

austinengineering^{LTD}
ABN 60 078 480 136

2011 Annual Report

Austin Engineering Ltd
Annual and Financial Report 2011

Chairman's Report

This is my first Chairman's Report to you, the owners of the Company, and I am pleased to be able to report that the results for the year ended 30 June 2011 are the seventh consecutive year of growth. This has been achieved by record revenues of \$204m, up 41% on the previous year, driven by acquisitions and organic growth.

The improvement in underlying earnings before interest and tax for the existing Australian and North American businesses was complemented by the acquisition during the year of Pilbara Hire and COR Cooling. The result of the new acquisition in the Hunter Valley of New South Wales was disappointing and the delay in the completion of the new workshop in Chile resulted in a reduced level of performance for this business unit. The Hunter Valley operation has now been restructured and the turnaround process is underway. The Chilean facility was completed in July 2011 and we are anticipating a substantial increase in output. The results were also adversely affected by start-up costs in Indonesia and Colombia as well as costs associated with the development of new products. Whilst having an adverse impact on the results for the year, these costs represent important investments for improved profitability in future years. All of the acquisitions and capital expenditure undertaken during the year were funded by debt, raising our gearing level from 2% to 12% as at 30 June 2011. This level of gearing is conservative and comfortably within our bank covenant requirements.

The Board is pleased to be able to once again increase the full year dividend to 11.5 cents per share, an increase of 21% on the previous year. This will provide a dividend payout ratio of approximately 38%, which is within the Company's stated dividend policy range of 25-40%.

Your Directors are anticipating a further year of substantial growth in 2011/12 due to record order levels, full year contributions from acquisitions and completion of the new operations in South America and Indonesia.

I would like to pay tribute to Mr Peter Fitch, the previous Chairman, who is retiring from the Company at the upcoming AGM in November. Mr Fitch was Chairman from 2004 until November 2010 and then continued as a Director for the last twelve months. He made an important and valuable contribution to the Company.

I would also like to thank our Managing Director Mr Michael Buckland, his management and staff for their efforts in a challenging year and I also acknowledge the valuable support of our shareholders.

Austin Engineering Limited will hold its Annual General Meeting at 10.30am on Friday 25th of November 2011 at the offices of BDO, Level 19, 2 Market Street, Sydney, NSW 2000. I look forward to meeting with shareholders and updating them on the progress of their company at that time.



Paul Reading
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 2011.

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:
Paul Reading (Non-Executive Director to 26 November 2010 and Non-Executive Chairman thereafter)

Independent Non-Executive Directors:
Peter Fitch (Non-Executive Chairman to 26 November 2010 and Non-Executive Director thereafter)
Eugene Fung
Peter Pursey

Secretaries

Colin Anderson
Gerard See (appointed Co-Company Secretary on 8 June 2011)

Principal Activities

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

Review of Operations and Results

	Year Ended 30 June 2011	Year Ended 30 June 2010	Change %
Revenue (\$m)	203.71	144.01	+41
EBIT (\$m)	31.54	26.51	+19
PBT (\$m)	30.28	26.47	+14
NPAT (\$m)	21.47	19.26	+11
Basic earnings per share (cents)	30.37	28.25	+8
Net assets (\$m)	103.74	86.66	+20
Final dividend per share (cents)	8.5	7.5	+13
Total annual dividend per share (cents)	11.5	9.5	+21

Operational Review

Business conditions across the mining services sector strengthened during FY 2011 as global economic conditions stabilised and demand for commodities and mining equipment increased. This resulted in an increase in overall revenue levels for most of the group's existing operations due to higher levels of capacity utilisation and productive activity. The level of activity for the group's operations in Oman in the Middle East was below the previous period due to the completion of two key projects in the prior year. Whilst the Chilean operation (Austin Ingenieros Chile Ltda) contributed a full year's worth of activity to the group (compared to ten months in the previous year following the commencement of operations in August 2009) overall activity and revenue levels were lower than the previous year due to delays in the completion of the new 'La Negra' workshop. The delay in the commissioning of the new workshop, which was achieved in mid-July 2011, had a significant impact on throughput for the Chilean operation, particularly over the final four months of the financial year.

Group revenue for the year also reflects the addition of new revenue sources following the acquisition of the Pilbara Hire Group ("Pilbara Hire") in early July 2010, the business and assets of Phillips Engineering in early November 2010 (now "Austin Engineering Hunter Valley" or "Hunter Valley") and COR Cooling ("COR") in mid-December 2010. These operations have added new and important service capabilities and opportunities to the Austin group and its customers in domestic and overseas markets. During the second half of the year the group pursued its expansion plans into the important and developing Indonesian mining equipment market. Limited manufacturing operations commenced in Batam Island following the award of a significant contract by a major Indonesian-based mining contractor for the supply of dump truck bodies.

The group also continued to focus on the development of new products and during the year completed its first two underground 'JEC' brand dump truck bodies as well as four new concept JEC lightweight bodies, all of which are undergoing customer trials. Initial performance results and customer feedback on these bodies is very encouraging and it is expected that further market opportunities will arise with these new products in the future.

Result for the Financial Year

Earnings before interest and tax for the financial year were \$31.54m, up from \$26.51m in the previous financial year, representing a 19% increase. Underlying productive performance across most of the existing business units was satisfactory during the year as capacity utilisation and productive activity increased. The relative profit contribution from Oman was less than the previous year due to lower comparable activity levels as a result of the completion of two key projects in the prior year. The delay in the completion of the new workshop in Chile presented significant capacity utilisation and throughput challenges over the course of the second half of the year, despite the award of new orders, and resulted in the operation running at a small operating loss over the last four months of the year. Financial performance for Pilbara Hire and COR was very satisfactory in the period due to strong levels of activity whilst the new Hunter Valley operation incurred a pre-tax operating loss of \$1.1m in the first eight months. This was primarily due to contracts taken over on acquisition of the business being less profitable than anticipated (with the disadvantageous commercial terms now renegotiated) and production management and efficiency issues in the second half of the year. The result also includes start-up costs associated with the establishment of operations in Indonesia and Colombia as well as the cost of development of the new JEC underground and lightweight bodies completed in the year. The ongoing strength of the Australian Dollar, particularly against the USD Dollar and Chilean Peso, also adversely impacted translated earnings of operations in the Americas.

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Directors' Report

Review of Operations and Results (cont'd)

Result for the Financial Year (cont'd)

The new business acquisitions that were completed during the year were funded by additional bank debt which resulted in an increase in finance costs over the previous year. Whilst finance costs increased, the group continued to benefit from ongoing low interest costs associated with the USD-denominated bank loan which was drawn down some years ago to accommodate the acquisition of Westech. Profit before tax increased by 14% over the year from \$26.47m to \$30.28m with the increase being intrinsically linked to the higher level of underlying operating profit balanced by additional finance costs. Net profit after tax increased over the year by 11% from \$19.26m to \$21.47m with the average rate of tax on profit for the year rising due to the comparatively smaller relative contributions from Chile and Oman which have lower income tax rates.

The 8% increase in earnings per share from 28.25c in the previous year to 30.37c was principally due to the higher level of adjusted net profit after tax for the year balanced by the issue of around 2.6m new shares during the year.

Financial Position

Net assets increased by 20% over the year to \$103.74m. The increase reflects the net profit generated during the year as well as \$4.6m of new equity and the payment of \$7.5m of dividends. Net tangible asset backing per share was 40.1c compared to 65.2c in the previous year, with the reduction being attributable to additional goodwill and other intangible assets arising upon the acquisition of Pilbara Hire, Phillips Engineering and COR Cooling.

