                |                          |                                |                          |
| <b>Non-current - other</b>                                                                            |                                |                          |                                |                          |
| Opening balance                                                                                       | -                              | -                        | -                              | -                        |
| Under provision from prior year                                                                       | 465                            | -                        | -                              | -                        |
| Movement to income statement                                                                          | (141)                          | 5                        | -                              | -                        |
|                                                                                                       | <b>324</b>                     | <b>5</b>                 | <b>-</b>                       | <b>-</b>                 |

**Notes to the financial statements for the year ended 30 June 2008**

|                                         | <b>2008</b>         |                   | <b>2007</b>         |                     |
|-----------------------------------------|---------------------|-------------------|---------------------|---------------------|
|                                         | <b>Consolidated</b> | <b>Parent</b>     | <b>Consolidated</b> | <b>Parent</b>       |
|                                         | <b>Entity</b>       | <b>Entity</b>     | <b>Entity</b>       | <b>Entity</b>       |
|                                         | \$000               | \$000             | \$000               | \$000               |
| <b>Note 20: Provisions</b>              |                     |                   |                     |                     |
| Employee leave entitlements:            |                     |                   |                     |                     |
| Balance at beginning of year            | 935                 | 728               | 703                 | 703                 |
| Provided during the year                | 892                 | 654               | 557                 | 532                 |
| Utilised during the year                | (781)               | (545)             | (516)               | (507)               |
| Released during the year                | -                   | -                 | -                   | -                   |
| Acquired on acquisition of subsidiaries | 466                 | -                 | 191                 | -                   |
| Foreign currency exchange differences   | (37)                | -                 | -                   | -                   |
| Balance at end of year                  | <u>1,475</u>        | <u>837</u>        | <u>935</u>          | <u>728</u>          |
| Warranty provisions:                    |                     |                   |                     |                     |
| Balance at beginning of year            | 250                 | 250               | 211                 | 211                 |
| Provided during the year                | 887                 | 578               | 206                 | 206                 |
| Utilised during the year                | (57)                | (18)              | (60)                | (60)                |
| Released during the year                | (1,029)             | (760)             | (107)               | (107)               |
| Acquired on acquisition of subsidiaries | 371                 | -                 | -                   | -                   |
| Foreign currency exchange differences   | (30)                | -                 | -                   | -                   |
| Balance at end of year                  | <u>392</u>          | <u>50</u>         | <u>250</u>          | <u>250</u>          |
| Other provisions:                       |                     |                   |                     |                     |
| Balance at beginning of year            | 170                 | 170               | -                   | -                   |
| Provided during the year                | -                   | -                 | 170                 | 170                 |
| Utilised during the year                | (170)               | (170)             | -                   | -                   |
| Released during the year                | -                   | -                 | -                   | -                   |
| Balance at end of year                  | <u>-</u>            | <u>-</u>          | <u>170</u>          | <u>170</u>          |
| <b>Total current provisions</b>         | <b><u>1,867</u></b> | <b><u>887</u></b> | <b><u>1,355</u></b> | <b><u>1,148</u></b> |

|                                                 | <b>2008</b>          |                      | <b>2007</b>          |                     |
|-------------------------------------------------|----------------------|----------------------|----------------------|---------------------|
|                                                 | <b>Parent Entity</b> |                      | <b>Parent Entity</b> |                     |
|                                                 | No. 000              | \$000                | No. 000              | \$000               |
| <b>Note 21: Issued capital</b>                  |                      |                      |                      |                     |
| <b>Ordinary shares (fully paid):</b>            |                      |                      |                      |                     |
| Balance at beginning of year                    | 43,269               | 9,694                | 39,806               | 4,973               |
| Shares issued during the year:                  |                      |                      |                      |                     |
| Exercise of options                             | 2,222                | 942                  | 278                  | 114                 |
| Completion of placement                         | 1,500                | 2,295                | -                    | -                   |
| Completion of shareholder share purchase plan   | -                    | -                    | 3,185                | 4,619               |
| Cost of share issues                            | -                    | (100)                | -                    | (12)                |
| Deferred tax adjustment to cost of share issues | -                    | 169                  | -                    | -                   |
| <b>Balance at end of year</b>                   | <b><u>46,991</u></b> | <b><u>13,000</u></b> | <b><u>43,269</u></b> | <b><u>9,694</u></b> |

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

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

**Options**

For information relating to Austin Engineering Limited's employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at the year-end, refer to note 27: Share-based payments.

For information relating to share options issued to key management personnel during the financial year, also refer to refer to note 27: Share-based payments.

**Notes to the financial statements for the year ended 30 June 2008**

**Note 21: Issued capital**

**Capital management**

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's total capital is defined as the shareholders' net equity plus net debt, and amounted to \$47,652,000 at 30 June 2008 (30 June 2007: \$21,154,000). The objective when managing the group's capital is to safeguard the business as a going concern, to maximise returns to shareholders and to maintain an optimal capital structure in order to reduce the cost of capital.

The group does not have a fixed target debt-to-equity ratio but has a policy of maintaining a flexible financing structure so as to be able to take advantage of investment opportunities when they arise.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains below 50%. The gearing ratios for the years ending 30 June 2008 and 30 June 2007 are as follows:

|                                | <b>2008</b>                |                      | <b>2007</b>                |                      |
|--------------------------------|----------------------------|----------------------|----------------------------|----------------------|
|                                | <b>Consolidated Entity</b> | <b>Parent Entity</b> | <b>Consolidated Entity</b> | <b>Parent Entity</b> |
|                                | \$000                      | \$000                | \$000                      | \$000                |
| Total borrowings               | 21,839                     | 20,499               | 8,853                      | 6,828                |
| Less cash and cash equivalents | (5,810)                    | (4,535)              | (6,311)                    | (6,095)              |
| Net debt                       | 16,029                     | 15,964               | 2,542                      | 733                  |
| Total equity                   | 31,623                     | 26,331               | 18,612                     | 17,970               |
| Total capital                  | 47,652                     | 42,295               | 21,154                     | 18,703               |
| Gearing ratio                  | 34%                        | 38%                  | 12%                        | 4%                   |

**Note 22: Reserves**

**Foreign currency translation reserve**

The foreign currency translation reserve records exchanges differences arising on the translation of foreign controlled subsidiaries.

**Option reserve**

The option reserve records items recognised as expenses on the valuation of director and employee share options.

