



2010 Annual Report

Chairman's Report

I am pleased to report for the sixth consecutive year another record result, with group profit after tax up 30% to \$19.26 million despite a year-on-year reduction in total group revenue due to the lingering effects of the global financial crisis. Increased efficiencies across the group, particularly for Australian operations and for the Brisbane workshop which returned a record result, were a key factor behind the increase. The result for the year was also boosted by very good contributions from our Middle East operations and, as of August 2009, our new South American operations.

The expansion into South America by Austin Ingenieros Chile has proven to be very successful following the lack of application by the previous Westech licensee. The Chilean operation enjoyed a solid level of activity during the year and returned operating margins at or above expectations which augers well for the future. In looking at the wider mining market including Brazil, Peru and Colombia, we expect that the contribution to group profit from this region will equal or possibly exceed the contribution from our Australian operations in the not too distant future. With this in mind we have commenced building a substantial facility in La Negra, close to Antofagasta, to manufacture our complete range of products for the region. We are also in final negotiations to build a service centre in the northern Chilean town of Calama, which is the hub of a large number of mines operated by our major customers. We are also currently looking at building or acquiring a business in Colombia with approval expected within the next two months.

Our joint venture in Brazil is finally moving forward due to some delays in establishing the joint venture company. We expect our first orders from Brazil in the next few weeks although in the short-term these may have to be built in Chile for operational reasons. As reported previously, the market possibilities in Brazil are significant and establishing a direct market presence in the country with our joint venture partner is necessary in order to successfully meet our customer requirements.

Whilst we have been putting substantial efforts into ensuring our South American operations commence and progress smoothly and seamlessly, we have not neglected opportunities in Australia. On 1 July 2010 we acquired a well-respected mining services provider, Pilbara Hire Group Pty Ltd. This now enables us to provide quality on-site services for our own products in the Pilbara region of Western Australia as well as the ability to move into on-site service operations in iron ore mines, similar to the services provided by our Mackay operations to the coal mines in central Queensland.

Our Western Australian operation has been successful in supplying products into Indonesia over the last twelve months. This has given us a good introduction to the mining companies operating in the region and has demonstrated the quality of our products and their future market potential. This success has encouraged us to commence the process for building a facility on Batam Island, a free trade zone within Indonesia, which is easily serviced by ferry and barge from Singapore. We expect the facility to be up and running in twelve months and this will allow us to have preferred supplier access to the Indonesian mines.

A segment of the Australian market where we have significant business opportunities is the New South Wales coal mining region, which extends through the Hunter Valley to Mudgee and Gunnedah. The projected growth in this region is substantial and whilst it has always been an area of strategic focus for us, we have not until recently found an acquisition target that meets our investment and operational criteria. The completion of this acquisition in the Hunter Valley will allow us to provide maintenance and service back-up support for our products similar to our existing operations in Mackay and through Pilbara Hire in Western Australia. Strategically this acquisition is very important as a number of major mining projects in the region are planned to be announced in the next twelve months. A direct presence in this area will position Austin well as the only integrated manufacturer and service operator in the area.

In recognition of the solid financial result for the year, the Board is pleased to be able to raise the full-year dividend to 9.5 cents per share, up 19% year-on-year, which falls within our stated dividend payout ratio of 25% to 40% of net profit after tax while retaining sufficient funds to meet our forthcoming business expansion plans.

In past annual reports I have on your behalf congratulated our highly motivated management team for their efforts over the year. In light of the substantial profit improvement in 2010 over the previous year despite the difficult post-global financial crisis operating environment, their efforts this year are all the more praiseworthy.



Peter Fitch
Non-Executive Chairman

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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 2010.

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

Paul Reading

Secretary

Colin Anderson

Principal Activities

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

Review of Operations and Results

	Year Ended 30 June 2010	Year Ended 30 June 2009	Change
	\$m	\$m	%
Revenue	144.01	179.32	-20%
EBIT	26.51	21.60	+23%
PBT	26.47	20.87	+27%
NPAT	19.26	14.83	+30%
Basic earnings per share (cents)	28.25	31.39	-10%
Net assets	86.66	51.95	+67%
Final dividend per share (cents)	7.5	6.5	+15%
Total annual dividend per share (cents)	9.5	8.0	+19%

Operational Review

There was a recovery in business conditions across the Australian mining services sector during the financial year, with customer confidence improving and activity levels for the major miners increasing. This translated into renewed demand for mining equipment in the second quarter of the year and resulted in the group's Australian business units receiving new orders for dump truck bodies, buckets and ancillary equipment. Workload levels increased accordingly over the course of the second half of the year, with activity concentrating on a number of orders for the supply of larger series of dump truck bodies, which helped to lift capacity utilisation.

Business conditions in North America were below normal throughout the year with subdued equipment demand from original equipment manufacturers, miners and contractors. The group's joint venture operations in Oman enjoyed a very good level of activity over the first half of the year, with two major projects being undertaken for the supply of aluminium smelter equipment in the region. Following the completion of these projects in January/February 2010, joint venture operations concentrated on an ongoing contract, which will continue for another two years, for the repair of aluminium smelter equipment for a customer based in Oman.

The establishment of operations in Chile in early August 2009 progressed very well during the year. Activity was largely dedicated to the manufacture of dump truck bodies, with the number of products delivered being ahead of expectations. The business unit (Austin Ingenieros Chile: Austin Engineering Chile) was also successful in expanding its customer base in Chile and Peru and significant progress was also made with expanding its capabilities through the commencement of repair and maintenance operations and the introduction of the group's Westech product lines into the region.

Result for the Financial Year

Earnings before interest and tax for the financial year were \$26.5m, up from \$21.6m in the previous financial year, an increase of 23%. Business units achieved good performance over the year, despite the comparatively lower level of activity in the first half. Productivity gains were achieved, particularly for the Australian business units, with increased capacity utilisation and the benefits of larger series of dump truck body orders helping to lift operating margins. The group's joint venture operations in Oman returned very satisfactory margins on the two major projects completed during the year whilst the new Chile operation achieved operating margins above expectations.

Continuing lower interest costs associated with the US\$19m Westech acquisition bank loan had a favourable impact on profit before tax, which increased by 27% over the year from \$20.9m to \$26.5m. Lower rates of income tax in Oman and Chile assisted relative net profit after tax performance, which increased by 30% from \$14.8m to \$19.3m over the year.

Financial Position

Net assets increased by 67% over the year to \$86.7m. The increase reflects the profit contribution over the year as well as a net \$19.8m of new equity from the completion of the capital raising program as part of the group's expansion plans into South America. Net tangible asset backing per share increased to 65.2c from 63.2c last year.

Directors' Report

Review of Operations and Results

Cash Flow and Liquidity

Throughout the year a larger proportion of projects were undertaken on a payment-after-delivery basis which resulted in higher levels of working capital across the group, particularly in the lead-up to the end of the financial year. These increased levels of working capital were accommodated comfortably by the group and operational cash flows remained solid, with \$13.3m being generated in the financial year. Cash receipts from customers and payments to suppliers were made in normal timeframes, reflecting favourable and improved trading conditions across the mining services sector.

Non-operational cash flows largely consisted of business expansion initiatives into South America with the purchase of the steel dump truck body business of Conymet Limitada for US\$ 19.6m (Australian dollar equivalent \$24.7m) in early August 2009. This strategic investment was funded by a \$31m capital raising program, consisting of an institutional placement which raised \$10.2m in June 2009 and \$15.8m in July 2009 and a shareholder share purchase plan which raised \$4.9m in July 2009. In addition, in August 2009 the company repaid \$2.0m of bank debt associated with the purchase of the Austbore workshop in Mackay. The group also continued to invest in capital expenditure programs aimed at improving productivity and capacity. A total of \$5.9m was expended during the year, with the most significant expenditure being \$2.0m on the purchase of land at La Negra in northern Chile to enable the construction of a new, specially-designed workshop to be commenced.

Debt

At the end of the financial year, gross debt totalled \$23.3m, of which the principal component was a US\$19m bank loan relating to the purchase of Westech in late 2007. The Australian dollar equivalent value of this loan was \$22.3m and repayment of the loan was extended until February 2012 on an interest-only basis. It continues to attract US interest rates which are currently at very low underlying levels.

The net gearing ratio at the end of the financial year was 2%, down from 22% at June 2009 (excluding \$10.2m of tranche 1 funding from the institutional aspect of the capital raising completed in July 2009). This reduction reflected the strong annual net profit generated in the 09/10 financial year, solid year-end free cash resources of \$21m and further strengthening of the balance sheet following completion of the \$31m capital raising program in July 2009.

The provision of banking facilities requires that the company complies with three principal covenants, mainly in relation to debt servicing, capital structuring and interest cover. The company operated within the covenants very comfortably throughout the financial year, with a year-end net debt-to-EBITDA ratio of 0.07, a net gearing ratio of 2% and EBIT interest cover ratio of 50 for the year. None of the covenants have conditions related to the company's share price or market capitalisation.

Dividends

The company paid a fully-franked final dividend of 6.5c per share on 9 October 2009 for the financial year ended 30 June 2009. An interim fully-franked dividend of 2.0 cents per share, up from 1.5 cents per share in the previous corresponding period, was paid on 26 March 2010.

A final dividend of 7.5 cents per share, up 15% from the previous year's final dividend, has been declared for the financial year ended 30 June 2010. This brings the total dividend for the year to 9.5 cents per share, an increase of 19%. The final dividend will be paid on 8 October 2010, with the record date being 10 September 2010. The dividend payout ratio for the year is approximately 35%, which is consistent with the company's dividend payout ratio policy of 25% to 40%.

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. On 2 July 2010 the group announced the acquisition of Pilbara Hire Group Pty Ltd for a purchase price of \$13m payable in cash. This acquisition will provide the group with expanded service offerings to key customers in Western Australia. Integration of the Pilbara Hire business into the group's existing operations was completed seamlessly in a short period of time and a number of important business expansion opportunities and synergies are in the process of being implemented.

Outlook

Business conditions across the mining services sector improved in general over the course of the 09/10 financial year and continue to show signs of further strengthening in most of the key areas in which the group operates. Australian miners are continuing with significant expansion plans in the Pilbara region of Western Australia, the Bowen Basin in Queensland and the Hunter Valley in New South Wales. The group's Western Australian operation in particular enters the new financial year with solid workload levels, whilst in the east coast a number of orders have been received for equipment to be delivered to the Bowen Basin into the new calendar year. A number of projects in the Hunter Valley are being pursued and success in securing these would lead to very good levels of activity for the group's Australian east coast operations.