Cash Flow and Liquidity

Operational cash flow of \$43.8m was significantly up on the previous year's level of \$13.3m. Cash flows from underlying operations remained strong during the year as a result of increased levels of activity and cash receipts from customers following regular payment schedules. Cash flows were also boosted just before the end of the financial year by around \$18.8m of advance progress payments from customers for products to be manufactured in the new financial year and beyond.

Non-operational cash flows largely consisted of costs incurred on business expansion initiatives and the corresponding funding of these programs. During the period a total of \$36.4m was expended on the Pilbara Hire, Phillips Engineering and COR Cooling acquisitions, of which \$32.3m was funded by new bank loans. Capital expenditure of \$24.4m was also significantly higher than the previous year's level of \$5.9m, with the most significant elements of expenditure being for the construction of the new 'La Negra' workshop in Chile, the property and new workshop on Batam Island in Indonesia, the property and initial construction payments for the new workshop in Colombia and the purchase of the property in Hunter Valley as part of the acquisition of the Phillips Engineering business. A total of \$4.6m of new share capital was introduced during the period from the exercise of share options whilst \$7.5m was paid in dividends.

Available cash at the end of the financial year was \$37.4m, up from \$21.1m at the end of the previous financial year.

Debt

At the end of the financial year, net debt (defined as gross debt of \$51.1m less available cash of \$37.4m) was \$13.7m, compared to \$2.1m at the end of the previous financial year. Most of this net increase has arisen from the drawdown of new bank loans to facilitate the group's expansion programs through the acquisition of businesses during the year, balanced by improved operational cash flow and the advance payments received from customers just before the end of the financial year. Debt levels were also assisted by the relative strength of the AUD/USD exchange rate, which lowered the value of the USD \$19m bank loan relating to the purchase of Westech Inc. in 2007. The net gearing ratio at the end of the financial year was 12%, up from 2% at the end of the previous financial year but comfortably within bank covenant requirements. The company was in compliance with bank covenants throughout the year and continues to be so.

Dividends

The company paid a fully-franked final dividend of 7.5c per share on 8 October 2010 in relation to the previous financial year ended 30 June 2010. An interim fully-franked dividend of 3.0c per share was also paid on 25 March 2011 in relation to the financial year ended 30 June 2011. A final dividend of 8.5c per share has been declared for the financial year ended 30 June 2011 with the record date for determining entitlement being 9 September 2011 and payment being made on 7 October 2011. The dividend payout ratio for the year is approximately 38%, which is consistent with the company's dividend payout ratio policy of 25% to 40%.

After Balance Date Events

The directors have declared a final fully-franked dividend of 8.5 cents per share for the financial year ended 30 June 2011 (2010: 7.5 cents per share) payable on 7 October 2011. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2011, but not recognised as a liability at the end of the year, is \$6,108,000.

On 29 July 2011 COR Cooling Pty Ltd, a 100% subsidiary company of Austin Engineering Ltd, acquired the business and assets of Diecon Engineering, a specialised manufacturer and repairer of industrial and marine transmission and cooling products based in Brisbane. The purchase price, which was paid in cash, was \$0.8m. The fair value of tangible and intangible assets acquired is in the process of being determined and finalised.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the group's operations in future financial years, the results of those operations, or the group's state of affairs in future financial years.

Outlook

Over the course of the coming year the benefits of the new workshop in Chile will be realised and it is expected that this will provide significant increases in productivity and throughput capability as anticipated at the outset of the facilities redevelopment program. Market conditions in South America remain very strong and further orders for dump truck bodies and other products are anticipated. The construction of the new greenfield site workshops in Barranquilla, Colombia is underway and this will enable Austin to gain an early and strategic market position for the supply of mining products to this developing market. There is still significant potential for the fully-developed South American operations to provide significant and growing earnings contributions for the group.

Directors' Report

Review of Operations and Results (cont'd)

Outlook (cont'd)

Further growth opportunities in South America will be progressed including the setup of manufacturing and maintenance operations in Calama in Northern Chile and the acquisition of a suitable business in this region is currently being pursued to enable operations to commence in the near future. The recent award of the multi-year equipment supply contract by Xstrata in Peru is also an important step in developing a lasting presence for Austin in South America and this will involve the establishment of manufacturing operations in the country in the second half of the year to service this particular contract.

The completion of the new workshop on Batam Island in Indonesia over the course of the first half of the new financial year will be an important milestone in establishing a long-term market presence to service Indonesian-based miners and mining contractors. In addition, significant growth opportunities have been identified for COR Cooling's products and services and further investment will be undertaken in the development of this business in the 2011/2012 financial year and beyond.

Market conditions for the group's other geographical and customer bases are showing further signs of steady improvement and a number of operations are entering the new financial year with excellent workload levels particularly from September 2011 to the end of the financial year. Whilst North American economic conditions are expected to remain uncertain for the foreseeable future, it is encouraging that Westech operations in Wyoming currently have a committed base workload level for the next six months, which is mostly due to market repositioning and product development over the past few years. The benefits of Westech custom-built dump truck bodies are expected to deliver considerable benefits in the years to come, as evidenced by the recent 'Guinness Book of Records' award for the largest payload-carrying capacity dump truck body for a major mining customer in North America.

At this stage in the development of the financial year, it is expected that overall business conditions will produce another year of record growth for the company with increases in revenue, EBIT and dividends.

Technology

The group continues to have a strong focus on the development of its product range as well as new automated welding technologies to secure increased market share and obtain improvements in productivity and growth in productive capacity. Further investment in new products and production methodologies is planned across the group in the forthcoming 2011/2012 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. A licence to operate this facility has been granted. There have been no significant known breaches of the group's licence conditions or any environmental regulations to which it is subject.

Information on Directors

Michael Buckland, Managing Director since 2003

Michael Buckland is a mechanical engineer with 27 year's 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.

Qualifications: B.Eng (Mechanical)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Managing Director.

Interests in shares and options at 30 June 2011: 3,550,000 ordinary shares and 500,000 options.

Paul Reading, Non-Executive Director from 1 January 2009 to 26 November 2010 and Non-Executive Chairman thereafter

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.

Qualifications: FCPA, ACA (NZ), FAICD

Directorships held in other listed entities: none.

Former directorships in last 3 years: Director of CommSecure Limited from 2002 to 2009 (Chairman from 2005 to 2009) and Chairman of Network Controls Limited from 2006 to 2008.

Special responsibilities: Chair of the board, member of audit committee and member of nomination and remuneration committee.

Interests in shares and options at 30 June 2011: 34,483 ordinary shares.

Peter Fitch, Non-Executive Chairman from 2004 to 26 November 2010 and Non-Executive Director thereafter

Peter Fitch is a qualified engineer who has over 38 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.

Qualifications: BSc (Hons) (Chemical Engineering)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Chair of nomination and remuneration committee.

Interests in shares and options at 30 June 2011: 503,939 ordinary shares.

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Directors' Report

Information on Directors (cont'd)

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.

Qualifications: AM, MBA, ACDSS, psc

Directorships held in other listed entities: Chairman of Redflow Limited (since July 2010).

Former directorships in last 3 years: none.

Special responsibilities: Chair of audit committee.

Interests in shares and options at 30 June 2011: 1,001,448 ordinary shares.

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 the Securities Institute of Australia (now FinSIA).