**Note 23: Capital and leasing commitments**

**Finance lease commitments:**

|                              |       |      |       |      |
|------------------------------|-------|------|-------|------|
| Not later than one year      | 646   | 130  | 977   | 225  |
| Between one and five years   | 1,529 | 555  | 2,255 | 653  |
| Minimum lease payments       | 2,175 | 685  | 3,232 | 878  |
| Less: future finance charges | (210) | (60) | (411) | (82) |
|                              | 1,965 | 625  | 2,821 | 796  |

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.

**Operating lease commitments:**

|                            |        |        |        |        |
|----------------------------|--------|--------|--------|--------|
| Not later than one year    | 1,484  | 1,297  | 1,514  | 1,276  |
| Between one and five years | 5,186  | 5,186  | 5,281  | 5,102  |
| Greater than 5 years       | 9,888  | 9,888  | 11,002 | 11,002 |
|                            | 16,558 | 16,371 | 17,797 | 17,380 |

The Company has various property leases under non-cancellable arrangements expiring between 1 and 13 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.

**Capital commitments:**

|                                      |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|
| Property redevelopment and expansion | -     | -     | 3,200 | 3,200 |
| Plant and equipment purchases        | 1,100 | 1,100 | -     | -     |
|                                      | 1,100 | 1,100 | 3,200 | 3,200 |

These capital commitments are payable within twelve months. No capital commitments are payable after twelve months.

**Note 24: 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 26.

**Notes to the financial statements for the year ended 30 June 2008**

**Note 25: Segment reporting**

**Primary reporting - revenue source**

|                                           | <b>Mining Products</b> |              | <b>Licence Fees</b> |              | <b>Eliminations</b> |              | <b>Consolidated</b> |              |
|-------------------------------------------|------------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
|                                           | <b>2008</b>            | <b>2007</b>  | <b>2008</b>         | <b>2007</b>  | <b>2008</b>         | <b>2007</b>  | <b>2008</b>         | <b>2007</b>  |
|                                           | <b>\$000</b>           | <b>\$000</b> | <b>\$000</b>        | <b>\$000</b> | <b>\$000</b>        | <b>\$000</b> | <b>\$000</b>        | <b>\$000</b> |
| Revenue                                   | 106,403                | 57,311       | 1,997               | -            | (2,058)             | -            | 106,342             | 57,311       |
| Result                                    |                        |              |                     |              |                     |              |                     |              |
| Segment result                            | 18,352                 | 8,487        | 894                 | -            | -                   | -            | 19,246              | 8,487        |
| Unallocated expenses                      | -                      | -            | -                   | -            | (2,013)             | (984)        | (2,013)             | (984)        |
| Finance costs                             | -                      | -            | -                   | -            | (834)               | (406)        | (834)               | (406)        |
| Profit before income tax                  | 18,352                 | 8,487        | 894                 | -            | (2,847)             | (1,390)      | 16,399              | 7,097        |
| Income tax expense                        | -                      | -            | -                   | -            | (4,863)             | (2,120)      | (4,863)             | (2,120)      |
| Profit after income tax                   | 18,352                 | 8,487        | 894                 | -            | (7,710)             | (3,510)      | 11,536              | 4,977        |
| Assets                                    |                        |              |                     |              |                     |              |                     |              |
| Segment assets                            | 82,821                 | 41,147       | -                   | -            | -                   | -            | 82,821              | 41,147       |
| Liabilities                               |                        |              |                     |              |                     |              |                     |              |
| Segment liabilities                       | 51,198                 | 22,535       | -                   | -            | -                   | -            | 51,198              | 22,535       |
| Other                                     |                        |              |                     |              |                     |              |                     |              |
| Depreciation of segment assets            | 1,807                  | 1,105        | -                   | -            | -                   | -            | 1,807               | 1,105        |
| Acquisition of non-current segment assets | 8,731                  | 3,478        | -                   | -            | -                   | -            | 8,731               | 3,478        |

**Secondary reporting - geographical source**

|                      | <b>Segment revenues from external customers</b> |              | <b>Carrying amount of segment assets</b> |              | <b>Acquisitions of non-current assets</b> |              |
|----------------------|-------------------------------------------------|--------------|------------------------------------------|--------------|-------------------------------------------|--------------|
|                      | <b>2008</b>                                     | <b>2007</b>  | <b>2008</b>                              | <b>2007</b>  | <b>2008</b>                               | <b>2007</b>  |
|                      | <b>\$000</b>                                    | <b>\$000</b> | <b>\$000</b>                             | <b>\$000</b> | <b>\$000</b>                              | <b>\$000</b> |
| Geographical source: |                                                 |              |                                          |              |                                           |              |
| Australia            | 76,020                                          | 52,356       | 61,836                                   | 41,147       | -                                         | 3,478        |
| North America        | 19,926                                          | -            | 20,985                                   | -            | 8,731                                     | -            |
| Indonesia            | 6,539                                           | 1,171        | -                                        | -            | -                                         | -            |
| Africa               | 1,980                                           | 3,784        | -                                        | -            | -                                         | -            |
| South America        | 996                                             | -            | -                                        | -            | -                                         | -            |
| Russia               | 881                                             | -            | -                                        | -            | -                                         | -            |
|                      | 106,342                                         | 57,311       | 82,821                                   | 41,147       | 8,731                                     | 3,478        |

**Accounting policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities include deferred income taxes.

**Inter-segment transfers**

Segment revenues, expenses and results include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the consolidated group at an arm's length basis. These transfers are eliminated on consolidation.

**Business and geographical segments**

The consolidated group does not operate on a divisional basis as most of its activities related to the manufacture of mining products of a very similar nature across all operations. Accordingly, the primary segment reporting is performed on the basis of revenue sources, being mining products manufacture and fees generated from the manufacture of these products under licence.

The consolidated group's business segments, together with manufacturing operations, are located only in Australia and North America. Each of these operations generates revenue domestically and internationally and this is reflected in the secondary segment reporting on the basis of the geographical source of revenue.