The North American market for mining equipment is expected to remain subdued in the near-term, with much lower than normal levels of activity expected for the group's Westech operations in Wyoming. However, market conditions in South America remain very strong and the group's Chilean operation enters the new financial year with a solid and growing workload. Construction of the group's new workshop facilities at La Negra, which is close to Antofagasta in northern Chile, is well underway with completion expected around January 2011. These new facilities are expected to contribute to profitability and earnings in the second half of the 10/11 financial year and will also enable the group to introduce its JEC product range into the region.

The joint venture operations in Oman are currently pursuing follow-on opportunities for the two major projects completed in 09/10, however the next major projects are not expected to commence and contribute to earnings until later in the last quarter of the 10/11 financial year. Setup of the joint venture in Brazil is progressing but the supply of dump truck bodies into the country is to be commenced through Austin's Chilean operations due to near-term steel supply shortages in Brazil.

At this early stage it is expected that the Austin group will experience another strong financial year in 10/11 with earnings, as in previous years, likely to be biased towards the second half of the year.

Other business expansion and acquisition opportunities are actively being considered, including establishing a direct presence in the important Hunter Valley region in Australia, additional operations in northern Chile and acquiring another products-related business. Initial set-up work is also currently underway to enable operations to be established in Indonesia within the next year, as announced to the market in early July 2010, with the construction of a new \$12m manufacturing facility at Batam Island.

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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 the 10/11 financial year, 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. The licence to operate this facility is regulated by Ipswich City Council and is subject to renewal every year. A current licence has been granted.

Information on Directors

Michael Buckland, Managing Director since 2003

Michael Buckland is a mechanical engineer with 26 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 2010: 3,100,000 ordinary shares and 500,000 options.

Directorships held in other listed entities: none

Peter Fitch, Non-Executive Chairman since 2004

Peter Fitch is a qualified engineer who has over 37 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 2010: 606,896 ordinary shares and 250,000 options.

Directorships held in other listed entities: none.

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 2010: 787,448 ordinary shares and 250,000 options.

Directorships held in other listed entities: Director of Luminex Australia Limited

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 is a 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 2010: 578,448 ordinary shares and 250,000 options.

Directorships held in other listed entities: none.

Paul Reading, Non-Executive Director since 1 January 2009

Paul Reading is an experienced company director who has sat on a number of boards both in Australia and overseas. He has a commercial background and his executive career was spent in the manufacturing and heavy engineering industries. He is the principal of a business advisory and consulting company that provides assistance and advice relating to the management and operational issues of varying types of businesses. He was also a consultant to the Sydney Organising Committee for the Olympic Games (SOCOG) for three years, prior to becoming Group General Manager - Commercial & Marketing for that organisation. He held senior finance positions with Australian National Industries Limited (ANI) from 1978 until 1995, including five years as finance director.

Interests in shares and options at 30 June 2010: 34,483 ordinary shares

Directorships held in other listed entities: Director of Commsecure Limited

Information on Company Secretary

Colin Anderson, Company Secretary since January 2007

Colin Anderson is a chartered accountant with over 24 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 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.

Directors' Report

Audited 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. Remuneration is reviewed annually through a process that considers the performance of individual business units and the overall performance of the group. In addition, external analysis and advice is sought, where considered appropriate, to ensure that the remuneration for directors and senior executives 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
- Reward capability and experience
- Reflect competitive rewards for contributing to growth in shareholders wealth
- Provide 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 \$300,000 of which \$285,000 was paid in 2010.

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 shareholder approval.

Executive directors and senior executives:

All remuneration paid to executive directors and senior executives is valued at cost and comprises of four components:

- Base pay and benefits
- Short-term performance incentives
- Long-term incentives through the issue of options
- 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 executive directors is reviewed annually by the remuneration committee and the remuneration of senior executives is reviewed annually by the managing director. There is no guaranteed base pay increases included in any executive directors' or senior executives' contracts.

Short-term incentives:

Each year the board sets the KPIs (key performance indicators) for the executive directors, currently consisting only of the managing director. The managing director is eligible for short-term incentive cash bonus payments based on the achievement of the KPIs as specified in his executive service agreement. These KPIs include each of the group's business units and the group as a whole achieving budgeted profit and cash flow targets and the completion of an acquisition of a new business or company generating set profit and cash flow targets.

In addition to the foregoing, the managing director is entitled, for the years 2008 to 2010, 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 achievement 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: the following:

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Audited Remuneration Report

Principles used to determine the nature and amount of remuneration (cont'd)

Long-term incentives:

- 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

Long-term incentives:

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth since 2006 and forms the background against which the grant of options over the relevant periods has been considered:

	30 June 2010	30 June 2009	30 June 2008	30 June 2007	30 June 2006*
Revenue (\$000s)	144,008	179,316	106,343	57,500	48,883
Earnings before interest and tax (\$000s)	26,512	21,597	17,050	7,310	2,680
Profit after tax (\$000s)	19,264	14,832	11,536	4,977	1,620
Share price at start of year (\$)	1.53	2.09	1.83	0.41	0.29
Share price at end of year (\$)	3.33	1.53	2.09	1.83	0.41
Interim dividend - fully franked (cents)	2.0	1.5	1.0	0.5	-
Final dividend - fully franked (cents)	7.5	6.5	6.5	3.5	2.0
Basic earnings per share (cents)	28.25	31.39	24.73	12.45	4.07
Diluted earnings per share (cents)	26.97	29.39	23.44	11.74	3.94

*excludes gain on sale of properties

Following the stabilisation of markets during the financial year, the company's share price strengthened and the company is confident of increasing its long-term earnings and share price development through continued market expansion, with a particular emphasis on growing its operations into global markets.

Details of remuneration

The term 'senior executive' refers to:

Colin Anderson - Chief Financial Officer

Steve Shellenberger - President and Chief Executive Officer, Western Technology Services International, Inc.

Steve Warner - Operations Manager, Middle East

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

	Short-Term Benefits			Post-Employment Benefits	Share Based Payments - Equity Settled		Total	Total % Performance Related	Total % Options Related
	Salary & Fees	Cash Bonus	Motor Vehicle	Super-annuation	Shares	Options			
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%	%
2010:									
Executive Director:									
Michael Buckland	454,168	240,000	32,040	40,875	125,000	-	892,083	41	-
Non-Executive Directors:									
Peter Fitch	75,000	-	-	-	-	-	75,000	-	-
Eugene Fung	70,000	-	-	-	-	-	70,000	-	-
Peter Pursey	70,000	-	-	-	-	-	70,000	-	-
Paul Reading	70,000	-	-	-	-	-	70,000	-	-
	285,000	-	-	-	-	-	285,000		
Senior Executives:									
Colin Anderson	254,297	58,500	-	25,000	-	14,046	351,843	17	4
Steve Shellenberger	233,542	97,498	-	11,337	-	10,796	353,173	28	3
Steve Warner	169,254	70,000	-	4,193	-	8,823	252,270	28	3
	657,093	225,998	-	40,530	-	33,665	957,286		
Total	1,396,261	465,998	32,040	81,405	125,000	33,665	2,134,369		

The cash bonus paid to Michael Buckland in the year ended 30 June 2010 was granted on 1 September 2009 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. The cash bonuses paid to Colin Anderson and Steve Shellenberger were granted on 1 September 2009 and the bonus paid to Steve Warner was granted on 8 February 2010. These represented 100% of the bonuses that vested. The bonuses were paid on the achievement of predetermined profit and other internal KPI targets set for the financial year.

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Audited Remuneration Report
Details of remuneration (cont'd)

On 28 November 2008, the issue of 150,000 shares to Michael Buckland was approved by shareholders in general meeting, pursuant to the company entering into an executive services contract with Michael Buckland on 30 June 2008. This executive services contract includes an executive remuneration component comprising of the issue of 50,000 shares to Michael Buckland in respect of each of the financial years ending on 30 June 2008, 2009 and 2010. The issue of the shares is dependent upon the company's volume weighted average share price (VWAP), in the 20 days after the release of the company's annual audited financial statements for the relevant financial year, exceeding a target price. The target price is based on factors including budget net profit after tax for the relevant financial year, industry price/earnings multiples and the number of shares on issue. At the end of each financial year the board compares the actual VWAP performance against the target and the shares are issued only if the target is met or exceeded. The shares are issued at no cost to Michael Buckland.

The performance measures were chosen as they directly align Michael Buckland's reward to the KPI's of the company and to its strategy and performance. This method of assessment was chosen as it provides the Board with an objective assessment of Michael Buckland's performance. On 26 November 2009, 50,000 shares (the '2009 shares') were issued to Michael Buckland in recognition of the achievement of the performance targets. The weighted average fair value of the shares at the measurement date was \$2.50 each.

	Short-Term Benefits			Post-Employment Benefits	Share Based Payments - Equity Settled		Total	Total % Performance Related	Total % Options Related
	Salary & Fees \$000	Cash Bonus \$000	Motor Vehicle \$000	Super-annuation \$000	Shares \$000	Options \$000	\$000	%	%
2009:									
Executive Director:									
Michael Buckland	384,996	124,000	32,040	34,650	62,500	-	638,186	29	-
Non-Executive Directors:									
Peter Fitch	75,000	-	-	-	-	-	75,000	-	-
Eugene Fung	70,000	-	-	-	-	-	70,000	-	-
Peter Pursey	70,000	-	-	-	-	-	70,000	-	-
Paul Reading	35,000	-	-	-	-	-	35,000	-	-
	250,000	-	-	-	-	-	250,000		
Senior Executives:									
Colin Anderson	193,895	32,110	-	20,341	-	66,563	312,909	10	21
Steve Shellenberger	260,218	40,872	-	12,262	-	16,579	329,931	12	5
Steve Warner	171,408	-	-	6,823	-	11,052	189,283	-	6
	625,521	72,982	-	39,426	-	94,194	832,123		
Total	1,260,517	196,982	32,040	74,076	62,500	94,194	1,720,309		

The cash bonus paid to Michael Buckland in the year ended 30 June 2009 was granted on 1 September 2008 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. The cash bonuses paid to Colin Anderson and Steve Shellenberger were granted on 1 September 2008. These represented 100% of the bonuses that vested. The bonuses were paid on the achievement of predetermined profit and other internal KPI targets set for the financial year.

Service agreements

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

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 is given 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 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.