Qualifications: B. Com (Bachelor of Commerce), LL.B (Hons) (Bachelor of Laws), Grad Dip (Applied Finance and Investment)

Directorships held in other listed entities: none.

Former directorships in last 3 years: none.

Special responsibilities: Member of audit committee.

Interests in shares and options at 30 June 2011: 778,048 ordinary shares.

Information on Company Secretaries

Colin Anderson, Company Secretary since January 2007

Colin Anderson (B.A (Business and Administration), C.A.) is a chartered accountant with over 25 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 re-joined the group on 31 January 2007.

Gerard See, Co-Company Secretary since June 2011

Gerard See (B Comm, CA, MBA) was appointed co-company secretary on 8 June 2011. He is Chief Financial Officer of Austin Engineering Ltd's subsidiary, COR Cooling Pty Ltd. Gerard is a chartered accountant with over 20 years' commercial experience working for multinational, public and private corporations in industries covering manufacturing, engineering, pharmaceutical and professional services. He has extensive experience in financial control, acquisitions/divestiture and process and ERP system planning and implementation.

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. The remuneration of senior executives is reviewed annually by the board 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 by the board, 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 \$400,000 and was approved by shareholders at the general meeting on 26 November 2010. The total directors' fees paid during the financial year ended 30 June 2011 was \$311,250 (2010: \$285,000).

In order to align the interests of shareholders and non-executive directors, the group may grant options over unissued shares to non-executive directors, but subject to shareholder approval. No options were granted to non-executive directors in the reporting period.

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 board 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 executive's contracts.

Short-term incentives:

Each year the board sets the KPIs (key performance indicators) for the executive directors, currently consisting only of the managing director. The managing director is eligible for short-term incentive 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, after the end of any financial year, to 50,000 ordinary shares in the company at nil cost where the volume weighted average price of the company's shares in the twenty trading days after the release of the company's full year final audited financial statements exceeds a pre-determined target share price. The target share price 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:

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Directors' Report

Audited Remuneration Report (cont'd)

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

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth since 2007 and forms the background against which the grant of options over the relevant periods has been considered:

	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Revenue (\$000s)	203,714	144,008	179,316	106,343	57,500
Earnings before interest and tax (\$000s)	31,541	26,512	21,597	17,050	7,310
Profit after tax (\$000s)	21,468	19,264	14,832	11,536	4,977
Share price at start of year (\$)	3.33	1.53	2.09	1.83	0.41
Share price at end of year (\$)	4.84	3.33	1.53	2.09	1.83
Interim dividend - fully franked (cents)	3.0	2.0	1.5	1.0	0.5
Final dividend - fully franked (cents)	8.5	7.5	6.5	6.5	3.5
Basic earnings per share (cents)	30.37	28.25	31.39	24.73	12.45
Diluted earnings per share (cents)	29.29	26.97	29.39	23.44	11.74

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.

Share-based payments currently comprise of the granting of options. It is the company's practice, prior to the issue of shares upon the exercise of options, to request disclosure by the option holder of any financial arrangements that have been entered into, such as the utilisation of margin loan products, as part of the process of payment for the options, either at the date of exercise or subsequent to the issue of shares.

Details of remuneration

The term 'senior executive' refers to:

Colin Anderson – Chief Financial Officer and Company Secretary

Gerry See – Co-company Secretary

Chris Lees – Chief Executive Officer, COR Cooling Pty Ltd

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	Long-Term Benefits	Share Based Payments - Equity Settled		Total	Total % Performance Related	Total % Options Related
	Salary & Fees	Cash Bonus	Motor Vehicle	Super-annuation	Long Service Leave	Shares	Options		%	%
	\$	\$	\$	\$	\$	\$	\$	\$		
2011:										
<i>Executive Director:</i>										
Michael Buckland	514,998	372,000	32,040	46,350	17,192	236,000	78,750	1,297,330	47	6
<i>Non-Executive Directors:</i>										
Peter Fitch	68,807	-	-	6,193	-	-	-	75,000	-	-
Eugene Fung	66,896	-	-	6,021	-	-	-	72,917	-	-
Peter Pursey	69,572	-	-	6,261	-	-	-	75,833	-	-
Paul Reading	80,275	-	-	7,225	-	-	-	87,500	-	-
	285,550	-	-	25,700	-	-	-	311,250		
<i>Senior Executives:</i>										
Colin Anderson	274,800	165,138	-	25,000	-	-	28,603	493,541	33	6
Gerry See ¹	12,068	-	-	897	-	-	-	12,965		
Steve Shellenberger	225,860	169,820	-	10,375	-	-	17,162	423,217	40	4
Steve Warner	148,203	-	-	13,338	-	-	17,162	178,703	-	10
Chris Lees ²	135,462	-	-	8,768	-	-	-	144,230	-	-
	796,393	334,958	-	58,379	-	-	62,927	1,252,656		
Total	1,596,941	706,958	32,040	130,428	17,192	236,000	141,677	2,861,236		

¹ Gerry See was appointed Co-Company Secretary on 8 June 2011.

² Chris Lees is the Chief Executive Officer of COR Cooling Pty Ltd. The remuneration shown above is the amount paid or payable to Chris from the date of acquisition of COR Cooling Pty Ltd to 30 June 2011.

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Directors' Report

Audited Remuneration Report (cont'd)
Details of remuneration (cont'd)

	Short-Term Benefits			Post-Employment Benefits	Long-Term Benefits	Share Based Payments - Equity Settled		Total	Total % Performance Related	Total % Options Related
	Salary & Fees \$	Cash Bonus \$	Motor vehicle \$	Super-annuation \$	Long Service Leave \$	Shares \$	Options \$		\$	%
2010:										
<i>Executive Director:</i>										
Michael Buckland	454,168	240,000	32,040	40,875	14,196	125,000	-	906,279	40	-
<i>Non-Executive Directors:</i>										
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		
<i>Senior Executives:</i>										
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	14,196	125,000	33,665	2,148,565		

The bonuses paid for both the 2011 and 2010 years represented 100% of the available bonus. The bonuses were paid on the achievement of predetermined profit and business development KPI targets set for the financial year. No part of the bonus is payable in future years.

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 8 November 2010, 50,000 shares (the '2010 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 \$4.72 each.

Service agreements

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

Michael Buckland, Managing Director, has an executive service agreement which was extended during the current year to 1 July 2014. 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, Chief Financial Officer and Company Secretary, has an employment contract with Austin Engineering Limited dated 13 December 2006. There is no prescribed duration in the contract, which can be terminated with three months notice by either party. There is no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments.

Steve Shellenberger has an employment agreement with Western Technology Services International, Inc. dated 15 November 2010. The employment term under the agreement lasts until 15 November 2011 and automatically renews for a one year period. Mr Shellenberger may terminate the agreement upon 60 days advance notice, in which case the company will pay him his base salary through the last date of his employment. If he terminates the agreement after the company has adversely changed the conditions of his employment such as to give him good cause to do so, the company will pay him a lump sum equal to his base salary and bonuses through the end of the employment term and a severance payment equal to one year base salary. The company may terminate the agreement without advance notice and pay Mr Shellenberger his base salary through the last day of his employment in the case of termination for inability to perform or for cause. If the company terminates the agreement for any other reason, it will pay him a lump sum equal to his base salary and bonuses through the end of the employment term plus a severance amount equal to one year's base salary.

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Directors' Report

**Audited Remuneration Report (cont'd)
Service agreements (cont'd)**

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 month's 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.