**Notes to the financial statements for the year ended 30 June 2008**

**Note 26: Cash flow information**

|                                                                                    | <b>2008</b>                |                      | <b>2007</b>                |                      |
|------------------------------------------------------------------------------------|----------------------------|----------------------|----------------------------|----------------------|
|                                                                                    | <b>Consolidated Entity</b> | <b>Parent Entity</b> | <b>Consolidated Entity</b> | <b>Parent Entity</b> |
|                                                                                    | <b>\$000</b>               | <b>\$000</b>         | <b>\$000</b>               | <b>\$000</b>         |
| <b>a) Reconciliation of cash flow from operations with profit after income tax</b> |                            |                      |                            |                      |
| Profit after income tax                                                            | 11,536                     | 6,763                | 4,977                      | 4,335                |
| Depreciation                                                                       | 1,807                      | 1,105                | 1,148                      | 1,008                |
| Share options expense                                                              | 385                        | 385                  | -                          | -                    |
| (Increase)/decrease in receivables                                                 | (4,978)                    | (8,204)              | 326                        | 56                   |
| (Increase)/decrease in inventories                                                 | (4,002)                    | (2,509)              | 1,930                      | 2,101                |
| (Increase)/decrease in other assets                                                | 1,249                      | 907                  | (1,153)                    | (1,110)              |
| Increase/(decrease) in payables                                                    | 8,315                      | 12,781               | (3,218)                    | (3,387)              |
| Increase/(decrease) in income taxes payable                                        | (740)                      | (222)                | (393)                      | (453)                |
| Increase/(decrease) in provisions                                                  | (88)                       | (260)                | 53                         | 38                   |
| <b>Cash flow from operations</b>                                                   | <b>13,484</b>              | <b>10,746</b>        | <b>3,670</b>               | <b>2,588</b>         |

**b) Acquisition of entities**

**2008:**

Total purchase consideration - cash outflow

Fair value of assets acquired:

|                                             | <b>Austbore Pty Ltd</b> | <b>Western Technology Services Inc.</b> | <b>Total</b> |
|---------------------------------------------|-------------------------|-----------------------------------------|--------------|
|                                             | <b>\$000</b>            | <b>\$000</b>                            | <b>\$000</b> |
| Total purchase consideration - cash outflow | 481                     | 22,202                                  | 22,683       |
| Fair value of assets acquired:              |                         |                                         |              |
| Cash                                        | -                       | 1,787                                   | 1,787        |
| Receivables                                 | -                       | 8,090                                   | 8,090        |
| Inventories                                 | -                       | 4,771                                   | 4,771        |
| Deferred tax assets                         | -                       | 1,767                                   | 1,767        |
| Other assets                                | -                       | 188                                     | 188          |
| Property                                    | -                       | 7,528                                   | 7,528        |
| Plant and equipment                         | -                       | 1,203                                   | 1,203        |
| Payables                                    | -                       | (4,031)                                 | (4,031)      |
| Bank overdraft                              | -                       | (522)                                   | (522)        |
| Other liabilities and provisions            | -                       | (4,757)                                 | (4,757)      |
| Goodwill on acquisition                     | 481                     | 16,024                                  | 16,024       |
|                                             | 481                     | 6,178                                   | 6,659        |
|                                             | 481                     | 22,202                                  | 22,683       |

On 30 November 2007, the company, through its newly-formed 100%-owned subsidiary Austin Engineering Inc., acquired all of the issued share capital of Western Technology Services Inc. (Westech), for a cash consideration of US\$19m. The operating results of Westech included in the consolidated income statement of Austin Engineering Ltd from acquisition on 30 November 2007 to 30 June 2008, and the pro-forma effect of the acquisition of Westech from 1 July 2007, are as follows:

|                  | <b>Westech Result for 7 Months</b> | <b>Consolidated Income Statement</b> | <b>Westech Pro-Forma Result for 12 Months</b> | <b>Consolidated Pro-Forma Income Statement</b> |
|------------------|------------------------------------|--------------------------------------|-----------------------------------------------|------------------------------------------------|
|                  | <b>\$000</b>                       | <b>\$000</b>                         | <b>\$000</b>                                  | <b>\$000</b>                                   |
| Revenue          | 25,210                             | 106,343                              | 43,217                                        | 124,350                                        |
| Profit after tax | 3,144                              | 11,536                               | 5,390                                         | 13,782                                         |

**Notes to the financial statements for the year ended 30 June 2008**

**Note 26: Cash flow information**

**b) Acquisition of entities**

|                                             | Kaldura<br>Industries<br>\$000 | Austbore<br>Pty Ltd<br>\$000 | Total<br>\$000 |
|---------------------------------------------|--------------------------------|------------------------------|----------------|
| <b>2007:</b>                                |                                |                              |                |
| Total purchase consideration - cash outflow | 5,576                          | 11,461                       | 17,037         |
| Fair value of assets acquired:              |                                |                              |                |
| Receivables                                 | -                              | 2,638                        | 2,638          |
| Inventories                                 | -                              | 263                          | 263            |
| Property                                    | 2,346                          | 340                          | 2,686          |
| Plant and equipment                         | 524                            | 3,138                        | 3,662          |
| Payables                                    | -                              | (46)                         | (46)           |
| Interest bearing liabilities                | -                              | (884)                        | (884)          |
| Other liabilities and provisions            | -                              | (879)                        | (879)          |
|                                             | 2,870                          | 4,570                        | 7,440          |
| Goodwill on acquisition                     | 2,706                          | 6,891                        | 9,597          |
|                                             | 5,576                          | 11,461                       | 17,037         |

Goodwill is attributable to the profitability of the acquired businesses and the significant business development and synergies expected to arise after the group's acquisition of all of the businesses. The assets and liabilities arising from acquisitions are recognised at fair value. The fair value of properties is based on independent valuations.