Steve Shellenberger has an employment agreement with Western Technology Services International, Inc. dated 1 July 2008. The employment term under the agreement lasts until 1 November 2010. The agreement may be terminated by either party providing thirty days notice is given or immediately in the case of gross misconduct or non-performance, in which case the company will make a payment in lieu of notice of thirty days. 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 bonuses that would have been paid for the remainder of the term of the agreement.

Steve Warner has an employment contract with Austin Engineering Limited dated 17 March 2008. There is no prescribed duration in the contract, which can be terminated with one 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.

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Audited Remuneration Report

Share-based compensation

Options issued during the year:

Options are issued to directors and senior executives from time to time as part of their remuneration. Options are issued to align the interests of directors, executives and shareholders and are issued at the discretion of the directors after consideration of the company's financial performance. The issue of options is not based on fixed or specific performance criteria. Board approval is required to be obtained prior to options being issued as part of remuneration. 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
Senior Executives:								
Colin Anderson	250,000	26 March 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	Nil
Steve Shellenberger	150,000	26 March 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	Nil
Steve Warner	150,000	26 March 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	Nil

None of the options detailed above were forfeited. The options were issued at no cost to the recipient. 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 vest after two years of employment with the company.

Unexercised options at the end of the year:

At 30 June 2010 the following options were unexercised:

	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 Sep 2009	1 Sept 2010	0.32	1.90	200,000 (100%)
Colin Anderson	150,000	22 Dec 2008	2 years	22 Dec 2010	22 Dec 2011	0.14	1.50	Nil
Colin Anderson	250,000	26 Mar 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	Nil
Steve Shellenberger	150,000	22 Dec 2008	2 years	22 Dec 2010	22 Dec 2011	0.14	1.50	Nil
Steve Shellenberger	150,000	26 Mar 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	Nil
Steve Warner	100,000	22 Dec 2008	2 years	22 Dec 2010	22 Dec 2011	0.14	1.50	Nil
Steve Warner	150,000	26 Mar 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	Nil

(End of Remuneration Report)

Options

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

Number of Options	Exercise Price	Expiry Date
650,000	\$1.90	1 Sep 2010
1,250,000	\$2.00	23 Nov 2010
1,050,000	\$1.50	22 Dec 2011
850,000	\$4.50	26 Mar 2013
3,800,000		

No option holder has any right under the options to participate in any other share issue of the group or any other entity.

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Directors' Report

Meetings of Directors

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

	Board of Directors		Audit Committee		Remuneration Committee	
	Eligible to		Eligible to		Eligible to	
	Attend	Attended	Attend	Attended	Attend	Attended
Michael Buckland	11	11	-	-	-	-
Peter Fitch	11	11	-	-	2	2
Eugene Fung	11	11	4	4	-	-
Peter Pursey	11	11	4	4	-	-
Paul Reading	11	11	4	4	2	2

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 the Company

During the year, 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. At 30 June 2010, the company was in the process of pursuing payment of an unpaid receivable from a customer by legal means.

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 2010:

	\$
Auditors of the parent entity (Australia - BDO Audit (Qld) Pty Ltd):	
Taxation services	28,626
Corporate advisory services	<u>10,106</u>
	<u>38,732</u>
Auditors of subsidiary companies (USA - Lenhart, Mason & Associates, LLC):	
Taxation services	10,804
Corporate advisory services	<u>6,174</u>
	<u>16,978</u>

Auditor 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 10.

Significant Changes in State of Affairs

There have been no significant changes in state of affairs unless otherwise detailed this report and the accompanying financial statements.

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, unless otherwise stated.

Signed in accordance with a resolution of the directors:



Michael Buckland

Director
 24 September 2010

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 2010, 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 (QLD)



Paul Gallagher

Partner

Brisbane, 24 September 2010

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 group'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 2010 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

Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

The Austin Engineering Ltd Board Charter sets out the functions and responsibilities of the board. 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.

Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives

During the year a separate nomination and remuneration committee was formed, with the members being Peter Fitch and Paul Reading. The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee is responsible for various aspects of remuneration and nomination, including the review of the managing director and board members at least annually. The review of the remuneration of senior executives is undertaken by the managing director.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: A majority of the Board should be independent directors

The board presently comprises five directors, four 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 page 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:

- not be a substantial shareholder of the company or an officer of, or be otherwise associated directly with a substantial shareholder of the company;
- 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;

Corporate Governance Statement

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: A majority of the Board should be independent directors (cont'd)

The majority of directors ought to be independent.

- not within the last three years been a principal of a 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;
- 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;
- not have a material contractual relationship with the company other than as director of the company;
- 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; and
- 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.

Recommendation 2.2: The chair should be an independent director

The chairman, Peter Fitch, is an independent director. He is responsible for the leadership of the board and he has no other positions that hinder the effective performance of this role.

Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual

The role of chairman is held by Peter Fitch whilst the role of managing director (equivalent to CEO) is held by Michael Buckland.

Recommendation 2.4: The Board should establish a nomination committee

A separate nomination and remuneration committee was formed during the year ended 30 June 2010 with the members being Peter Fitch and Paul Reading. The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee is responsible for various aspects of remuneration and nomination, including the review of the managing director and board members at least annually. The charter sets out the responsibilities of the committee including reviewing board succession plans to ensure an appropriate balance of skills and expertise, developing policies and procedures for the appointments of directors and identifying directors with appropriate qualifications to fill board committee vacancies. The term of non-executive directorships is set out in the company's constitution.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors

The board and its committees undertook self-assessment in accordance with their relevant charters during the financial year. Peter Fitch undertook to conduct annual one-on-one personal performance discussions with each of the individual directors.

The board was provided with all company information it needed in order to effectively discharge its responsibilities and were entitled to, and did, request additional information when considered necessary or desirable.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code to guide the directors, managing director, the chief financial officer and other key executives in responsible decision-making

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

Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the 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.

Corporate Governance Statement

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (cont'd)

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.

PRINCIPLE 4: SAFEGUARD THE INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1: The board should establish an audit committee

The board-appointed audit committee operates in accordance with the audit committee charter. The details of the committee meetings held during the year and attendance at those meetings are detailed in the directors' meetings schedule in the directors' report.

Recommendation 4.2: The audit committee should be structured so that it consists only of non-executive directors, consists of a majority of independent directors, is chaired by an independent chair, who is not chair of the board and has at least three members

The composition of the company's audit committee was consistent in all aspects of recommendation 4.1. The audit committee consists of:

Peter Pursey (Chairman)

Eugene Fung

Paul Reading

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. The managing director and the chief financial officer/company secretary may attend the meetings at the invitation of the committee.

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. Paul Reading is an experienced financial professional and he spent his executive career in the manufacturing and heavy engineering industries.

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; and
- external auditor's performance and independence as well as considering such matters as replacing the external auditor where and when necessary.

Recommendation 4.3: The audit committee should have a formal charter

A formal audit committee charter has been adopted by the board. This charter sets out the role and responsibilities, composition, structure and membership requirement of the audit committee.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1: Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies

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; and
- the company will not respond to market rumors or speculation, except where required to do so under the listing rules.

Based on information provided to the company secretary by directors, officers and employees, the company secretary is responsible for determining which information is to be disclosed and for the overall administration of this policy.

Corporate Governance Statement

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy

The company has an external communications policy and the board recognises 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; and
- assisting shareholder participation in general meetings.

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.

The board has determined that the company website is the primary source of information for shareholders.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The board has overall responsibility to all stakeholders for the identification, assessment, management and monitoring of the risks faced by the company. The company currently has in place informal policies and procedures for risk management but the audit committee seeks to ensure compliance with regulatory requirements. The operational risks are managed at the senior management level and escalated to the board for direction where the issue is exceptional, non-recurring or may impose a material financial or operational burden on the company. The relatively small size of the company means that communication and decision-making is largely centralised ensuring early identification of risks by senior management. It also allows senior management to respond to each risk as appropriate without the need for a written risk management policy.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks

Given the relatively small centralized management team, the nature of the products and services supplied by the company and that the majority of the independent directors sit on the audit committee, the board is continuously kept informed of the effectiveness of the company's internal control systems.

The board is in the process of formalising risk management policies. In addition, the managing director and chief financial officer have informed the board that the integrity of the financial statements is founded on a system of risk management and internal control which implements the policies adopted by the board and that the company's risk management and internal control system is operating effectively in all material respects to manage the company's material business risks.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1: The board should establish a remuneration committee

During the financial year ended 30 June 2010, the board formed a nomination and remuneration committee of which the members are Peter Fitch and Paul Reading. The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee are responsible for various aspects of remuneration, including the review of the managing director and board members at least annually.

Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

Non-executive directors are remunerated by way of fees. They may receive options (subject to shareholder approval) but there is no scheme for retirement benefits, other than statutory superannuation. Executive directors are paid a salary and provided with shares and/or options and bonuses as part of their remuneration and incentive package. They do not receive a separate payment for participation on the board.

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Statement of comprehensive income for the year ended 30 June 2010

	Notes	Consolidated Entity	
		2010	2009
		\$000	\$000
Revenue	2	144,008	179,316
Raw materials and consumables expenses		(48,866)	(77,205)
Change in inventories of finished goods and work-in-progress		(1,624)	1,788
Employment expenses		(47,008)	(59,671)
Subcontractor expenses		(1,021)	(1,461)
Occupancy and utility expenses		(3,812)	(3,564)
Depreciation and amortisation expense	13	(2,531)	(2,243)
Other expenses from ordinary activities		(12,144)	(15,161)
Finance costs	3	(532)	(929)
Profit before income tax	3	26,470	20,870
Income tax expense	4	(7,206)	(6,038)
Net profit for the year		19,264	14,832
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		665	(1,206)
Exchange differences on translation of foreign operations		(113)	31
Other comprehensive income for the year, net of tax		552	(1,175)
Total comprehensive income for the year		19,816	13,657
Profit for the year is attributable to:			
Owners of Austin Engineering Limited		19,264	14,832
Total comprehensive income for the year is attributable to:			
Owners of Austin Engineering Limited		19,816	13,657
Earnings per share attributable to owners of Austin Engineering Limited:			
Basic earnings per share (cents per share)	8	28.25	31.39
Diluted earnings per share (cents per share)	8	26.97	29.39

The accompanying notes form an integral part of these financial statements.