Chris Lees has an employment contract with COR Cooling Pty Ltd dated 7 June 2010. There is no prescribed duration in the contract, which can be terminated with three month's 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.

Gerry See, Co-Company Secretary, has an employment contract with COR Cooling Pty Limited dated 31 August 2010. There is no prescribed duration in the contract, which can be terminated with one month's notice by either party. There is no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments.

Share-based compensation

Options 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 security being provided over options 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 (\$)	Value of options at grant date (\$)	Vested %
<i>Senior Executives:</i>									
Michael Buckland	500,000	26 Nov 2010	2 years	26 Nov 2012	26 Nov 2013	0.52	4.50	260,000	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.

Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of Austin Engineering Limited and other key management personnel of the group are set out below.

Name	Number of ordinary shares issued on exercise of options during the year	Value at exercise date (\$)
Michael Buckland	500,000	1,930,000
Peter Fitch	250,000	965,000
Eugene Fung	250,000	965,000
Peter Pursey	250,000	895,000
Colin Anderson	200,000	918,000
Steve Warner	100,000	470,000

The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

Unexercised options at the end of the year:

At 30 June 2011 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 \$	Vested %
<i>Executive Director:</i>								
Michael Buckland	500,000	26 Nov 2010	2 years	26 Nov 2012	26 Nov 2013	0.52	4.50	Nil
<i>Senior Executives:</i>								
Colin Anderson	150,000	22 Dec 2008	2 years	22 Dec 2010	22 Dec 2011	0.14	1.50	100
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	100
Steve Shellenberger	150,000	26 Mar 2010	2 years	26 Mar 2012	26 Mar 2013	0.26	4.50	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)

Austin Engineering Ltd
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Directors' Report

Options

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

Date Options Granted	Expiry Date	Exercise Price	Number of Options
22 Dec 2008	22 Dec 2011	\$1.50	450,000
26 Mar 2010	26 Mar 2013	\$4.50	850,000
26 Nov 2010	26 Mar 2013	\$4.50	500,000
			1,800,000

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

Shares issued on the exercise of options

The following ordinary shares of Austin Engineering Limited were issued during the year ended 30 June 2011 on the exercise of options granted to employees. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date Options Granted	Exercise Price	Number of Shares Issued
1 September 2007	\$1.90	650,000
23 November 2007	\$2.00	1,250,000
22 December 2008	\$1.50	600,000
		2,500,000

Meetings of Directors

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

	Board of Directors		Audit Committee		Nomination and remuneration committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Michael Buckland	10	10	-	-	-	-
Paul Reading	10	9	4	4	2	2
Peter Fitch	10	9	-	-	2	2
Peter Pursey	10	10	4	4	-	-
Eugene Fung	10	9	4	4	-	-

Indemnification of Directors and Officers

During the financial year, the company paid a premium in respect of a contract insuring the directors and officers of the company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

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.

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 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 Standards Board.

The following fees for non-audit services were paid or payable to the external auditors during the year ended 30 June 2011:

	Consolidated Entity	
	2011	2010
	\$	\$
Auditor of the parent entity (BDO Audit (QLD) Pty Ltd):		
Taxation services	47,544	28,626
Corporate advisory services	-	10,106
	47,544	38,732
Auditors of subsidiary companies (Leinhart, Masons, and Associates LLC):		
Taxation services	6,181	10,804
Corporate advisory services	632	6,174
	6,813	16,978

**Austin Engineering Ltd
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Directors' Report

Auditor's Independence Declaration

A copy of the lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached.

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.

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



Michael D Buckland

Director
29 September 2011



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DECLARATION OF INDEPENDENCE BY P A GALLAGHER TO THE DIRECTORS OF AUSTIN ENGINEERING LTD

As lead auditor of Austin Engineering Ltd for the year ended 30 June 2011, 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 Ltd and the entities it controlled during the period.

P A GALLAGHER
Director

BDO Audit (QLD) Pty Ltd

Brisbane, 29 September 2011

Austin Engineering Ltd
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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 2011 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 FOUNDATIONS 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

The nomination and remuneration committee consists of 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.

On an annual basis, the Nomination and Remuneration Committee reviews the performance of the Managing Director against qualitative and quantitative criteria, which include profit performance, other financial measures and achievement of the Company's strategic objectives. During the 2011 financial year, the Managing Director's performance was reviewed in accordance with the process specified.

The Company maintains a performance evaluation process which measures other senior executives against previously agreed Key Performance Indicators. The process is performed formally once a year and took place for each senior executive during the 2011 financial year.

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 pages 4 and 5 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 (cont'd)

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, 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.

The Board has a policy of enabling directors to seek independent professional advice at the Company's expense.

Recommendation 2.2: The chair should be an independent director

The chairman, Paul Reading, 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 Paul Reading 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 exists with the members being Peter Fitch and Paul Reading. During the reporting period the committee had only two members and not a minimum of three as set out in the recommendation. The board considers the current size of this committee to be appropriate in light of the size of the board and the particular circumstances of the company. 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. 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;
- external auditor's performance and independence as well as considering such matters as replacing the external auditor where and when necessary; and
- approving internal audit plans including identified risk areas.

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 policies and procedures for risk management which cover areas including workplace health and safety, control of key resources, delegation authorities, financial, commercial, manufacturing, and other critical business processes. 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.

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 company has established 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

The nomination and remuneration committee consists of Peter Fitch (Chairman) and Paul Reading. The committee consists only of independent directors and is chaired by an independent director who is not Chairman of the Board. 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 2011

	Notes	Consolidated Entity	
		2011 \$000	2010 \$000
Revenue	2	203,714	144,008
Other income	2	2,183	-
Raw materials and consumables used		(71,792)	(48,866)
Change in inventories and work in progress		7,866	(1,624)
Employment expenses		(83,182)	(47,008)
Subcontractor expenses		(566)	(1,021)
Occupancy and utility expenses		(5,148)	(3,812)
Depreciation expense	13	(3,566)	(2,531)
Amortisation expense - customer relationships and other intangibles		(598)	-
Other expenses from ordinary activities		(16,878)	(12,144)
Finance costs	3	(1,756)	(532)
Profit before income tax	3	30,277	26,470
Income tax expense	4	(8,809)	(7,206)
Net profit for the year		21,468	19,264
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		541	665
Foreign currency translation differences		(2,405)	(113)
Other comprehensive income for the year, net of tax		(1,864)	552
Total comprehensive income for the year		19,604	19,816
Profit for the year is attributable to:			
Owners of Austin Engineering Limited		21,468	19,264
Total comprehensive income for the year is attributable to:			
Owners of Austin Engineering Limited		19,604	19,816
Earnings per share attributable to owners of Austin Engineering Limited:			
Basic earnings per share (cents per share)	8	30.37	28.25
Diluted earnings per share (cents per share)	8	29.29	26.97

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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Statement of financial position at 30 June 2011