**c) Bank loan facilities**

|                                                                                                     | 2008                            |                           | 2007                            |                           |
|-----------------------------------------------------------------------------------------------------|---------------------------------|---------------------------|---------------------------------|---------------------------|
|                                                                                                     | Consolidated<br>Entity<br>\$000 | Parent<br>Entity<br>\$000 | Consolidated<br>Entity<br>\$000 | Parent<br>Entity<br>\$000 |
| The consolidated group and company had access to the following bank facilities at the balance date: |                                 |                           |                                 |                           |
| Acquisition bank loan                                                                               | 22,000                          | 22,000                    | 10,390                          | 10,390                    |
| Utilised                                                                                            | (19,874)                        | (19,874)                  | (4,852)                         | (4,852)                   |
| Unused                                                                                              | 2,126                           | 2,126                     | 5,538                           | 5,538                     |
| Commercial bill facility                                                                            | -                               | -                         | 1,180                           | 1,180                     |
| Utilised                                                                                            | -                               | -                         | (1,180)                         | (1,180)                   |
| Unused                                                                                              | -                               | -                         | -                               | -                         |
| Business development facility                                                                       | 5,000                           | 5,000                     | -                               | -                         |
| Utilised                                                                                            | -                               | -                         | -                               | -                         |
| Unused                                                                                              | 5,000                           | 5,000                     | -                               | -                         |
| Bank guarantee and trade finance facilities                                                         | 3,000                           | 3,000                     | 1,510                           | 1,510                     |
| Utilised                                                                                            | (2,560)                         | (2,560)                   | (1,022)                         | (1,022)                   |
| Unused                                                                                              | 440                             | 440                       | 488                             | 488                       |
| Overdraft facilities                                                                                | 4,500                           | 4,500                     | 1,450                           | 1,450                     |
| Utilised                                                                                            | -                               | -                         | -                               | -                         |
| Unused                                                                                              | 4,500                           | 4,500                     | 1,450                           | 1,450                     |
| Finance lease and hire purchase facilities                                                          | 5,675                           | 4,184                     | 3,232                           | 879                       |
| Utilised                                                                                            | (2,175)                         | (684)                     | (3,232)                         | (879)                     |
| Unused                                                                                              | 3,500                           | 3,500                     | -                               | -                         |
| Interchangeable facilities                                                                          | 500                             | 500                       | -                               | -                         |
| Utilised                                                                                            | -                               | -                         | -                               | -                         |
| Unused                                                                                              | 500                             | 500                       | -                               | -                         |
| Total facilities                                                                                    | 40,675                          | 39,184                    | 17,762                          | 15,409                    |
| Utilised                                                                                            | (24,609)                        | (23,118)                  | (10,286)                        | (7,933)                   |
| Unused                                                                                              | 16,066                          | 16,066                    | 7,476                           | 7,476                     |

The major facilities are summarised as follows:

**Acquisition bank loan:**

This facility, which lasts until 27 November 2009, was granted by the group's bank to accommodate the purchase of Western Technology Services Inc. on 30 November 2007. The facility, which is multi-currency, was drawn-down in US dollars with the US\$19m purchase price of Westech being equivalent to the \$22m Australian dollar facility limit on the date of purchase. The facility is interest-only and at 30 June 2008 carried a variable interest rate of 3.80%. The interest rate can also be fixed.

**Notes to the financial statements for the year ended 30 June 2008**

**Note 26: Cash flow information**

**c) Bank loan facilities**

Business development facility:

This facility can be drawn-down as a fixed or variable fully-drawn advance or commercial bill at prevailing market interest rates at the date of draw-down. The facility is subject to review every year, with the next review being on 28 October 2008.

Bank guarantee and trade finance facilities:

These facilities are used to provide security for the performance and delivery of products and services delivered to the group's customers. The security provided, generally a bank guarantee, is priced at a set fee every quarter. These facilities are subject to review each year, with the next review being on 28 October 2008.

Overdraft facilities:

These facilities are used to provide working capital support to the group's operations and attract variable interest rates applicable at the date of utilisation. These facilities are subject to review each year, with the next review being on 28 October 2008.

Finance lease and hire purchase facilities:

These facilities are available to assist with the purchase of capital equipment for use in the group's operations and attract fixed interest rates applicable at the date of utilisation. These facilities are subject to review each year, with the next review being on 28 October 2008.

At 30 June 2008 the bank facilities of the consolidated and parent entities are secured by a fixed and floating charge over the assets and undertakings of each of the entities. The group must maintain covenants relating to the debt drawn under the bank's credit facilities. These covenants relate to interest cover and gearing. The group's policy is to centralise debt and surplus cash balances whenever possible.

**Note 27: Share-based payments**

The following share-based payment arrangements existed at 30 June 2008:

- On 22 December 2004 a total of 1,250,000 share options were approved by shareholders and granted to the directors to take up ordinary shares at an exercise price of 30 cents each. The options were exercisable between 20 December 2004 and 20 December 2007. During the year, 1,122,000 of the options were exercised, leaving none unexercised at the balance date.
- On 22 December 2004, 100,000 share options were approved by shareholders and granted to Colin Anderson to take up ordinary shares at an exercise price of 55 cents each. The options were exercisable between 20 December 2004 and 20 December 2007. During the year, all of the options were exercised, leaving none unexercised at the balance date.
- 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 under the Austin Engineering Ltd employee share option plan. 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, 500,000 of these options were exercised, leaving 100,000 unexercised at the balance date.
- On 17 November 2006, 1,250,000 share options were approved by shareholders and granted to the directors 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, 500,000 of the options were exercised leaving 750,000 unexercised at the balance date.
- On 1 September 2007, 200,000 share options were granted to Colin Anderson to take up ordinary shares at an exercise price of \$1.90 each under the Austin Engineering Ltd employee share option plan. The options have a two year vesting period and exercisable between 1 September 2009 and 1 September 2010. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, none of the options vested or were exercised leaving 200,000 unexercised at the balance date.
- On 1 September 2007, 450,000 share options were granted to employees to take up ordinary shares at an exercise price of \$1.90 each under the Austin Engineering Ltd employee share option plan. The options have a two year vesting period and are exercisable between 1 September 2009 and 1 September 2010. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, none of the options vested or were exercised leaving 450,000 unexercised at the balance date.
- On 23 November 2007, 1,250,000 share options were approved by shareholders and granted to the directors to take up ordinary shares at an exercise price of \$2.00 each. The options are exercisable between 23 November 2007 and 23 November 2010. 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, for both the consolidated and parent entities:

|                                  | 2008              |                                    | 2007              |                                    |
|----------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
|                                  | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at beginning of year | 3,072,000         | 0.47                               | 1,350,000         | 0.32                               |
| Granted                          | 1,900,000         | 1.97                               | 2,000,000         | 0.56                               |
| Exercised                        | (2,222,000)       | 0.42                               | (278,000)         | 0.41                               |
| Outstanding at end of year       | 2,750,000         | 1.54                               | 3,072,000         | 0.47                               |

**Notes to the financial statements for the year ended 30 June 2008**

**Note 27: Share-based payments**

The options outstanding at 30 June 2008 had a weighted average remaining contractual life of 1.86 years. The exercise prices for these options range from \$0.60 to \$2.00. Included under employee benefits expense in the income statement is \$385,000 and this relates, in full, to equity-settled share-based payment transactions.

**Note 28: Events after the balance sheet date**

On 18 August 2008 the company declared a fully-franked dividend of 6.5 cents per share for the financial year ended 30 June 2008. The dividend record date will be on 12 September 2008 and the dividend will be paid on 10 October 2008. This dividend has not been provided for in the 30 June 2008 financial statements.

The financial report was authorised for issue by the board of directors on 16 September 2008.