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Statement of financial position at 30 June 2010

	Notes	Consolidated Entity	
		30 June	30 June
		2010	2009
		\$000	\$000
Current Assets			
Cash and cash equivalents	9	21,125	25,070
Trade and other receivables	10	25,466	18,845
Inventories	11	11,336	9,712
Other	12	2,204	611
Total Current Assets		60,131	54,238
Non-Current Assets			
Property, plant and equipment	13	30,268	26,704
Other financial assets	14	5,542	3,918
Intangible assets	15	41,498	17,708
Deferred tax assets	19	2,268	2,777
Total Non-Current Assets		79,576	51,107
Total Assets		139,707	105,345
Current Liabilities			
Trade and other payables	16	22,857	20,689
Other financial liabilities	17	664	1,025
Current tax liabilities	18	2,174	1,385
Provisions	20	3,673	4,112
Total Current Liabilities		29,368	27,211
Non-Current Liabilities			
Other financial liabilities	17	22,620	25,928
Deferred tax liabilities	19	1,060	259
Total Non-Current Liabilities		23,680	26,187
Total Liabilities		53,048	53,398
Net Assets		86,659	51,947
Equity			
Contributed equity	21	43,684	23,094
Retained earnings		43,286	29,910
Reserves		(311)	(1,057)
Total Equity		86,659	51,947

The accompanying notes form an integral part of these financial statements.

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Statement of changes in equity for the year ended 30 June 2010

	Contributed Equity \$000	Retained Earnings \$000	Options Reserve \$000	Foreign Currency Translation Reserve \$000	Available for Sale Investments Reserve \$000	Total \$000
Consolidated Entity						
Opening balance at 1 July 2008	13,000	18,361	385	(123)	-	31,623
Total comprehensive income for the year:						
Profit for the year	-	14,832	-	-	-	14,832
<i>Other comprehensive income:</i>						
Changes in value of available-for-sale financial assets	-	-	-	-	(1,723)	(1,723)
Deferred tax adjustment	-	-	-	-	517	517
Currency translation differences	-	485	-	(454)	-	31
Total comprehensive income for the year	-	15,317	-	(454)	(1,206)	13,657
Transactions with owners in their capacity as owners:						
Issue of share capital	10,253	-	-	-	-	10,253
Share issue costs	(227)	-	-	-	-	(227)
Deferred tax relating to share costs	68	-	-	-	-	68
Dividends paid	-	(3,768)	-	-	-	(3,768)
Share-based payment	-	-	341	-	-	341
	10,094	(3,768)	341	-	-	6,667
At 30 June 2009	23,094	29,910	726	(577)	(1,206)	51,947
Total comprehensive income for the year:						
Profit for the year	-	19,264	-	-	-	19,264
<i>Other comprehensive income:</i>						
Changes in value of available-for-sale financial assets	-	-	-	-	950	950
Deferred tax adjustment	-	-	-	-	(285)	(285)
Currency translation differences	-	-	-	(113)	-	(113)
Total comprehensive income for the year	-	19,264	-	(113)	665	19,816
Transactions with owners in their capacity as owners:						
Issue of share capital	21,238	-	-	-	-	21,238
Share issue costs	(926)	-	-	-	-	(926)
Deferred tax relating to share costs	278	-	-	-	-	278
Dividends paid	-	(5,888)	-	-	-	(5,888)
Share-based payment	-	-	194	-	-	194
	20,590	(5,888)	194	-	-	14,896
At 30 June 2010	43,684	43,286	920	(690)	(541)	86,659

The accompanying notes form an integral part of these financial statements.

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Statement of cash flows for the year ended 30 June 2010

	Notes	Consolidated Entity	
		2010	2009
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		139,351	189,943
Payments to suppliers and employees		(121,305)	(162,108)
Interest received		338	202
Dividends received		109	217
Finance costs		(531)	(929)
Income tax paid		(4,684)	(5,760)
Net cash provided by operating activities	26a	13,278	21,565
Cash flows from investing activities			
Purchase of business and company	26b	(24,529)	(219)
Purchase of property, plant and equipment		(5,947)	(5,741)
Receipt of cash from joint venture		1,355	972
Investments in other financial assets		(109)	(4,347)
Net cash used in investing activities		(29,230)	(9,335)
Cash flows from financing activities			
Proceeds from issue of shares		20,312	10,026
Proceeds from borrowings		123	2,100
Repayment of borrowings		(2,561)	(667)
Dividend paid	7	(5,888)	(3,768)
Net cash provided/(used) by financing activities		11,986	7,691
Net increase/(decrease) in cash held		(3,966)	19,921
Cash at the beginning of the period		25,070	5,810
Currency exchange movements		21	(661)
Cash at the end of the period	9	21,125	25,070

The accompanying notes form an integral part of the statement of these financial statements.

Notes to the financial statements for the year ended 30 June 2010

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 ('group'). 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 except for derivatives and available-for-sale financial instruments that have been measured at fair value, where applicable. 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 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 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 acquisition method. The acquisition 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. 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 tax is recognised in profit or loss, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 2010

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. Derivative Financial Instruments and Hedging

The group uses derivative financial instruments (including forward currency contracts and interest rate swaps) from time-to-time to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (Austin Engineering Limited does not currently have any fair value hedges)
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable to either a particular risk associated with a recognised asset or liability or to a forecast transaction (Austin Engineering Limited does not currently have any cash flow hedges)
- Hedges of a net investment in a foreign operation (Austin Engineering Limited currently hedges its net investment in the United States operations).

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of such gains or losses recognised directly in equity is transferred to other comprehensive income based on the amount calculated using the direct method of consolidation.

e. 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.

Plant and equipment

Plant and equipment are measured on the cost basis.

The cost of fixed assets constructed within the 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 profit or loss 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 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:

Class of Fixed Asset	Depreciation Rate
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 assets' carrying amount is written down immediately to its recoverable amount if the assets' 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 profit or loss.

Notes to the financial statements for the year ended 30 June 2010

- f. **Research and Development Expenditure**
Costs associated with research and development activities are expensed in the year incurred.
- g. **Leases**
Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership transferred to entities in the 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 (net of any incentives received from the lessor) on a straight-line basis over the period of the lease.
- 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 profit or loss.
Impairment testing is performed at least 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 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. The group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. Details of the consolidated group's interests are shown at Note 14.
- j. **Intangibles**
Goodwill
Goodwill is 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
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Austin engineering Limited's functional and presentation currency.
Transaction and balances
Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.
Group companies
The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
 - income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
 - all resulting exchange differences are recognised in other comprehensive income.
- On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investment, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.
- Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.
- l. **Employee Benefits**
Provision is made for the group'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.

Notes to the financial statements for the year ended 30 June 2010

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.

n. Provision for Warranties

Provision is made in respect of the 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 group's history of warranty claims.

o. Provision for Doubtful Debts

The carrying amount of receivables is reduced by the use of an allowance account where there is objective evidence that it may not be possible to recover all amounts due. Evidence of impairment may include indications that the customer is experiencing significant financial difficulty, where there is a fair probability that the customer will be put into liquidation, where debt collection procedures have commenced or where there are commercial disagreements with the customer. The amount of the provision is the difference between the carrying amount of the receivable and the present value of the estimated future cash flows, discounted at the effective interest rate. When receivables for which an impairment has previously been recognised are determined to be uncollectible, they are written off against the allowance account. If no provision for impairment was previously recognised, the impairment is written off against the receivable directly. Impairment losses arising from the use of allowance accounts or bad debts are recognised in the profit or loss as part of other expenses.

Receivables are determined to be uncollectible only when there is no expectation of recovering any additional cash. This may occur when a final distribution from administrators or liquidators or where unsuccessful attempts have been made to recover the debt through legal actions or debt collection agencies and the prospect of recovering any additional cash is remote.

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 three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

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 the 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).

q. Revenue

Revenue is measured at fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Dividend and interest income

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

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 profit or loss 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 cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Notes to the financial statements for the year ended 30 June 2010

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 group 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, unless otherwise stated.

w. **Critical Accounting Estimates and Judgments**

Key Estimates:

Options

The amounts disclosed for remuneration 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. 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.

Austin Engineering Ltd
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Notes to the financial statements for the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	\$000	\$000
Note 2: Revenue		
Operating activities:		
Sale of goods	143,318	178,514
Other	92	383
	<u>143,410</u>	<u>178,897</u>
Non-operating activities:		
Interest	489	202
Dividends	109	217
Total	<u>144,008</u>	<u>179,316</u>

Note 3: Profit for the year

Profit for the year is derived after charging:

Cost of goods sold	97,729	136,490
Finance costs - bank loans	532	929
Rental expense on operating leases - minimum lease payments	2,612	2,514
Defined contribution superannuation costs	1,622	1,515
Provision for doubtful debts	-	505
Realised foreign currency exchange losses	49	253
Unrealised foreign currency exchange losses	-	180

Note 4: Income tax expense

Components of tax expense:

The components of tax expense comprise:

Current tax - current period	5,814	6,416
Deferred tax - origination and reversal of temporary differences	1,213	(378)
Under-provision in respect of prior years	179	-
	<u>7,206</u>	<u>6,038</u>

Prima facie tax reconciliation:

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

Prima facie tax payable on profit before income tax at 30% (2009:30%)	7,941	6,261
Add tax effect of:		
Non-deductible depreciation and amortisation	-	97
Other non-allowable items	403	21
Accounting expenditure on research and development	269	157
Under provision for tax in prior years	345	-
Share options expensed in the year	58	102
Less tax effect of:		
Differences in overseas tax rates	(771)	266
Research and development expenses	(387)	(274)
Other capital allowances	(107)	(97)
Non-assessable interest and other items	(402)	(143)
Fully-franked dividends	(33)	(65)
Investment allowances and other items	(110)	(287)
Income tax expense	<u>7,206</u>	<u>6,038</u>

Applicable weighted average effective tax rates	27%	29%
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Note 5: Key management personnel and compensation

Key management personnel:

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

Person	Position
Michael Buckland	Managing Director
Peter Fitch	Non-Executive Chairman
Eugene Fung	Non-Executive Director
Peter Pursey	Non-Executive Director
Paul Reading	Non-Executive Director
Colin Anderson	Chief Financial Officer and Company Secretary
Steve Shellenberger	President and Chief Executive Officer, Western Technology Services International Inc.
Steve Warner	Operations Manager, Middle East

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Notes to the financial statements for the year ended 30 June 2010

Note 5: Key management personnel and compensation (cont'd)
Remuneration for key management personnel:

	Consolidated Entity	
	2010	2009
	\$000	\$000
Short-term employment benefits	1,894,299	1,489,539
Post-employment benefits	81,405	74,076
Share-based payments	158,665	156,694
	<u>2,134,369</u>	<u>1,720,309</u>

Options held by key management personnel:

2010:

	Balance at beginning of year	Granted during the year as compensation	Exercised during the year	Balance at end of year	Total vested at reporting date	Total exercisable at reporting date
	No.	No.	No.	No.	No.	No.
Michael Buckland	1,000,000	-	(500,000)	500,000	500,000	500,000
Peter Fitch	250,000	-	-	250,000	250,000	250,000
Eugene Fung	250,000	-	-	250,000	250,000	250,000
Peter Pursey	500,000	-	(250,000)	250,000	250,000	250,000
Paul Reading	-	-	-	-	-	-
Colin Anderson	350,000	250,000	-	600,000	200,000	200,000
Steve Shellenberger	150,000	150,000	-	300,000	-	-
Steve Warner	100,000	150,000	-	250,000	-	-
Total	<u>2,600,000</u>	<u>550,000</u>	<u>(750,000)</u>	<u>2,400,000</u>	<u>1,450,000</u>	<u>1,450,000</u>

2009:

Michael Buckland	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Peter Fitch	250,000	-	-	250,000	250,000	250,000
Eugene Fung	250,000	-	-	250,000	250,000	250,000
Peter Pursey	500,000	-	-	500,000	500,000	500,000
Paul Reading	-	-	-	-	-	-
Colin Anderson	200,000	150,000	-	350,000	-	-
Steve Shellenberger	-	150,000	-	150,000	-	-
Steve Warner	-	100,000	-	100,000	-	-
Total	<u>2,200,000</u>	<u>400,000</u>	<u>-</u>	<u>2,600,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

Shares held by key management personnel:

2010:

	Balance at beginning of year	Options exercised during the year	Bought during the year	Granted during the year	Sold during the year	Balance at end of year
	No.	No.	No.	No.	No.	No.
Michael Buckland	2,513,448	500,000	64,827	50,000	(28,275)	3,100,000
Peter Fitch	603,448	-	3,448	-	-	606,896
Eugene Fung	558,448	-	20,000	-	-	578,448
Peter Pursey	534,000	250,000	3,448	-	-	787,448
Paul Reading	-	-	34,483	-	-	34,483
Colin Anderson	123,448	-	3,448	-	(33,896)	93,000
Total	<u>4,332,792</u>	<u>750,000</u>	<u>129,654</u>	<u>50,000</u>	<u>(62,171)</u>	<u>5,200,275</u>

2009:

Michael Buckland	2,463,448	-	-	50,000	-	2,513,448
Peter Fitch	603,448	-	-	-	-	603,448
Eugene Fung	558,448	-	-	-	-	558,448
Peter Pursey	534,000	-	-	-	-	534,000
Paul Reading	-	-	-	-	-	-
Colin Anderson	123,448	-	-	-	-	123,448
Total	<u>4,282,792</u>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>4,332,792</u>

None of the shares are held nominally.

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Notes to the financial statements for the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	\$	\$
Note 6: Auditor's remuneration		
BDO Audit (Qld) Pty Ltd (Australia):		
Auditing or reviewing the financial report	80,000	60,000
Taxation services	28,626	40,316
Corporate advisory services	10,106	43,383
	<u>118,732</u>	<u>143,699</u>
BDO Auditores & Consultores Ltda (Chile):		
Auditing or reviewing the financial report	16,976	-
Other auditors - Lenhart, Mason & Associates, LLC (USA):		
Auditing or reviewing the financial report	99,160	71,906
Taxation services	10,804	10,552
Corporate advisory services	6,174	7,859
	<u>116,138</u>	<u>90,317</u>
	<u>251,846</u>	<u>234,016</u>
Note 7: Dividends		
Recognised:		
Distributions paid - final dividends:		
Fully franked ordinary dividend of 6.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2009, paid on 9 October 2009	4,502	-
Fully franked ordinary dividend of 6.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2008, paid on 10 October 2008	-	3,061
Distributions paid - interim dividends:		
Fully franked ordinary dividend of 2.0 cents per share franked at tax rate of 30% for the financial year ended 30 June 2009, paid on 26 March 2010	1,386	-
Fully franked ordinary dividend of 1.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2009, paid on 27 March 2009	-	707
	<u>5,888</u>	<u>3,768</u>
Unrecognised:		
Fully franked ordinary dividend of 7.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2010, payable on 8 October 2010 (2009: 6.5 cents per share, payable on 9 October 2009)	<u>5,349</u>	<u>4,502</u>
Balance of franking account at year end	8,274	7,304
Adjustment for franking credits arising from payment of provision for tax	1,735	1,056
Adjustment for payment of final dividend declared for the year	(2,292)	(1,930)
	<u>7,717</u>	<u>6,430</u>
Note 8: Earnings per share		
Reconciliation of earnings to profit:		
Profit after tax	19,264	14,832
Earnings used to calculate basic and diluted earnings per share	<u>19,264</u>	<u>14,832</u>
Weighted average number of ordinary shares:		
Used to calculate basic earnings per share	No. (000) 68,186	No. (000) 47,256
Effect of dilutive securities - share options	3,232	3,205
Used to calculate diluted earnings per share	<u>71,418</u>	<u>50,461</u>
Note 9: Cash and cash equivalents		
Cash at bank and in hand	21,125	25,070
	<u>21,125</u>	<u>25,070</u>
Note 10: Trade and other receivables		
Trade receivables	25,466	19,350
Provision for impairment of receivables	-	(505)
	<u>25,466</u>	<u>18,845</u>

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Consolidated Entity	
2010	2009
\$000	\$000

Note 10: Trade and other receivables (cont'd)

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

Australian dollars	15,101	12,213
US dollars (Australian dollar equivalent)	5,939	6,632
Chilean pesos (Australian dollar equivalent)	4,426	-
	<u>25,466</u>	<u>18,845</u>

No provision has been made against trade receivables at 30 June 2010. At 30 June 2009, a provision of \$505,513 was made in respect of one trade receivable for the consolidated entity for which payment was overdue, all of which was released during the year. The ageing analysis of trade receivables was as follows:

Current	17,840	12,396
0-30 days	4,041	4,140
31-60 days	1,199	1,171
61-90 days	753	152
91+days	1,633	986
	<u>25,466</u>	<u>18,845</u>

At 30 June 2010, \$7,626,000 of trade receivables were past due but not impaired (2009: \$6,449,000). These relate to a number of customers for whom there is no recent history of default or other indicators of impairment. The ageing of past due but not impaired trade receivables is categorised by those disclosed in the table above that are not current.

Note 11: Inventories

Raw materials and consumables - at cost	6,766	4,288
Work-in-progress - at cost	4,570	5,424
	<u>11,336</u>	<u>9,712</u>

Note 12: Other assets

Prepayments	643	506
Other assets	1,561	105
	<u>2,204</u>	<u>611</u>

Note 13: Property, plant and equipment

Land:

Freehold land at:		
Fair value on acquisition	3,345	3,345
Cost	2,661	563
Total land	<u>6,006</u>	<u>3,908</u>

Buildings:

Buildings at:		
Fair value on acquisition	10,433	10,433
Cost	2,812	3,520
Less accumulated depreciation	(208)	(323)
Total buildings	<u>13,037</u>	<u>13,630</u>
Total land and buildings	<u>19,043</u>	<u>17,538</u>

Capital work in progress:

Capital work in progress at:		
Cost	538	231

Plant and equipment:

Plant and equipment at:		
Fair value on acquisition	4,404	3,364
Cost	14,985	11,950
Less accumulated depreciation	(8,702)	(6,379)
	<u>10,687</u>	<u>8,935</u>

Total property, plant and equipment	<u>30,268</u>	<u>26,704</u>
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Notes to the financial statements for the year ended 30 June 2010

Note 13: Property, plant and equipment (cont'd)

Movements in carrying amounts:

	Freehold Land \$000	Buildings \$000	Capital Work in Progress \$000	Plant And Equipment \$000	Total \$000
Consolidated Entity:					
Balance at 1 July 2008	2,526	11,213	-	8,107	21,846
Additions	1,217	1,497	232	2,674	5,620
Additions through acquisitions of entities	-	-	-	-	-
Disposals	-	-	-	(23)	(23)
Foreign currency exchange movements	169	1,119	(1)	217	1,504
Depreciation expense	-	(199)	-	(2,044)	(2,243)
Balance at 30 June 2009	3,912	13,630	231	8,931	26,704
Additions	2,107	5	673	2,765	5,550
Additions through acquisitions of entities	-	-	-	1,040	1,040
Reallocation of capital work-in-progress	-	-	(366)	366	-
Disposals	-	(28)	-	(22)	(50)
Foreign currency exchange movements	(9)	(366)	-	(70)	(445)
Depreciation expense	-	(208)	-	(2,323)	(2,531)
Balance at 30 June 2010	6,010	13,033	538	10,687	30,268

Assets under finance lease arrangements included in the totals noted above are as follows:

	Plant And Equipment \$000	Total \$000
Balance at 1 July 2008	1,921	1,921
Additions	53	53
Depreciation expense	(493)	(493)
Balance at 30 June 2009	1,481	1,481
Additions	118	118
Depreciation expense	(451)	(451)
Balance at 30 June 2010	1,148	1,148
	Consolidated Entity	
	2010	2009
	\$000	\$000

Note 14: Other financial assets

Investments accounted for using the equity method:

Majan Aluminium Services Company LLC:

Available for sale financial assets, at fair value:

Listed equity securities

Other

Net carrying value

	1,859	1,082
	3,683	2,624
	-	212
Net carrying value	5,542	3,918

Movements during the year:

Majan Aluminium Services Company LLC:

Balance at beginning of year

Share of profits of joint venture

Return of cash from joint venture

Balance at end of year

	1,082	1,717
	2,132	337
	(1,355)	(972)
	1,859	1,082

Listed equity securities:

Balance at beginning of year

New investments during the year

Revaluation increase/(deficit) transferred to equity

Balance at end of year

	2,624	-
	109	4,347
	950	(1,723)
	3,683	2,624

Other:

Balance at beginning of year

New investments during the year - formation costs

Removed on acquisition and consolidation

Balance at end of year

	212	-
	-	212
	(212)	-
	-	212

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Notes to the financial statements for the year ended 30 June 2010

Note 14: Other financial assets (cont'd)

	Country of Incorporation	Percentage Owned	
		2010	2009
Parent entity:			
Austin Engineering Ltd	Australia		
Subsidiaries of Austin Engineering Limited:			
Austbore Pty Ltd	Australia	100%	100%
Austin Engineering USA Inc.	USA	100%	100%
Austin Engineering South America (No.1) Pty Ltd	Australia	100%	-
Austin Engineering South America (No.2) Pty Ltd	Australia	100%	-
Austin Inversiones Chile Ltda.	Chile	-	100%
Subsidiaries of Austin Engineering USA Inc.:			
Western Technology Services International Inc.	USA	100%	100%
Subsidiaries of Austin Engineering South America (No.1) Pty Ltd:			
Austin Inversiones Chile Ltda.	Chile	99%	-
Austin Ingenieros Chile Ltda.	Chile	1%	-
Subsidiaries of Austin Engineering South America (No.2) Pty Ltd:			
Austin Inversiones Chile Ltda.	Chile	1%	-
Subsidiaries of Western Technology Services International Inc.:			
Wotco Inc.	USA	100%	100%
Global Mining Supply & Technology Inc.	USA	100%	100%
Global Mfg. Inc.	USA	100%	100%
Subsidiaries of Austin Inversiones Chile Ltda			
Austin Ingenieros Chile Ltda.	Chile	99%	-

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 in Oman.