	Notes	Consolidated Entity	
		2011	2010
		\$000	\$000
Current Assets			
Cash and cash equivalents	9	37,416	21,125
Trade and other receivables	10	29,985	25,466
Inventories	11	20,940	11,336
Other assets	12	2,780	2,204
Total Current Assets		91,121	60,131
Non-Current Assets			
Property, plant and equipment	13	53,670	30,268
Investments accounted for using the equity method	14	1,554	1,859
Available-for-sale financial assets	14	-	3,683
Intangible assets	15	74,908	41,498
Deferred tax assets	19	2,528	2,268
Total Non-Current Assets		132,660	79,576
Total Assets		223,781	139,707
Current Liabilities			
Trade and other payables	16	55,445	22,857
Financial liabilities	17	1,222	664
Current tax liabilities	18	2,525	2,174
Provisions	20	4,481	3,673
Total Current Liabilities		63,673	29,368
Non-Current Liabilities			
Financial liabilities	17	49,948	22,620
Deferred tax liabilities	19	6,418	1,060
Total Non-Current Liabilities		56,366	23,680
Total Liabilities		120,039	53,048
Net Assets		103,742	86,659
Equity			
Contributed equity	21	48,251	43,684
Reserves	22	(1,763)	(311)
Retained earnings		57,254	43,286
Total Equity		103,742	86,659

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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Statement of changes in equity for the year ended 30 June 2011

	Contributed Equity \$000	Options Reserve \$000	Foreign Currency Translation Reserve \$000	Available- for-sale Investments Reserve \$000	Retained Earnings \$000	Total \$000
Consolidated Entity						
Opening balance at 1 July 2009	23,094	726	(577)	(1,206)	29,910	51,947
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	19,264	19,264
<i>Other comprehensive income:</i>						
Adjustment to 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	-	-	(113)	665	19,264	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 equity items	278	-	-	-	-	278
Dividends paid	-	-	-	-	(5,888)	(5,888)
Share-based payments	-	194	-	-	-	194
	20,590	194	-	-	(5,888)	14,896
At 30 June 2010	43,684	920	(690)	(541)	43,286	86,659
Total comprehensive income for the year:						
Profit for the year	-	-	-	-	21,468	21,468
<i>Other comprehensive income:</i>						
Revaluation of available-for-sale financial assets						
Gross	-	-	-	2,955	-	2,955
Deferred tax adjustment	-	-	-	(887)	-	(887)
Reclassification adjustments						
Transfer to profit or loss - gross	-	-	-	(2,183)	-	(2,183)
Deferred tax	-	-	-	656	-	656
Currency translation differences	-	-	(2,405)	-	-	(2,405)
Total comprehensive income for the year	-	-	(2,405)	541	21,468	19,604
Transactions with owners in their capacity as owners:						
Issue of share capital	4,635	-	-	-	-	4,635
Share issue costs	(68)	-	-	-	-	(68)
Deferred tax relating to equity items	-	-	-	-	-	-
Dividends paid	-	-	-	-	(7,500)	(7,500)
Share-based payments	-	412	-	-	-	412
	4,567	412	-	-	(7,500)	(2,521)
At 30 June 2011	48,251	1,332	(3,095)	-	57,254	103,742

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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Statement of cash flows for the year ended 30 June 2011

	Notes	Consolidated Entity	
		2011	2010
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		234,579	139,351
Payments to suppliers and employees		(181,572)	(121,305)
Interest received		492	338
Dividends received		133	109
Finance costs		(1,756)	(531)
Income tax paid		(8,107)	(4,684)
Net cash provided by operating activities	26a	43,769	13,278
Cash flows from investing activities			
Payments for acquisitions of businesses/subsidiaries, net of cash acquired	31	(36,384)	(24,529)
Payments for property, plant and equipment		(24,371)	(5,947)
Distribution from joint venture entity	14	1,055	1,355
Investments in other financial assets	14	-	(109)
Proceeds from sale of other financial assets		6,638	-
Net cash used in investing activities		(53,062)	(29,230)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		4,567	20,312
Proceeds from borrowings		37,141	123
Repayment of borrowings		(6,404)	(2,561)
Dividends paid	7	(7,500)	(5,888)
Net cash provided by financing activities		27,804	11,986
Net increase/(decrease) in cash and cash equivalents		18,511	(3,966)
Cash and cash equivalents at the beginning of the year		21,125	25,070
Effects of exchange rate changes on cash and cash equivalents		(2,220)	21
Cash and cash equivalents at the end of the year	9	37,416	21,125

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Austin Engineering Ltd
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Notes to the financial statements

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

Note 1: Statement of compliance and significant accounting policies

This financial report includes the consolidated financial statements and notes of Austin Engineering Limited and controlled entities ('consolidated entity' or '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*.

Compliance with IFRS

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

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.

New and amended standards adopted by the group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19, and
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

a. Principles of Consolidation

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

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

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

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

b. Income Tax

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense (income) is charged or credited to other comprehensive income or directly to equity instead of the profit or loss when the tax relates to items that are credited or charged to other comprehensive income or directly to 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.

c. Inventories

Raw materials, consumables and work in progress

Inventories consist of raw materials, consumables and work in progress and are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Construction work in progress

Construction 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 group's activities in general.

d. Property, Plant and Equipment

Property, plant and equipment are measured on the cost basis.

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

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

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Buildings	2%-3%
Plant and equipment	5%-40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss.

e. Research and Development Expenditure

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

f. **Leases**

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

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

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

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight line basis over the lease term. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

g. **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 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.

h. **Interests in Joint Ventures**

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method. Details of the consolidated group's interests are shown at Note 14.

i. **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.

Customer relationships

Customer relationships acquired as part of a business combination are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated on the straight line basis and utilises an estimated useful life of the customer relationships, which is estimated to be 20 years.

Brands

Brands that are acquired by the group and that have indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Other intangibles

Other intangible assets that are acquired by the group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of these assets over their estimated useful lives, which vary from 2 to 25 years.

j. Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where recognised in other comprehensive income as a qualifying cash flow or net investment hedge or are attributable to part of the net investment in a foreign operation.

Group companies

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising on translation of any net investment in foreign operations are recognised in other comprehensive income. These differences are reclassified to profit or loss in the period in which the operation is disposed.

k. 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.

l. 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.

m. Provision for Warranties

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

n. 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 profit or loss. Impairment losses arising from the use of allowance accounts or bad debts are recognised in profit or loss as part of other expenses from ordinary activities.

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.

o. 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.

p. **Revenue and Other Income**

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

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 group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

Construction contracts

Contract revenue is recognised on the percentage of completion basis and measured using the proportion of costs incurred to date compared to expected actual costs adjusted for any variations or claims allowable under the contract.

Rendering of services

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.

Dividends and interest income

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

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.

q. **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.

r. **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 statement of financial position are shown inclusive of GST.

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

s. **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.

t. **Comparative Figures**

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

u. **Rounding of Amounts**

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

v. **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 of intangibles

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. For information relating to the value-in-use calculations refer to note 15.

v. **Critical Accounting Estimates and Judgments (cont'd)**

Key Estimates

Contractual customer relationships

The useful life of contractual customer relationships of 20 years is based on management's expectation of future attrition rates based on historical rates. An increase in attrition rates may lead to a reduction in the estimated useful life and an increase in the amortisation charge.

Determination of fair values in a business combination

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the consideration transferred to the fair value of the identifiable assets acquired and the liabilities assumed.

The group uses external parties with the requisite expertise to determine the acquisition-date fair values of certain identifiable assets acquired.

The fair value of assets is determined by discounting estimated future net cash flows generated by the assets, where no active market for the assets exists. The use of different discount rates as well as assumptions for the expectation of future cash flows would change the valuation of the asset. Allocation of the consideration transferred affects the group's results as property, plant and equipment as well as intangible assets with finite useful lives are respectively depreciated and amortised, whereas goodwill and intangibles with an indefinite life are not. This could result in differing depreciation and amortisation charges based on the allocation.