**Note 29: Related party transactions**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties.

**Ultimate parent company:**

Austin Engineering Limited is the ultimate parent company.

**Controlled entities:**

Interests in controlled entities are disclosed in note 14. During the year, funds were advanced between entities within the group for the purposes of working capital requirements only. The aggregate of amounts due from and to wholly-owned controlled entities at the balance date are disclosed in notes 12 and 16. All loans are interest-free and have no fixed repayment date.

**Transactions with director-related parties:**

Eugene Fung, a non-executive director of the company, is a partner in the law firm DLA Phillips Fox. The firm provided legal services to the company on normal commercial terms to the value of \$125,761 during the year (2007: \$32,577).

**Note 30: Financial risk management**

The group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risks. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the business. The group uses, when necessary, derivative financial instruments such as foreign exchange contracts to hedge certain market risk exposures. The group has no derivatives at the end of the financial year. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by the finance function under policies approved by the board of directors. The finance function identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides principles and overall risk management and the finance function provides policies with regard to financial risk management that are clearly defined and consistently applied.

**Market risk:**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the entity's income or the value of its holdings in financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising returns.

**Foreign exchange risk:**

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and to a lesser extent other currencies.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The Australian dollar is the functional currency for a large part of the group's entities and business activities.

Management has put in place a policy requiring business units and group companies to manage their foreign exchange risk against their functional currency. The group companies are required to bring significant foreign currency transactions to the attention of the central finance function for evaluation as to the use of hedging using forward foreign currency contracts.

At 30 June 2008, had the Australian dollar weakened or strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been \$358,000 higher or lower (2007: nil) due to the change in value of the net income by entities in the group having the US dollar as their functional currency and increased interest costs on a US dollar-denominated bank loan. Equity would have been \$203,000 higher or lower had the Australian dollar weakened or strengthened by 10% against the US dollar arising mainly, also as a result of the change in value of the net equity of entities in the group with the US dollar as their functional currency and increased interest costs.

Refer to notes 10 and 16 for a summary of the group's exposure to foreign exchange risk at the financial year-end.

**Price risk:**

The group and parent entity are not exposed to material price risk on profit or loss and it has therefore not been included in the sensitivity analysis.

**Notes to the financial statements for the year ended 30 June 2008**

**Note 30: Financial risk management**

Cash flow and fair value interest rate risk:

The group analyses its interest rate exposure on an ongoing basis. Various interest rate shifts are simulated taking into account refinancing, renewal of existing obligations and facilities, alternative financing and hedging. Based on these interest rate shifts, the group calculates the impact on profit and loss. The interest rate shift scenario is run only for assets and liabilities that represent the major interest-bearing positions. Based on the simulations performed, the annual impact on profit and loss of a one percent shift in interest rates, with all other variables held constant, is estimated to be a maximum increase or decrease of \$200,000 (2007:\$60,000). The simulation is performed on a bi-annual basis to estimate the maximum loss potential.

The following table analyses the group's financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date. All amounts disclosed in the table are the contractual undiscounted cash flows.

|                             | Floating<br>Interest<br>Rate | Fixed Rate Maturing Within: |                          | Non<br>Interest<br>Bearing | Total  | Weighted<br>Average<br>Interest Rate |
|-----------------------------|------------------------------|-----------------------------|--------------------------|----------------------------|--------|--------------------------------------|
|                             | \$000                        | 1 Year<br>\$000             | 1 to 5<br>Years<br>\$000 | \$000                      | \$000  | %                                    |
| <b>Consolidated entity:</b> |                              |                             |                          |                            |        |                                      |
| <b>2008:</b>                |                              |                             |                          |                            |        |                                      |
| Financial Assets:           |                              |                             |                          |                            |        |                                      |
| Cash                        | 5,810                        | -                           | -                        | -                          | 5,810  | 5.80                                 |
| Receivables                 | -                            | -                           | -                        | 22,695                     | 22,695 | -                                    |
| Other financial assets      | -                            | -                           | -                        | 1,717                      | 1,717  | -                                    |
| Total Financial Assets      | 5,810                        | -                           | -                        | 24,412                     | 30,222 |                                      |
| Financial Liabilities:      |                              |                             |                          |                            |        |                                      |
| Payables                    | -                            | -                           | -                        | 26,044                     | 26,044 | -                                    |
| Bank loan                   | 19,874                       | -                           | -                        | -                          | 19,874 | 3.80                                 |
| Lease liabilities           | -                            | 548                         | 1,417                    | -                          | 1,965  | 8.00                                 |
| Total Financial Liabilities | 19,874                       | 548                         | 1,417                    | 26,044                     | 47,883 |                                      |
| <b>2007:</b>                |                              |                             |                          |                            |        |                                      |
| Financial Assets:           |                              |                             |                          |                            |        |                                      |
| Cash                        | 6,309                        | -                           | -                        | -                          | 6,309  | 5.80                                 |
| Receivables                 | -                            | -                           | -                        | 10,239                     | 10,239 | -                                    |
| Other assets                | -                            | -                           | -                        | 1,852                      | 1,852  | -                                    |
| Total Financial Assets      | 6,309                        | -                           | -                        | 12,093                     | 18,402 |                                      |
| Financial Liabilities:      |                              |                             |                          |                            |        |                                      |
| Payables                    | -                            | -                           | -                        | 10,616                     | 10,616 | -                                    |
| Commercial bill             | -                            | 430                         | 750                      | -                          | 1,180  | 7.97                                 |
| Bank loan                   | 4,852                        | -                           | -                        | -                          | 4,852  | -                                    |
| Lease liabilities           | -                            | 823                         | 1,998                    | -                          | 2,821  | 7.95                                 |
| Total Financial Liabilities | 4,852                        | 1,253                       | 2,748                    | 10,616                     | 19,469 |                                      |
| <b>Parent entity:</b>       |                              |                             |                          |                            |        |                                      |
| <b>2008:</b>                |                              |                             |                          |                            |        |                                      |
| Financial Assets:           |                              |                             |                          |                            |        |                                      |
| Cash                        | 4,535                        | -                           | -                        | -                          | 4,535  | 5.80                                 |
| Receivables                 | -                            | -                           | -                        | 16,074                     | 16,074 | -                                    |
| Investments                 | -                            | -                           | -                        | 20,135                     | 20,135 | -                                    |
| Other financial assets      | -                            | -                           | -                        | 18,438                     | 18,438 | -                                    |
| Total Financial Assets      | 4,535                        | -                           | -                        | 54,647                     | 59,182 |                                      |
| Financial Liabilities:      |                              |                             |                          |                            |        |                                      |
| Payables                    | -                            | -                           | -                        | 29,279                     | 29,279 | -                                    |
| Bank loan                   | 19,874                       | -                           | -                        | -                          | 19,874 | 3.80                                 |
| Lease liabilities           | -                            | 120                         | 505                      | -                          | 625    | 8.00                                 |
| Total Financial Liabilities | 19,874                       | 120                         | 505                      | 29,279                     | 49,778 |                                      |