Parent entity information:

	2010	2009
	\$000	\$000
Assets		
Current Assets	51,382	50,299
Non-current assets	62,769	38,504
Total assets	114,151	88,803
Liabilities		
Current liabilities	20,034	22,056
Non-current liabilities	22,908	25,366
Total liabilities	42,942	47,422
Equity		
Issued capital	43,684	23,094
Retained earnings	27,146	18,767
Options reserve	920	726
Available-for-sale investments reserve	(541)	(1,206)
Total equity	71,209	41,381
Financial performance		
Profit for the year	14,772	9,589
Other comprehensive income	665	(1,206)
Total comprehensive income	15,437	8,383

Guarantees in relation to the debts of subsidiaries:

Austin Engineering Limited has signed a deed of cross guarantee in favour of National Australia Bank Limited in relation to financing provided to Austin Engineering Limited and its subsidiaries. At the date of this report \$23,531,000 was owing to National Australia Bank under this facility.

Contractual commitments:

At 30 June 2010, contractual commitments entered into in respect of capital expenditure projects totalled \$602,000 (2009: Nil).

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Notes to the financial statements for the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	\$000	\$000
Note 15: Intangible assets		
Goodwill:		
Cost	41,498	17,708
Accumulated impairment losses	-	-
Net carrying value	41,498	17,708

Movements:

Balance at beginning of year	17,708	16,752
Acquisitions through business combinations	24,090	7
Effect of foreign exchange movements	(300)	949
Balance at end of year	41,498	17,708

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:

Austin Mackay (formerly Kaldura Industries)	2,706	2,706
Austbore Pty Ltd	8,310	8,310
Austin Ingenieros Chile Ltda	24,090	-
Western Technology Services International Inc.	6,392	6,692
Net carrying value	41,498	17,708

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. The cash flows are discounted using an estimated average cost of capital of 12%. The underlying operating assumptions have been determined based on management's assessment of the group's market position, industry conditions in the past and likely business conditions in the future. Net margins have been forecast using current period actuals as a base on which operational improvements are expected to be gained from new production methodologies and economies of scale. Other principal assumptions used across all business units include annual growth rates of 5%, CPI of 4%, a USD/AUD exchange rate of 84 cents and a CLP (Chilean Peso)/AUD exchange rate of 470. Significant changes in the underlying major assumptions would be required to generate an impairment charge.

Note 16: Trade and other payables

Current unsecured liabilities:

Trade payables	17,398	11,334
Sundry payables and accrued expenses	5,459	6,553
Progress payments in advance	-	2,802
	22,857	20,689

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

Australian dollars	16,718	15,685
US dollars (Australian dollar equivalent)	2,648	5,004
Chilean pesos (Australian dollar equivalent)	3,491	-
	22,857	20,689

Note 17: Other Financial liabilities

Current secured liabilities:

Hire purchase and lease obligations	664	545
Bank loan	-	480
	664	1,025

Non-current secured liabilities:

Hire purchase and lease obligations	296	833
Bank loans	22,324	25,095
	22,620	25,928

Total of current and non-current secured liabilities:

Hire purchase and lease obligations	960	1,378
Bank loans	22,324	25,575
	23,284	26,953

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Notes to the financial statements for the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	\$000	\$000
Note 17: Other Financial liabilities (cont'd)		
Assets pledged as security - fixed/floating charge:		
Current:		
Cash and cash equivalents	20,197	25,069
Receivables	21,040	19,351
Inventories	9,975	9,713
	<u>51,212</u>	<u>54,133</u>
Non-current:		
Property, plant and equipment	25,366	25,222
Leased assets	1,148	1,481
Available-for-sale financial assets	3,683	2,624
	<u>30,197</u>	<u>29,327</u>
Total	<u>81,409</u>	<u>83,460</u>
Note 18: Current tax liabilities		
Income tax	2,174	1,385
	<u>2,174</u>	<u>1,385</u>
Note 19: Deferred tax		
Deferred tax assets - non-current		
Non-current deferred tax assets comprise:		
Employee leave entitlements	634	585
Warranty and other provisions	314	852
Transaction costs on equity issue	275	73
Tax losses	543	626
Available-for-sale financial assets	232	517
Other	270	124
Total deferred tax assets	<u>2,268</u>	<u>2,777</u>
Deferred tax liabilities - non-current		
Non-current deferred tax liabilities comprise:		
Property, plant and equipment	199	259
Other	861	-
Total deferred tax liabilities	<u>1,060</u>	<u>259</u>
Movements - deferred tax assets:		
Non-Current:		
Employee leave entitlements:		
Opening balance	585	331
Movement to profit and loss	49	254
Closing balance	<u>634</u>	<u>585</u>
Warranty and other provisions:		
Opening balance	852	-
Movement to profit and loss	(538)	852
Closing balance	<u>314</u>	<u>852</u>
Transaction costs on equity issue:		
Opening balance	73	32
Movement to profit and loss	(76)	-
Movement to equity	278	41
Closing balance	<u>275</u>	<u>73</u>
Tax losses:		
Opening balance	626	916
Movement to profit and loss	(83)	(290)
Closing balance	<u>543</u>	<u>626</u>
Available-for-sale financial assets:		
Opening balance	517	-
Movement to other comprehensive income	(285)	517
Closing balance	<u>232</u>	<u>517</u>
Other:		
Opening balance	124	50
Movement to profit and loss	146	74
Closing balance	<u>270</u>	<u>124</u>

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Notes to the financial statements for the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	\$000	\$000
Note 19: Deferred tax (cont'd)		
Movements - deferred tax liabilities:		
Non-Current:		
Property, plant and equipment:		
Opening balance	259	324
Movement to income statement	(60)	(65)
	<u>199</u>	<u>259</u>
Other:		
Opening balance	-	-
Movement to income statement	861	-
	<u>861</u>	<u>-</u>
Note 20: Provisions		
Employee leave entitlements:		
Balance at beginning of year	1,904	1,475
Provided during the year	1,637	1,555
Utilised during the year	(1,228)	(1,198)
Acquired on acquisition of subsidiaries	382	-
Foreign currency exchange differences	(21)	72
Balance at end of year	<u>2,674</u>	<u>1,904</u>
Warranty provisions:		
Balance at beginning of year	2,129	392
Provided during the year	521	2,092
Utilised during the year	(790)	(373)
Released during the year	(818)	-
Foreign currency exchange differences	(69)	18
Balance at end of year	<u>973</u>	<u>2,129</u>
Deferred maintenance:		
Balance at beginning of year	79	-
Provided during the year	48	159
Utilised during the year	(101)	(80)
Balance at end of year	<u>26</u>	<u>79</u>
Total current provisions	<u>3,673</u>	<u>4,112</u>

The provision for employee leave entitlements relates to annual leave and long service leave. In calculating the present value of future cash flows in relation to long service leave, the probability of leave being taken is based on an estimate of the expected service periods. Provision is made for potential warranty claims at the balance date and is based on management assessments of the likelihood of claims arising from products delivered during the year as well as historical costs incurred on meeting warranty claims in prior years. The deferred maintenance provision is for possible one-off, significant, maintenance costs associated with the use of production equipment in the company's operations. Provision is made on the basis of an assessment of historical costs incurred and the extent of the use of equipment in the relevant financial year.

	2010		2009	
	No. 000	\$000	No. 000	\$000
Note 21: Contributed equity				
Ordinary shares (fully paid):				
Balance at beginning of year	54,178	23,094	46,991	13,000
Shares issued during the year:				
Exercise of options	750	450	100	50
Issue of placement shares	10,928	15,846	7,037	10,203
Issue of shares on completion of share purchase plan	3,409	4,942		
Issue of performance-related shares	50	-	50	-
Cost of share issues	-	(926)	-	(227)
Deferred tax adjustment to cost of share issues	-	278	-	68
Balance at end of year	<u>69,315</u>	<u>43,684</u>	<u>54,178</u>	<u>23,094</u>

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. Every holder of ordinary shares present at a meeting, in person or by proxy, is entitled to one per share. Changes to the Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. The parent entity does not have a limited amount of authorised capital and issued shares do not have a par value.

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Note 21: Contributed equity (cont'd)

Ordinary shares issued in the year to 30 June 2010 comprised of the following:

21 July 2009: 10,927,643 shares at \$1.45 each (\$15.85m) in relation to tranche 2 of the institutional placement approved by shareholders in general meeting on 20 July 2009 and as announced to the market on 16 June 2009

27 July 2009 and 6 August 2009: 3,408,508 shares at \$1.45 each (\$4.94m) in relation to the shareholder share purchase plan announced to the market on 16 June 2009

8 September 2009: 750,000 shares at \$0.60 each (\$0.45m) in relation to the exercise of directors options

26 November 2009: 50,000 shares at nil cost on the grant of performance-related shares to the managing director

Ordinary shares issued in the year to 30 June 2009 comprised of the following:

1 August 2008: 100,000 shares at \$0.50 each (\$0.50m) in relation to the exercise of employee options

5 December 2008: 50,000 shares at nil cost on the grant of performance-related shares to the managing director

22 June 2009: July 2009: 7,036,840 shares at \$1.45 each (\$10.20m) in relation to tranche 1 of the institutional placement as announced to the market on 16 June 2009

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 note 27: Share-based payments.