Key Judgements

Contractual customer relationships

Judgement is exercised by management in identifying those acquired relationships with customers that meet the definition of separately identifiable intangibles that have a finite life.

w. **New accounting standards and interpretations issued but not yet effective**

New accounting standards and interpretations have been published that are not compulsory for the 30 June 2011 reporting period. The consolidated entity's assessment of the impact of the new standards and interpretations that may affect the financial report are set out below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular 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 debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures. The group intends to apply the amendment from 1 July 2011.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The group will apply the amendment from 1 July 2012. The group currently does not have investment property and is not expecting it to have a financial impact.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

w. **New accounting standards and interpretations issued but not yet effective (cont'd)**
AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in other Entities and revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 112 Consolidation – special purpose entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation; however the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The group does not anticipate that this standard will have any significant impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

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	Consolidated Entity	
	2011	2010
	\$000	\$000
Note 2: Revenue and other income		
Revenue		
<i>Sales revenue:</i>		
Sale of goods	140,506	126,752
Services	62,487	16,566
	<u>202,993</u>	<u>143,318</u>
<i>Other revenue:</i>		
Interest - bank deposits	492	489
Dividends	133	109
Other	96	92
	<u>721</u>	<u>690</u>
Total revenue	203,714	144,008
Other income:		
Net gain on sale of available-for-sale financial assets	2,183	-
Note 3: Profit for the year		
Profit for the year is derived after charging:		
Cost of goods sold	108,217	92,228
Finance costs - bank loans	1,756	532
Rental expense on operating leases - minimum lease payments	4,008	2,612
Defined contribution superannuation costs	3,616	1,622
Realised foreign currency exchange losses	81	49
Note 4: Income tax expense		
Components of tax expense:		
The components of tax expense comprise:		
Current tax - current period	7,771	5,814
Deferred tax - origination and reversal of temporary differences	1,038	1,213
Under-provision in respect of prior years	-	179
	<u>8,809</u>	<u>7,206</u>
Prima facie tax reconciliation:		
The prima facie tax on profit before income tax is reconciled to the income tax charge as follows:		
Prima facie tax payable on profit before income tax at 30% (2010:30%)	9,083	7,941
Tax effect of:		
Other non-allowable items	23	403
Accounting expenditure on research and development	728	269
Under provision for tax in prior years	-	345
Share options expensed in the year	124	58
Differences in overseas tax rates	32	(771)
Research and development expenses	(1,169)	(387)
Other capital allowances	28	(107)
Non-assessable interest and other items	-	(402)
Fully-franked dividends	(40)	(33)
Investment allowances and other items	-	(110)
Income tax expense	8,809	7,206
Amounts recognised directly in equity:		
Net deferred tax – debited/(credited) directly to equity	-	278
Tax expense/(income) relating to items of other comprehensive income:		
Available-for-sale financial assets	231	285

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Notes to the financial statements

Note 5: Key management personnel disclosures
Remuneration for key management personnel:

	Consolidated Entity	
	2011	2010
	\$	\$
Short-term employment benefits	2,335,939	1,894,299
Post-employment benefits	130,428	81,405
Long-term benefits	17,192	14,196
Share-based payments	377,677	158,665
	<u>2,861,236</u>	<u>2,148,565</u>

Options held by key management personnel:

	Balance at beginning of year No.	Granted during the year as compensation No.	Exercised during the year No.	Balance at end of year No.	Total vested at reporting date No.	Total exercisable at reporting date No.
2011:						
Michael Buckland	500,000	500,000	(500,000)	500,000	-	-
Peter Fitch	250,000	-	(250,000)	-	-	-
Eugene Fung	250,000	-	(250,000)	-	-	-
Peter Pursey	250,000	-	(250,000)	-	-	-
Paul Reading	-	-	-	-	-	-
Colin Anderson	600,000	-	(200,000)	400,000	150,000	150,000
Steve Shellenberger	300,000	-	-	300,000	150,000	150,000
Steve Warner	250,000	-	(100,000)	150,000	-	-
Total	<u>2,400,000</u>	<u>500,000</u>	<u>(1,550,000)</u>	<u>1,350,000</u>	<u>300,000</u>	<u>300,000</u>
2010:						
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>

Shares held by key management personnel:

	Balance at beginning of year No.	Options exercised during the year No.	Bought during the year No.	Granted during the year No.	Sold during the year No.	Balance at end of year No.
2011:						
Michael Buckland	3,100,000	500,000	-	50,000	(100,000)	3,550,000
Peter Fitch	606,896	250,000	-	-	(352,957)	503,939
Eugene Fung	578,448	250,000	-	-	(50,400)	778,048
Peter Pursey	787,448	250,000	-	-	(36,000)	1,001,448
Paul Reading	34,483	-	-	-	-	34,483
Colin Anderson	93,000	200,000	-	-	(89,000)	204,000
Steve Warner	-	100,000	-	-	-	100,000
Total	<u>5,200,275</u>	<u>1,550,000</u>	<u>-</u>	<u>50,000</u>	<u>(628,357)</u>	<u>6,171,918</u>
2010:						
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>

None of the shares are held nominally. No other key management personnel held shares at 30 June 2011 and 30 June 2010.

Other transactions with key management personnel:

Other transactions with key management personnel are disclosed in note 29.

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Consolidated Entity	
2011	2010
\$	\$

Note 6: Auditor's remuneration

Remuneration of the auditor of the parent entity for:
Auditing or reviewing the financial reports of any entity in the group
Taxation services
Corporate advisory services

91,749	80,000
47,544	28,626
-	10,106
<u>139,293</u>	<u>118,732</u>

Remuneration of other auditors of subsidiaries for:

Auditing or reviewing the financial reports
Taxation services
Corporate advisory services

70,172	116,136
6,181	10,804
632	6,174
<u>76,985</u>	<u>133,114</u>

Note 7: Dividends

Recognised amounts:

Distributions paid - final dividends:

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, paid on 8 October 2010

5,349	-
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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
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Distributions paid - interim dividends:

Fully franked ordinary dividend of 3.0 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2011, paid on 25 March 2011

2,151	-
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Fully franked ordinary dividend of 2.0 cents per share franked at tax rate of 30% for the financial year ended 30 June 2010, paid on 26 March 2010

-	1,386
<u>7,500</u>	<u>5,888</u>

Unrecognised amounts:

The directors have declared a final fully-franked dividend of 8.5 cents per share for the financial year ended 30 June 2011 (2010: 7.5 cents per share) payable on 7 October 2011. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2011, but not recognised as a liability at the end of the year, is

6,108	5,349
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Franked dividends:

The franked portion of the final dividend recommended after 30 June 2011 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2012.

Franking credits available for subsequent financial years based on a tax rate of 30% (2010 - 30%)

12,062	10,009
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The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of \$2,618,000 (2010 - \$2,292,000).

Note 8: Earnings per share

Reconciliation of earnings to profit:

Profit after tax
Earnings used to calculate basic and diluted earnings per share

21,468	19,264
<u>21,468</u>	<u>19,264</u>

Weighted average number of ordinary shares:

Used to calculate basic earnings per share
Effect of dilutive securities - share options
Used to calculate diluted earnings per share

No. (000)	No. (000)
70,693	68,186
2,613	3,232
<u>73,306</u>	<u>71,418</u>

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Note 9: Cash and cash equivalents

Cash at bank and in hand

Consolidated Entity	
2011	2010
\$000	\$000
37,416	21,125
37,416	21,125

Note 10: Trade and other receivables

Trade receivables
Provision for impairment of receivables

30,048	25,466
(63)	-
29,985	25,466

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

Australian dollars	22,317	15,101
US dollars (Australian dollar equivalent)	5,934	5,939
Chilean pesos (Australian dollar equivalent)	1,673	4,426
Indonesian rupiah (Australian dollar equivalent)	61	-
	29,985	25,466

A provision for impairment of trade receivables amounting to \$63,000 was recognised during the year ended 30 June 2011. The age of these impaired receivables was 61-90 days. No provision was made against trade receivables at 30 June 2010.