**Notes to the financial statements for the year ended 30 June 2008**

**Note 30: Financial risk management**

Cash flow and fair value interest rate risk:

|                             | Floating<br>Interest<br>Rate | Fixed Rate Maturing Within: |                 | Non<br>Interest<br>Bearing | Total  | Weighted<br>Average<br>Interest Rate |
|-----------------------------|------------------------------|-----------------------------|-----------------|----------------------------|--------|--------------------------------------|
|                             |                              | 1 Year                      | 1 to 5<br>Years |                            |        |                                      |
|                             | \$000                        | \$000                       | \$000           | \$000                      | \$000  | %                                    |
| <b>Parent entity:</b>       |                              |                             |                 |                            |        |                                      |
| <b>2007:</b>                |                              |                             |                 |                            |        |                                      |
| Financial Assets:           |                              |                             |                 |                            |        |                                      |
| Cash                        | 6,095                        | -                           | -               | -                          | 6,095  | 5.65                                 |
| Receivables                 | -                            | -                           | -               | 7,870                      | 7,870  | -                                    |
| Other financial assets      | -                            | -                           | -               | 9,480                      | 9,480  | -                                    |
| Total Financial Assets      | 6,095                        | -                           | -               | 17,530                     | 23,445 |                                      |
| Financial Liabilities:      |                              |                             |                 |                            |        |                                      |
| Payables                    | -                            | -                           | -               | 10,179                     | 10,179 | -                                    |
| Commercial bill             | -                            | 430                         | 750             | -                          | 1,180  | 7.97                                 |
| Bank loan                   | 4,852                        | -                           | -               | -                          | 4,852  | -                                    |
| Lease liabilities           | -                            | 175                         | 621             | -                          | 796    | 7.95                                 |
| Total Financial Liabilities | 4,852                        | 605                         | 1,371           | 10,179                     | 17,007 |                                      |

Summarised sensitivity analysis:

The following table summarises the sensitivity of the group's financial assets and liabilities to interest rate and foreign exchange risk:

|                                  | Carrying<br>Amounts<br>\$000 | Interest rate risk |        |        |        | Foreign exchange risk |         |        |         |
|----------------------------------|------------------------------|--------------------|--------|--------|--------|-----------------------|---------|--------|---------|
|                                  |                              | +1%                |        | -1%    |        | +10%                  |         | -10%   |         |
|                                  |                              | Profit             | Equity | Profit | Equity | Profit                | Equity  | Profit | Equity  |
| <b>2008</b>                      |                              |                    |        |        |        |                       |         |        |         |
| <b>Financial assets</b>          |                              |                    |        |        |        |                       |         |        |         |
| Cash and cash equivalents        | 5,810                        | (105)              | (105)  | 105    | 105    | 71                    | (29)    | (71)   | 29      |
| Other current assets             | 35,367                       | -                  | -      | -      | -      | -                     | (1,046) | -      | 1,046   |
| Non-current assets               | 41,644                       | -                  | -      | -      | -      | -                     | (1,291) | -      | 1,291   |
| <b>Financial liabilities</b>     |                              |                    |        |        |        |                       |         |        |         |
| Payables                         | 26,044                       | -                  | -      | -      | -      | -                     | 296     | -      | (296)   |
| Borrowings                       | 21,839                       | -                  | -      | -      | -      | -                     | 1,807   | -      | (1,807) |
| Other liabilities and provisions | 3,315                        | -                  | -      | -      | -      | -                     | 60      | -      | (60)    |
| Total increase/(decrease)        |                              | (105)              | (105)  | 105    | 105    | 71                    | (203)   | (71)   | 203     |

|                                  | Carrying<br>Amounts<br>\$000 | Interest rate risk |        |        |        | Foreign exchange risk |        |        |        |
|----------------------------------|------------------------------|--------------------|--------|--------|--------|-----------------------|--------|--------|--------|
|                                  |                              | +1%                |        | -1%    |        | +10%                  |        | -10%   |        |
|                                  |                              | Profit             | Equity | Profit | Equity | Profit                | Equity | Profit | Equity |
| <b>2007</b>                      |                              |                    |        |        |        |                       |        |        |        |
| <b>Financial assets</b>          |                              |                    |        |        |        |                       |        |        |        |
| Cash and cash equivalents        | 6,311                        | (14)               | (14)   | 14     | 14     | -                     | -      | -      | -      |
| Trade and other receivables      | 15,250                       | -                  | -      | -      | -      | -                     | -      | -      | -      |
| Non-current assets               | 19,586                       | -                  | -      | -      | -      | -                     | -      | -      | -      |
| <b>Financial liabilities</b>     |                              |                    |        |        |        |                       |        |        |        |
| Payables                         | 10,616                       | -                  | -      | -      | -      | -                     | -      | -      | -      |
| Borrowings                       | 8,853                        | -                  | -      | -      | -      | -                     | -      | -      | -      |
| Other liabilities and provisions | 3,066                        | -                  | -      | -      | -      | -                     | -      | -      | -      |
| Total increase/(decrease)        |                              | (14)               | (14)   | 14     | 14     | -                     | -      | -      | -      |

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or contract, leading to a financial loss. Credit risk arises principally from receivables, including inter-company loans. Credit risk is co-operatively managed by the finance function and the operating units for customers, including outstanding receivables and committed transactions and at a group level for credit risk arising from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. Only reputable banks and financial institutions are dealt with.

Individual risk exposures are set for customers in accordance with specified limits established by management based on independent credit reports, financial information, credit references and the group's credit and trading history with the customer. Outstanding customer receivables are regularly monitored and any credit concerns highlighted to senior management. High risk projects or shipments for customers are generally covered by letters of credit or other forms of guarantee.

At 30 June 2008, the group did not have any material concentration of credit risk exposures to any single receivable or group of receivables under financial instruments entered into by the group.

**Notes to the financial statements for the year ended 30 June 2008**

**Note 30: Financial risk management**

**Credit risk**

The maximum exposure to credit risk, without taking into account the value of any collateral or other security, in the event that other parties fail to perform their obligations under financial instruments for each class of reporting recognised financial asset at the reporting date is the carrying amount of those assets as indicated in the balance sheet.