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 \$88,818,000 at 30 June 2010 (30 June 2008: \$53,830,000). 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 must, under banking covenant arrangements, maintain a net debt-to-EBITDA ratio of less than 2.5 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 net gearing ratio remains below 40%, in accordance with required bank covenants. The net gearing ratios for the years ending 30 June 2010 and 30 June 2009 are as follows:

	Consolidated Entity	
	2010	2009
	\$000	\$000
Total borrowings	23,284	26,953
Less cash and cash equivalents*	(21,125)	(14,867)
Net debt*	2,159	12,086
Total equity*	86,659	41,744
Total capital*	88,818	53,830
Net gearing ratio*	2%	22%

*2009 excludes \$10,203,000 of funds received in late June 2009 in relation to tranche 1 of placement shares issued to fund the expansion of the group's operations into South America.

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-based payments.

Available for sale investments reserve

The available for sale investments reserve records fair value changes relating to available-for-sale assets.

Note 23: Capital and leasing commitments

Finance and hire purchase lease commitments:

Not later than one year	699	633
Between one and five years	323	883
Minimum lease payments	1,022	1,516
Less: future finance charges	(62)	(138)
	960	1,378

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.

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Note 23: Capital and leasing commitments (cont'd)

Operating lease commitments:

Not later than one year
Between one and five years
Greater than 5 years

Consolidated Entity	
2010	2009
\$000	\$000
2,660	2,222
9,479	7,921
14,249	10,390
<u>26,388</u>	<u>20,533</u>

The group has various property leases under non-cancellable arrangements expiring between 1 and 11 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:

Plant and equipment purchases

10,033	1,201
<u>10,033</u>	<u>1,201</u>

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. There were no other contingent liabilities.

Note 25: Segment reporting

The group has adopted AASB 8 *Operating Segments* from 1 July 2009 whereby segment information is presented using a 'management approach' similar to the information used for internal decision-making purposes by the chief operating decision makers comprising of the executive management team.

This has resulted in reportable segments being classified into strategic areas of operation on a geographical basis, reflecting the global nature of the group's operations, the principal areas in which the group's businesses are physically located and the commercial conditions under which operations are conducted in the respective regions. Management has determined that the strategic operating segments comprise of Australia (for mining equipment and other products), Americas (for mining equipment and other products, comprising of North America and South America) and the Middle East (for aluminium smelter equipment and products). These reporting segments also provide a more balanced view of cross-operational performance across business units, recognising and compensating for inter-regional differences in relation to technical methodologies, production facilities and processes, the cost of key inputs such as labour and steel, the existence of competition and differing customer requirements that may affect product pricing.

Executive management monitors segment performance based on EBIT. This performance measure differs from previous annual financial statements for the financial year ended 30 June 2009 which was based on net profit before and after income tax.

Segment information for the years ended 30 June 2010 and 30 June 2009 is as follows:

	Australia		Americas		Middle East		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total segment revenue	107,404	126,682	38,641	59,686	6,666	2,319	152,711	188,687
Inter-segment revenue	(8,703)	(8,564)	-	(807)	-	-	(8,703)	(9,371)
Revenue from external customers	<u>98,701</u>	<u>118,118</u>	<u>38,641</u>	<u>58,879</u>	<u>6,666</u>	<u>2,319</u>	<u>144,008</u>	<u>179,316</u>
EBIT	<u>17,495</u>	<u>15,116</u>	<u>6,594</u>	<u>6,144</u>	<u>2,423</u>	<u>337</u>	<u>26,512</u>	<u>21,597</u>
Segment assets at 30 June 2010	<u>70,504</u>		<u>67,344</u>		<u>1,859</u>		<u>139,707</u>	
Segment assets at 30 June 2009	<u>66,540</u>		<u>37,723</u>		<u>1,082</u>		<u>105,345</u>	

Corporate expenses are included in the Australian reporting segment for decision-making purposes as this represents the area within which they are mostly incurred. Asset amounts are measured in the same way that they are measured in the financial statements. Segment assets are allocated based on the operations of the segment and the physical location of the assets.

The reconciliation of EBIT to profit before income tax is as follows:

	2010	2009
	\$000	\$000
EBIT	26,512	21,597
Interest revenue	489	202
Finance costs	(531)	(929)
Profit before income tax	<u>26,470</u>	<u>20,870</u>

Notes to the financial statements for the year ended 30 June 2010

Note 25: Segment reporting (cont'd)

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 assets 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.

Note 26: Cash flow information

	Consolidated Entity	
	2010	2009
	\$000	\$000
a) Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	19,264	14,832
Depreciation	2,531	2,243
Share of joint venture profits	(2,132)	(337)
Share options expense	194	341
(Increase)/decrease in receivables	(6,099)	4,897
(Increase)/decrease in inventories	(1,787)	3,204
(Increase)/decrease in other assets	(1,576)	594
Increase/(decrease) in payables	2,074	(6,068)
Increase/(decrease) in income taxes payable	1,657	(259)
Increase/(decrease) in provisions	(848)	2,118
Net cash provided by operating activities	13,278	21,565

b) Acquisition of entities

On 3 August 2009, the company announced another major international expansion with the acquisition of the Chile-based steel dump truck body business of Conymet Limitada for a cash consideration of US\$ 19.6m. The acquisition of the business was effective from 1 August 2009. The acquisition represents the group's strategic business expansion into key mining South American mining markets. Details of the acquisition cost and the fair value of net assets that were acquired are as follows:

	Recognised on acquisition
	\$000
Property, plant and equipment	1,040
Employee leave entitlements	(382)
Goodwill on acquisition	24,090
Consideration paid (AUD equivalent)	<u>24,748</u>

Goodwill arose because the cost of the combination included a control premium paid to acquire the business. In addition, the consideration paid for the combination included amounts in relation to the benefit of revenue growth, significant future market development opportunities in the South America region otherwise difficult to access, expected synergies and the assembled workforce. The assets arising from the acquisition are recognised at fair value, taking into account the age and condition of the assets acquired and the expected remaining useful life in the production environment in which they are operated.

From the date of acquisition, the acquired business, which operates as Austin Ingenieros Chile Limitada, has contributed \$13,440,000 of revenue and \$3,210,000 of net profit after tax to the group. If the acquisition had occurred on 1 July 2009, the revenue of the group on a pro-forma, pro-rata basis would have been \$145,230,000 and net profit after tax would have been \$19,556,000.

Notes to the financial statements for the year ended 30 June 2010

	Consolidated Entity	
	2010	2009
	\$000	\$000
Note 26: Cash flow information (cont'd)		
c) Bank facilities		
The consolidated group and company had access to the following bank facilities at the balance date:		
Acquisition bank loan	22,324	23,555
Utilised	(22,324)	(23,555)
Unused	-	-
Asset purchase bank loan	-	3,500
Utilised	-	(2,020)
Unused	-	1,480
Business development facility	11,000	-
Utilised	-	-
Unused	11,000	-
Bank guarantee and trade finance facilities	1,767	4,000
Utilised	(1,202)	(1,511)
Unused	565	2,489
Overdraft facilities	6,500	3,500
Utilised	(5)	-
Unused	6,495	3,500
Finance lease and hire purchase facilities	6,060	1,378
Utilised	(960)	(1,378)
Unused	5,100	-
Interchangeable facilities	-	500
Utilised	-	-
Unused	-	500
Total facilities	47,651	36,433
Utilised	(24,491)	(28,464)
Unused	23,160	7,969

During the year the group established its principal banking facilities with National Australia Bank Limited. The major facilities are summarised as follows:

Acquisition bank loan:

This facility, which lasts until 29 February 2012, was granted to accommodate the refinance of the USD 19m loan originally drawn-down to purchase Western Technology Services International Inc. on 30 November 2007. The facility was drawn-down in US dollars and is revolving and variable interest-only until the end of the initial term.

Business development facility:

This facility was granted to assist with business development and growth opportunities. The facility is multi-option and multi-currency and can be utilised in the form of commercial bills, guarantees or standby letters of credit. The facility is subject to annual review every year, with the next review being on 28 February 2011.

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 or standby letter of credit, is priced at a set fee every quarter. These facilities are subject to review each year, with the next review being on 28 February 2011.

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 February 2011.

Finance lease, hire purchase facilities and asset 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 February 2011.

At 30 June 2010 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, gearing and debt servicing and the company was in compliance with these covenants throughout the financial year ended 30 June 2010. The group's policy is to centralise debt and surplus cash balances whenever possible.

Notes to the financial statements for the year ended 30 June 2010

Note 27: Share-based payments

The following share-based payment arrangements existed at 30 June 2010:

Performance-based shares:

On 28 November 2008, the issue of 150,000 shares to Michael Buckland was approved by shareholders in general meeting, pursuant to the company entering into an executive services contract with Michael Buckland on 30 June 2008. This executive services contract includes an executive remuneration component comprising of the issue of 50,000 shares to Michael Buckland in respect of each of the financial years ending on 30 June 2008, 2009 and 2010. The issue of the shares, which is dependent upon the achievement of certain performance targets and requirements, is at no cost to Michael Buckland. On 26 November 2009, 50,000 shares (the '2009 shares') were issued to Michael Buckland in recognition of the achievement of the performance targets. The weighted average fair value of the shares, equivalent to market value, at the measurement date was \$2.50 each (2009: on 5 December 2008, 50,000 shares (the '2008 shares') were issued to Michael Buckland in recognition of the achievement of the performance targets. The weighted average fair value of the shares, equivalent to market value, at the measurement date was \$1.25 each). Included under employee benefits expense in the income statement is \$125,000 (2009: \$62,500) and this relates, in full, to these equity-settled share-based payment transactions.

Options:

- On 17 November 2006, 1,250,000 share options were approved by shareholders in general meeting and granted to the directors to take up ordinary shares at an exercise price of 60 cents each. The options were exercisable between 1 December 2006 and 1 December 2009. During the year, 750,000 of the options were exercised leaving none unexercised at the balance date.
- On 1 September 2007, 650,000 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, the options vested but none were exercised leaving 650,000 unexercised at the balance date.
- On 23 November 2007, 1,250,000 share options were approved by shareholders in general meeting 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.
- On 22 December 2008, a total of 1,050,000 share options were granted to employees to take up ordinary shares at an exercise price of \$1.50 each under the Austin Engineering Ltd employee share option plan. 950,000 of the options have a two year vesting period and are exercisable between 22 December 2010 and 22 December 2011 whilst 100,000 have a one year vesting period and are exercisable by 22 December 2010. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, 100,000 of the options vested but none were exercised leaving 1,050,000 unexercised at the balance date.
- On 26 March 2010, a total of 850,000 share options were granted to employees to take up ordinary shares at an exercise price of \$4.50 each under the Austin Engineering Ltd employee share option plan. The options have a two year vesting period and are exercisable between 26 March 2012 and 26 March 2013. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year, none of the options vested leaving 850,000 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:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Outstanding at beginning of year	3,700,000	1.56	2,750,000	1.54
Granted	850,000	4.50	1,050,000	1.50
Exercised	(750,000)	0.60	(100,000)	0.50
Outstanding at end of year	3,800,000	2.40	3,700,000	1.56
Total exercisable at end of year	2,000,000	1.94	2,000,000	1.48

The options outstanding at 30 June 2010 had a weighted average remaining contractual life of 1.05 years (2009: 1.35 years). The exercise prices for these options range from \$1.50 to \$4.50 (2009: \$0.60 to \$2.00). The weighted average share price at the date of exercise of options during the year was \$2.32 (2009: \$2.08). Included under employee benefits expense in the income statement is \$69,075 (2009: \$278,500) and this relates, in full, to these equity-settled share-based payment transactions.