The age of trade receivables that were past due but not impaired was as follows:

Consolidated Entity		
2011	2010	
\$000	\$000	
30 days	3,996	4,041
31-60 days	845	1,199
61-90 days	521	753
91+days	(9)	1,633
	5,353	7,626

The trade receivables that were past due but not impaired relate to a number of customers for whom there is no recent history of default or other indicators of impairment.

Note 11: Inventories

At Cost:

Raw materials and consumables
Work-in-progress

12,470	6,766
8,470	4,570
20,940	11,336

Note 12: Other assets

Prepayments
Other assets

1,862	643
918	1,561
2,780	2,204

Note 13: Property, plant and equipment

Land:

Cost

8,574	6,006
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Buildings:

Cost	26,651	13,245
Accumulated depreciation	(470)	(208)
Total buildings	26,181	13,037
Total land and buildings	34,755	19,043

Capital work in progress:

Cost

3,181	538
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Plant and equipment:

Cost	27,744	19,389
Accumulated depreciation	(12,010)	(8,702)
	15,734	10,687

Total property, plant and equipment

53,670	30,268
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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 2009	3,912	13,630	231	8,931	26,704
Additions	2,103	9	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	6,006	13,037	538	10,687	30,268
Additions	2,568	13,067	2,643	6,303	24,581
Additions through acquisitions of entities	-	339	-	4,822	5,161
Disposals	-	-	-	(162)	(162)
Foreign currency exchange movements	-	-	-	(2,612)	(2,612)
Depreciation expense	-	(262)	-	(3,304)	(3,566)
Balance at 30 June 2011	8,574	26,181	3,181	15,734	53,670

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

	Plant and Equipment \$000	Total \$000
Balance at 1 July 2009	1,481	1,481
Additions	118	118
Depreciation expense	(451)	(451)
Balance at 30 June 2010	1,148	1,148
Additions	1,063	1,063
Additions through acquisitions of entities	1,715	1,715
Assets no longer under finance lease arrangements	(220)	(220)
Depreciation expense	(703)	(703)
Balance at 30 June 2011	3,003	3,003

Non-current assets pledged as security:

Refer to note 17 for information on non-current assets pledged as security by the group.

Note 14: Other financial assets

	Consolidated Entity	
	2011	2010
	\$000	\$000

Investments accounted for using the equity method:

Joint venture entity:

Majan Aluminium Services Company LLC	1,554	1,859
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Available-for-sale financial assets at fair value:

Listed equity securities	-	3,683
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Movements during the year in investments accounted for using the equity method:

Joint venture entity:

Balance at beginning of year	1,859	1,082
Share of profits of joint venture entity	750	2,132
Return of cash from joint venture entity	(1,055)	(1,355)
Balance at end of year	1,554	1,859

Listed equity securities:

Balance at beginning of year	3,683	2,624
New investments during the year	-	109
Revaluation increase	2,955	950
Sale of investments	(6,638)	-
Balance at end of year	-	3,683

Joint venture entity:

Austin Engineering Limited has a 50% (2010: 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. The interest in Majan Aluminium Services Company LLC is accounted for in the financial statements using the equity method of accounting. Information relating to the joint venture entity is set out below.

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Note 14: Other financial assets (cont'd)
Joint venture entity (cont'd)

	Consolidated Entity	
	2011	2010
	\$000	\$000
Share of joint venture entity assets and liabilities		
Current assets	1,754	596
Non-current assets	431	2,110
Total assets	2,185	2,706
Current liabilities	631	847
Total liabilities	631	847
Net assets	1,554	1,859
Share of joint venture entity revenue, expenses and results		
Revenues	2,113	6,666
Expenses	(1,260)	(4,243)
Profit before income tax	853	2,423

Contingent liabilities relating to joint ventures

There are no contingent liabilities that require to be disclosed in connection with the joint venture entity.

	Country of Incorporation	Percentage Owned	
		2011	2010
Parent entity:			
Austin Engineering Ltd	Australia		
Subsidiaries of Austin Engineering Ltd:			
Austbore Pty Ltd	Australia	100%	100%
Austin Engineering USA Inc.	USA	100%	100%
Austin Engineering South America (No.1) Pty Ltd	Australia	100%	100%
Austin Engineering South America (No.2) Pty Ltd	Australia	100%	100%
Austin Engineering Singapore Pte Ltd*	Singapore	100%	-
Cor Cooling Pty Ltd	Australia	100%	-
PHG Services Pty Ltd	Australia	100%	-
Pilbara Hire Group Pty Ltd	Australia	100%	-
Subsidiaries of Austin Engineering USA Inc.:			
Western Technology Services Inc.	USA	100%	100%
Subsidiaries of Austin Engineering South America (No.1) Pty Ltd:			
Austin Inversiones Chile Ltda.	Chile	99%	99%
Austin Ingenieros Chile Ltda.	Chile	1%	1%
Subsidiaries of Austin Engineering South America (No.2) Pty Ltd:			
Austin Inversiones Chile Ltda.	Chile	1%	1%
Subsidiaries of Austin Engineering Singapore Pte Ltd:			
Austin Engineering Offshore Pte Ltd*	Singapore	100%	-
Austin Engineering Batam Pte Ltd*	Singapore	100%	-
Subsidiaries of Cor Cooling Pty Ltd:			
Cor Engineered Cooling Pty Ltd	Australia	100%	-
Cor Radiator Services Pty Ltd	Australia	100%	-
Subsidiaries of Western Technology Services 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%	99%
Subsidiaries of Austin Ingenieros Chile Ltda.			
Austin Ingenieros Colombia S.A.S*	Colombia	100%	-
Subsidiaries of Austin Engineering Offshore Pte Ltd:			
PT Austin Engineering Indonesia*	Indonesia	0.01%	-
Subsidiaries of Austin Engineering Batam Pte Ltd:			
PT Austin Engineering Indonesia*	Indonesia	99.99%	-
Subsidiaries of Cor Radiator Services Pty Ltd:			
Cor Radiator Unit Trust	Australia	100%	-

* These subsidiaries were incorporated during the financial year ended 30 June 2011.

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Note 14: Other financial assets (cont'd)

Parent entity information:

	2011	2010
	\$000	\$000
Assets		
Current assets	52,820	51,382
Non-current assets	98,107	62,769
Total assets	150,927	114,151
Liabilities		
Current liabilities	19,559	20,034
Non-current liabilities	45,311	22,908
Total liabilities	64,870	42,942
Net assets	86,057	71,209
Equity		
Contributed equity	48,251	43,684
Reserves		
Options reserve	1,332	920
Available-for-sale reserve	-	(541)
Retained earnings	36,474	27,146
Total equity	86,057	71,209
Financial performance		
Profit for the year	12,422	14,772
Other comprehensive income	-	665
Total comprehensive income	12,422	15,437

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 \$53,419,000 (2010: \$23,531,000) was owing to National Australia Bank under this facility.

Contractual commitments

At 30 June 2011, contractual commitments entered into in respect of capital expenditure projects totalled \$299,000 (2010: \$602,000).