Refer note 10 for a summary of the group's exposure to credit risk at the end of the financial year.

**Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due.

The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions. The group has established a number of policies and processes for managing liquidity risk. These include:

- Continuously monitoring cash flows on a daily basis as well as forecasting cash flows on a medium and long-term basis
- Monitoring the maturity profiles of financial assets and liabilities in order to match inflows and outflows
- Maintaining adequate reserves and support facilities
- Monitoring liquidity ratios and all constituent elements of working capital
- Maintaining adequate borrowing and finance facilities

The group maintains backup liquidity for its operations and currently maturing debts through a combination of bank overdrafts, bank guarantees and general finance facilities, of which \$16,066,000 was undrawn at 30 June 2008. These facilities continue on an ongoing basis, subject to annual review, with the exception a \$19m loan associated with the purchase of Westech, which is due for repayment on 27 November 2009.

The table below analyses the financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date. As amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments, these balances will not necessarily agree with the amounts disclosed on the balance sheet.

|                             | 1 Year<br>\$000 | 1 to 5<br>Years<br>\$000 | Total<br>\$000 |
|-----------------------------|-----------------|--------------------------|----------------|
| <b>Consolidated entity:</b> |                 |                          |                |
| <b>2008:</b>                |                 |                          |                |
| Payables                    | 26,044          | -                        | 26,044         |
| Bank loan                   | 795             | 20,200                   | 20,995         |
| Lease liabilities           | 606             | 1,569                    | 2,175          |
| Total financial liabilities | 27,445          | 21,769                   | 49,214         |
| <b>2007:</b>                |                 |                          |                |
| Payables                    | 10,616          | -                        | 10,616         |
| Commercial bill             | 464             | 840                      | 1,304          |
| Bank loan                   | 4,852           | -                        | 4,852          |
| Lease liabilities           | 942             | 2,290                    | 3,232          |
| Total financial liabilities | 16,874          | 3,130                    | 20,004         |
| <b>Parent entity:</b>       |                 |                          |                |
| <b>2008:</b>                |                 |                          |                |
| Payables                    | 29,279          | -                        | 29,279         |
| Bank loan                   | 795             | 20,200                   | 20,995         |
| Lease liabilities           | 131             | 553                      | 625            |
| Total Financial Liabilities | 30,205          | 20,753                   | 50,958         |
| <b>2007:</b>                |                 |                          |                |
| Payables                    | 10,179          | -                        | 10,179         |
| Commercial bill             | 464             | 840                      | 1,304          |
| Bank loan                   | 4,852           | -                        | 4,852          |
| Lease liabilities           | 193             | 685                      | 878            |
| Total Financial Liabilities | 15,688          | 1,525                    | 17,213         |

**Notes to the financial statements for the year ended 30 June 2008**

**Note 30: Financial risk management**

**Fair Value**

Aggregate net fair values and carrying amounts of financial assets and liabilities at the balance date are as follows:

|                                             | 2008            |                | 2007            |                |
|---------------------------------------------|-----------------|----------------|-----------------|----------------|
|                                             | Carrying Amount | Net Fair Value | Carrying Amount | Net Fair Value |
|                                             | \$000           | \$000          | \$000           | \$000          |
| <b>Financial assets</b>                     |                 |                |                 |                |
| Cash and cash equivalents                   | 5,810           | 5,810          | 6,311           | 6,311          |
| Loans and receivables                       | 22,695          | 22,695         | 10,239          | 10,239         |
| Investments                                 | 1,717           | 1,717          | 1,852           | 1,852          |
| Total financial assets                      | 30,222          | 30,222         | 18,402          | 18,402         |
| <b>Financial liabilities</b>                |                 |                |                 |                |
| Trade and other payables                    | 26,044          | 26,044         | 10,616          | 10,616         |
| Bank borrowings                             | 19,874          | 19,874         | 6,032           | 6,032          |
| Finance lease and hire purchase obligations | 1,965           | 1,965          | 2,821           | 2,821          |
| Total financial liabilities                 | 47,883          | 47,883         | 19,469          | 19,469         |

**Note 31: New accounting standards and interpretations issued but not yet effective**

New accounting standards and interpretations have been published that are not compulsory for the 30 June 2008 reporting period. The standards and interpretations have not been adopted in the preparation of the financial report for the financial year ended 30 June 2008. The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group or parent entity. The group's assessment of the impact of these new standards and interpretations is set out below.

**AASB 3: Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 amendments to Australian Accounting Standards arising from AASB 3 and AASB 127**

This revised accounting standard applies to business combinations where the acquisition date is on or after the beginning of the first reporting period that commences 1 July 2009 or later. As there is no requirement to retrospectively restate comparative amounts for business combinations undertaken before this date, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.

Due to the nature of some of the changes in the revised standard, business combinations that the group undertakes after this date may in future impact negatively on the results of the group. For example, acquisition costs will have to be expensed instead of being recognised as part of goodwill. Specific changes in respect of step acquisitions and sell downs may introduce situations whereby adopting the revised standard may improve profitability. Also, deferred tax assets that do not satisfy recognition criteria when a business combination is initially accounted for, but do subsequently qualify for recognition post acquisition date, will be recognised as a credit to the income statement and there will be no consequential write-down of goodwill for a similar amount, provided that the deferred tax assets are recognised outside the initial measurement period of 12 months from acquisition date. The group has not yet decided when it will apply the revised standards.

**AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Account Standards arising from AASB 8**

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting as it requires adoption of a 'management approach' to reporting on financial performance. The information to be reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. At this stage it is not expected to affect any of the amounts recognised in the financial statements.

**Revised AASB 101: Presentation of Financial Statements and AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101**

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods commencing on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet being at the beginning of the comparative period. The group intends to apply the revised standard from 1 July 2009.

**AASB 2008-1: Amendments to Australian Accounting Standards - Share Based Payment:**

This standard relates to vesting conditions, cancellations and changes to the measurement of share based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the group's 30 June 2010 financial statements. The group has not yet determined the potential effect of the amending standard on the group's financial report.