The fair values at grant date are independently determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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Notes to the financial statements for the year ended 30 June 2010

Note 27: Share-based payments (cont'd)

The following inputs were used for the options issued in 2009 and 2010:

	Options Issued 26 March 2010	Options Issued 22 December 2008
	Black Scholes Merton	Black Scholes Merton
Pricing model		
Underlying share price at grant date	\$3.20	\$0.90
Exercise price	\$4.50	\$1.50
Expected volatility	40.0%	48.5%
Expected option life	3 years	3 years
Dividend yield	2.50%	2.45%
Risk-free rate	5.29%	6.38%
Weighted average fair value at measurement date	\$0.26	\$0.14

Historical volatility was used as the appropriate basis for determining share price volatility. Options were assumed to be exercised in full on the date of expiry.

Note 28: Events after the balance sheet date

On 2 July 2010, the company announced that it had completed the acquisition of Pilbara Hire Group Pty Ltd based in Western Australia for a cash consideration of \$13m. An earn-out is also payable if an agreed EBIT target for the year ending 30 June 2011 is achieved. The acquisition was funded by way of a \$13m bank loan from the group's principal banker. Assets acquired include plant and equipment valued at \$2,550,000 and hire purchase liabilities of \$1,680,000. Fair value and goodwill calculations have not yet been established.

On 7 July 2010, 100,000 ordinary shares were issued pursuant to the exercise of employee options granted on 22 December 2008 at \$1.50 per share. On 24 August 2010, 25 August 2010 and 26 August 2010 a total of 650,000 shares were issued pursuant to the exercise of employee options granted on 1 September 2007 at \$1.90 per share. On 30 August 2010 and 8 September 2010 a total of 1,250,000 shares were issued pursuant to the exercise of directors options granted on 23 November 2007 at \$2.00 per share.

The financial report was authorised for issue by the board of directors on 24 September 2010.

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.

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 \$93,279 during the year (2009: \$160,263).

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 Chilean peso as a result of its operations in North and South America.

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.

Notes to the financial statements for the year ended 30 June 2010

Note 30: Financial risk management (cont'd)

Foreign exchange risk:

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 2010, had the Australian dollar weakened or strengthened by 10% against the US dollar and Chilean peso with all other variables held constant, post-tax profit for the year would have been \$423,000 higher or lower (2009: \$451,000) due to the change in value of the net income by entities in the group having the US dollar and Chilean peso as their functional currency. Equity would have been \$2,867,000 higher or lower (2009: \$412,000) had the Australian dollar weakened or strengthened by 10% against the US dollar and Chilean peso arising as a result of the change in value of the net equity of entities in the group with the US dollar and Chilean peso as their functional currency and increased or decreased 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 in relation to current assets and current liabilities.

Price risk:

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

Cash flow and fair value interest rate risk:

The following table analyses the group's financial assets and liabilities that are subject to interest rate risk.

	Floating Interest Rate \$000	Fixed Rate Maturing Within:		
		1 Year \$000	1 to 5 Years \$000	Total \$000
Consolidated entity:				
2010:				
Financial Assets:				
Cash	21,125	-	-	21,125
Financial Liabilities:				
Bank loans	22,324	-	-	22,324
Lease liabilities	-	664	296	960
Total Financial Liabilities	22,324	664	296	23,284
2009:				
Financial Assets:				
Cash	25,070	-	-	25,070
Financial Liabilities:				
Bank loans	25,575	-	-	25,575
Lease liabilities	-	545	833	1,378
Total Financial Liabilities	25,575	545	833	26,953

The group's interest rate risk predominantly arises from long-term borrowings. Borrowings at variable rates expose the group to cash flow interest rate risk and fixed interest rates expose the group to 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 positions 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.

At 30 June 2010, the most significant components of borrowings were a USD 19m bank loan that was originally drawn-down in November 2007 to fund the acquisition of Westech in November 2007. 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 \$225,000 (2009: \$268,000). The simulation is performed on a bi-annual basis to estimate the maximum loss potential. At 30 June 2010, the USD 19m bank loan attracted a variable interest rate of 1.16%.

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, cash and cash equivalents. 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.

Notes to the financial statements for the year ended 30 June 2010

Note 30: Financial risk management (cont'd)

Credit risk:

At 30 June 2010, 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.

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 statement of financial position.

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 \$23,160,000 were undrawn at 30 June 2010 (2009: \$7,969,000). These facilities continue on an ongoing basis, subject to annual review, with the exception a USD 19m loan associated with the purchase of Westech, which is due for repayment on 29 February 2012.

The table below analyses the group's 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	1 to 5 Years	Total
2010:			
Payables	22,857	-	22,857
Bank loan	279	22,539	22,818
Lease liabilities	699	323	1,022
Total	<u>23,835</u>	<u>22,862</u>	<u>46,697</u>
2009:			
Payables	20,689	-	20,689
Bank loan	986	25,264	26,250
Lease liabilities	633	883	1,516
Total	<u>22,308</u>	<u>26,147</u>	<u>48,455</u>

Note 31: New accounting standards for application in future accounting periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group's assessment of the impact of these amended standards and interpretations is as follows:

AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) **and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]** (applicable for annual reporting periods commencing from 1 January 2010)

These standards detail numerous non-urgent but necessary changes to accounting standards arising from IASB's annual improvements project. No changes are expected to materially affect the group.

AASB 2009-8: Amendments to Australian Accounting Standards - Group Cash-Settled Share-Based Payment Transactions [AASB2] (applicable for annual reporting periods from 1 January 2010)

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments. These amendments are not expected to impact the group.

AASB 2009-10: Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB132] (applicable for annual reporting periods from 1 February 2010)

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the group.

Notes to the financial statements for the year ended 30 June 2010

Note 31: New accounting standards for application in future accounting periods (cont'd)

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9
(applicable for annual reporting periods from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and may affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However initial indications are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale investments, for example, will therefore have to be recognised directly in profit or loss. The group has not yet decided to adopt AASB 9.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] *(applicable for annual reporting periods from 1 January 2011)*

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the group.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] *(applicable for annual reporting periods from 1 July 2010)*

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions of Interpretation 19. This standard is not expected to impact the group.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments *(applicable for annual reporting periods from 1 July 2010)*

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability that was extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the group.

The group does not anticipate the early adoption of any of the above Australian Accounting Standards.

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Directors' Declaration

The Directors declare that:

1. The financial statements and notes, as set out in pages 15 to 41 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 2010 and of the performance for the year ended on that date of the consolidated and parent entities
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
 - a) the financial records of the consolidated and parent entities for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give a true and fair view
3. The remuneration disclosures contained in the Remuneration Report in the Directors' Report comply with section 300A of the Corporations Act 2001; and
4. In the directors' opinion there are reasonable grounds to believe that the consolidated and parent entities will be able to pay their debts as and when they become due and payable.

Note 1a) also confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Michael D. Buckland
Director

Brisbane
24 September 2010

INDEPENDENT AUDITOR'S REPORT

To the members of Austin Engineering Limited

Report on the Financial Report

We have audited the accompanying financial report of Austin Engineering Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 - Reduced Disclosure Requirements (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.

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 opinion.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards - Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

Yours faithfully

BDO (QLD)



Paul Gallagher

Partner

Brisbane, 24 September 2010

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Additional Information for Public Listed Companies

1. Substantial Shareholders at 13 September 2010

	Number of Ordinary Fully Paid Shares Held	% Held of Ordinary Shares
Bradken Resources Pty Ltd	13,749,459	19.28
Tiga Trading Pty Ltd	5,400,000	7.57

2. Distribution of Shareholdings at 13 September 2010

Range of Holding	Number of Shareholders	Number of Shares
1 - 1,000	1,005	514,177
1,001 - 5,000	1,475	4,082,290
5,001 - 10,000	655	4,976,506
10,001 - 100,000	617	15,462,679
100,001 and over	51	46,278,751
	<u>3,803</u>	<u>71,314,403</u>
Holding less than a marketable parcel	<u>218</u>	

3. Voting Rights

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

4. Twenty Largest Shareholders at 13 September 2010

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Merrill Lynch (Australia) Nominees Pty Limited	13,835,300	19.40
HSBC Custody Nominees (Australia) Limited	6,374,442	8.94
National Nominees Limited	5,500,166	7.71
S J Quinlivan Pty Ltd	2,916,448	4.09
Michael Douglas Buckland	2,511,552	3.52
Citicorp Nominees Pty Limited	2,090,630	2.93
J P Morgan Nominees Australia Limited	1,737,051	2.44
Mr Peter Louis Pursey & Mrs Helen Elizabeth Pursey	1,037,448	1.46
Redcentre Pty Ltd	988,448	1.39
Bond Street Custodians Limited	931,363	1.31
Eugene Fung	780,448	1.09
ANZ Nominees Limited (Cash Income Account)	656,306	0.92
Vasbyt Pty Ltd (Vasbyt Super Fund Account)	456,896	0.64
Cogent Nominees Pty Limited	443,706	0.62
Mr Livio Pietro Divitini (L P Divitini Family Account)	407,340	0.57
Depofo Pty Ltd (Ordinary Account)	403,448	0.57
Mr Iain MacGregor and Mrs Rachael Frances Hepburn (Hepburn Super Fund Account)	399,999	0.56
Aust Executor Trustees NSW Ltd	374,346	0.53
WRG investments Pty Ltd	353,458	0.50
Achim Decker Holdings Pty Ltd	329,479	0.46
	<u>42,528,274</u>	<u>59.65</u>

5. Additional Information

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

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Company Information

Registered Office, Principal Place of Business and Brisbane Operation:

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