**Directors' Declaration**

In directors of the company declare:

1. The financial statements and notes, as set out in pages 14 to 40 of this report, are in accordance with the Corporations Act 2001; and
  - a) comply with Accounting standards and the Corporations Regulations 2001; and
  - b) give a true and fair view of the financial position at 30 June 2008 and of the performance for the year ended on that date of the consolidated and parent entity
2. The chief executive officer and chief financial officer have each declared that:
  - a) the financial records of the consolidated entity for the financial year have been properly maintained in accordance with section 268 of the Corporations Act 2001;
  - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c) the financial statements and notes for the financial year give a true and fair view
3. In the directors' opinion there are reasonable grounds to believe the consolidated entity will be able to pay its debts as and when they become due and payable.

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



**Michael D. Buckland**  
Director

16 September 2008

**INDEPENDENT AUDITOR'S REPORT**

To the members of Austin Engineering Limited

ABN 70 202 702 402

**Report on the Financial Report**

We have audited the accompanying financial report of Austin Engineering Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's Responsibility*

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

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

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

**Auditor's Opinion**

In our opinion:

- (a) 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 company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included from pages 4 to 7 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion, the Remuneration Report of Austin Engineering Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

BDO Kendalls (Qld)  
Chartered Accountants



P Gallagher  
Partner

Dated at Brisbane this 16<sup>th</sup> day of September 2008

**Austin Engineering Ltd**  
*and its controlled entities*  
**Annual Report 2008**

**Additional Information for Public Listed Companies**

**1. Substantial Shareholders at 5 September 2008**

|                  | Number of<br>Ordinary Fully<br>Paid<br><u>Shares Held</u> | % Held of<br>Ordinary<br><u>Shares</u> |
|------------------|-----------------------------------------------------------|----------------------------------------|
| Thorney Pty Ltd  | 2,483,984                                                 | 5.27                                   |
| Michael Buckland | 2,463,448                                                 | 5.23                                   |

**2. Distribution of Shareholdings at 5 September 2008**

| <u>Range of Holding</u>               | <u>Number of<br/>Shareholders</u> |
|---------------------------------------|-----------------------------------|
| 1 - 1,000                             | 731                               |
| 1,001 - 5,000                         | 1,360                             |
| 5,001 - 10,000                        | 504                               |
| 10,001 - 100,000                      | 553                               |
| 100,001 and over                      | 42                                |
|                                       | <u>3,190</u>                      |
| Holding less than a marketable parcel | <u>139</u>                        |

**3. Voting Rights**

All ordinary shares issued by the company carry one vote per share without restriction.

**4. Twenty Largest Shareholders at 5 September 2008**

| <u>Name</u>                                                      | Number of<br>Ordinary Fully<br>Paid<br><u>Shares Held</u> | % Held of<br>Issued<br>Ordinary<br><u>Capital</u> |
|------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------|
| Invia Custodian Pty Ltd (Black Account)                          | 2,483,984                                                 | 5.27                                              |
| National Nominees Ltd                                            | 2,271,604                                                 | 4.82                                              |
| S J Quinlivan Pty Ltd                                            | 2,143,448                                                 | 4.55                                              |
| Mr Michael Douglas Buckland                                      | 1,704,827                                                 | 3.62                                              |
| Merrill Lynch (Australia) Nominees Pty Ltd                       | 1,537,672                                                 | 3.26                                              |
| UBS Nominees Pty Ltd                                             | 1,411,035                                                 | 3.00                                              |
| ANZ Nominees Ltd                                                 | 1,133,655                                                 | 2.41                                              |
| Cogent Nominees Pty Ltd                                          | 1,108,435                                                 | 2.35                                              |
| Citicorp Nominees Pty Ltd                                        | 899,689                                                   | 1.91                                              |
| Redcentre Pty Ltd                                                | 698,621                                                   | 1.48                                              |
| HSBC Custody Nominees Pty Ltd                                    | 650,945                                                   | 1.38                                              |
| Mr Peter Fitch & Mrs Noreen Fitch (Vasbyt Superannuation Fund)   | 603,448                                                   | 1.28                                              |
| Mr Peter Pursey & Mrs Helen Pursey (VB Account)                  | 534,000                                                   | 1.13                                              |
| Mr Eugene Fung                                                   | 530,448                                                   | 1.13                                              |
| Newfund Pty Ltd (Green Pastures S/F Account)                     | 530,000                                                   | 1.12                                              |
| Mt Livio Pietro Divitini (L P Divitini Family Account)           | 403,892                                                   | 0.86                                              |
| Mr Iain and Mrs Rachael Frances Hepburn (Hepburn Super Fund)     | 399,999                                                   | 0.85                                              |
| Aust Executor Trustees NSW Ltd (Patriot Small Co Fund Account)   | 350,000                                                   | 0.74                                              |
| Researched Investments Pty Ltd (Richard Cruickshank S/F Account) | 350,000                                                   | 0.74                                              |
| WRG Investments Pty Ltd                                          | 340,010                                                   | 0.72                                              |
|                                                                  | <u>20,085,712</u>                                         | <u>42.62</u>                                      |

**5. Additional Information**

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

**Austin Engineering Ltd**  
*and its controlled entities*  
**Annual Report 2008**

**Company Information**

**Registered Office, Principal Place of Business and Brisbane Operation:**

173 Cobalt Street  
Carole Park  
Queensland, 4300  
P: +61 7 3271 2622  
F: +61 7 3271 3689

**Western Australia Operation:**

100 Chisholm Crescent  
Kewdale  
Western Australia, 6105  
P: +61 8 9334 0666  
F: +61 8 9359 2390

**Mackay Operations:**

Austin Mackay (formerly Kaldura Industries)  
55 Len Shield St.  
Mackay  
Queensland, 4740  
P: +61 7 4952 4533  
F: +61 7 4952 4687

Austbore Pty Ltd  
12-16 Progress Drive  
Mackay  
Queensland, 4740  
P: +61 7 4952 6222  
F: +61 7 4952 6223

**USA Operation:**

Western Technology Services Inc.  
415 First Street  
Mills  
Wyoming, 82644  
P: +11 1 307 235 6475  
F: +11 1 307 235 3306

**Share Registry:**

Advanced Share Registry Services  
150 Stirling Highway, Nedlands, WA 6009  
P.O. Box 1156  
Nedlands  
Western Australia, 6909  
P: +61 8 9389 8033  
F: +61 7 9389 7871

**Lawyers:**

DLA Phillips Fox  
Waterfront Place  
1 Eagle Street  
Brisbane, 4000

**Auditors:**

BDO Kendalls (Qld)  
Level 18  
300 Queen Street  
Brisbane  
Queensland, 4000

**Bankers:**

Australia and New Zealand Banking Group  
324 Queen Street  
Brisbane  
Queensland, 4000

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](http://www.austineng.com.au)