Contingent liabilities

The parent entity did not have any contingent liabilities at 30 June 2011 and 30 June 2010. For information about guarantees given by the parent entity, see above.

Note 15: Intangible assets

	Goodwill	Customer relationships*	Brands**	Other intangibles	Total
	\$000	\$000	\$000	\$000	\$000
At 1 July 2009					
Cost	17,708	-	-	-	17,708
Accumulated amortisation and impairment	-	-	-	-	-
Net book amount	17,708	-	-	-	17,708
Year ended 30 June 2010					
Opening net book amount	17,708	-	-	-	17,708
Additions - acquisitions	24,090	-	-	-	24,090
Exchange differences	(300)	-	-	-	(300)
Closing net book amount	41,498	-	-	-	41,498
At 30 June 2010					
Cost	41,498	-	-	-	41,498
Accumulated amortisation and impairment	-	-	-	-	-
Net book amount	41,498	-	-	-	41,498
Year ended 30 June 2011					
Opening net book amount	41,498	-	-	-	41,498
Additions	-	-	-	141	141
Additions - acquisitions	21,313	10,227	2,749	394	34,683
Exchange differences	(816)	-	-	-	(816)
Amortisation charge	-	(469)	-	(129)	(598)
Closing net book amount	61,995	9,758	2,749	406	74,908
At 30 June 2011					
Cost	61,995	10,227	2,749	535	75,506
Accumulated amortisation and impairment	-	(469)	-	(129)	(598)
Net book amount	61,995	9,758	2,749	406	74,908

* Customer relationships have a remaining amortisation period of approximately 19 years.

** Brands are assessed as having an indefinite useful life. The indefinite useful life reflects management's intention to continue to manufacture these brands to generate net cash inflows into the foreseeable future. Annual management review of indefinite life brands has not identified any factors that would significantly restrict the market or the brand position in the market (such as contractual, customer or consumer constraints).

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Note 15: Intangible assets (cont'd)

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:

	Consolidated Entity	
	2011	2010
	\$000	\$000
Austin Mackay (formerly Kaldura Industries)	2,706	2,706
Austbore Pty Ltd	8,310	8,310
Conymet	24,090	24,090
Western Technology Services Inc.	5,576	6,392
Pilbara Hire Group	7,511	-
Phillips Engineering	1,821	-
COR Cooling	11,981	-
Net carrying value	<u>61,995</u>	<u>41,498</u>

The brands are mainly attributable to the COR Cooling business unit.

Key assumptions used for value-in-use calculations

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% (2010: 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. The principal assumptions used across all business units include annual growth rates of between 4% and 9% (2010: 5%), CPI of 4% (2010: 4%), a USD/AUD exchange rate of \$1.04 (2010: 84 cents) and a CLP (Chilean Peso)/AUD exchange rate of 490 (2010: 470). Significant changes in the underlying major assumptions would be required to generate an impairment charge.

	Consolidated Entity	
	2011	2010
	\$000	\$000

Note 16: Trade and other payables

Current unsecured liabilities:

Trade payables	28,800	17,398
Sundry payables and accrued expenses	7,762	5,459
Progress payments in advance	18,883	-
	<u>55,445</u>	<u>22,857</u>

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

Australian dollars	37,712	16,718
US dollars (Australian dollar equivalent)	5,872	2,648
Chilean pesos (Australian dollar equivalent)	10,341	3,491
Indonesian rupiah (Australian dollar equivalent)	1,519	-
Colombian peso (Australian dollar equivalent)	1	-
	<u>55,445</u>	<u>22,857</u>

Note 17: Financial liabilities

Current secured liabilities:

Hire purchase and lease obligations	1,222	664
	<u>1,222</u>	<u>664</u>

Non-current secured liabilities:

Hire purchase and lease obligations	1,208	296
Bank loans	48,740	22,324
	<u>49,948</u>	<u>22,620</u>

Total of current and non-secured liabilities:

Hire purchase and lease obligations	2,430	960
Bank loans	48,740	22,324
	<u>51,170</u>	<u>23,284</u>

Assets pledged as security – fixed/floating charge:

Current

Cash and cash equivalents	31,508	20,197
Receivables	28,251	21,040
Inventories	18,026	9,975
	<u>77,785</u>	<u>51,212</u>

Non-current

Property, plant and equipment	34,428	26,514
Available-for-sale financial assets	-	3,683
	<u>34,428</u>	<u>30,197</u>
Total	<u>112,213</u>	<u>81,409</u>

Note 18: Current tax liabilities

Income tax	2,525	2,174
	<u>2,525</u>	<u>2,174</u>

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Consolidated Entity	
2011	2010
\$000	\$000

Note 19: Deferred tax

Deferred tax assets - non-current

Non-current deferred tax assets comprise:

Employee leave entitlements	1,037	634
Warranty and other provisions	199	314
Transaction costs on equity issue	216	275
Prior period losses	557	543
Revaluation of available-for-sale financial assets	-	232
Other	519	270
Total deferred tax assets	2,528	2,268

Deferred tax liabilities - non-current

Non-current deferred tax liabilities comprise:

Revaluation of assets on acquisition	155	199
Intangibles	4,011	-
Goodwill	1,788	-
Other	464	861
Total deferred tax liabilities	6,418	1,060

Movements	Opening balance \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised directly in equity \$000	Acquisitions \$000	Closing balance \$000
2011						
Deferred tax assets						
Employee leave entitlements	634	265	-	-	138	1,037
Warranty and other provisions	314	(115)	-	-	-	199
Transaction costs on equity issue	275	(59)	-	-	-	216
Prior period losses	543	14	-	-	-	557
Revaluation of available-for-sale financial assets	231	-	(231)	-	-	-
Other	271	204	-	-	44	519
Deferred tax liabilities						
Revaluation of assets on acquisition	(199)	44	-	-	-	(155)
Intangibles	-	-	-	-	(4,011)	(4,011)
Goodwill	-	(1,788)	-	-	-	(1,788)
Other	(861)	397	-	-	-	(464)
	1,208	(1,038)	(231)	-	(3,827)	(3,890)
2010						
Deferred tax assets						
Employee leave entitlements	585	49	-	-	-	634
Warranty and other provisions	852	(538)	-	-	-	314
Transaction costs on equity issue	73	(76)	-	278	-	275
Prior period losses	626	(83)	-	-	-	543
Revaluation of available-for-sale financial assets	516	-	(285)	-	-	231
Other	125	146	-	-	-	271
Deferred tax liabilities						
Revaluation of assets on acquisition	(259)	60	-	-	-	(199)
Other	-	(861)	-	-	-	(861)
	2,518	(1,303)	(285)	278	-	1,208

Note 20: Provisions

Consolidated Entity	
2011	2010
\$000	\$000

Employee leave entitlements	3,851	2,674
Warranty provisions	624	973
Other	6	26
Total current provisions	4,481	3,673
Warranty provisions:		
Balance at beginning of year	973	2,129
Provided during the year	477	521
Utilised during the year	(757)	(790)
Released during the year	-	(818)
Foreign currency exchange differences	(69)	(69)
Balance at end of year	624	973

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.

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Note 21: Contributed equity

	2011		2010	
	No. 000	\$000	No. 000	\$000
Ordinary shares (fully paid)				
Balance at beginning of year	69,315	43,684	54,178	23,094
Shares issued during the year:				
Exercise of options	2,500	4,635	750	450
Issue of placement shares	-	-	10,928	15,846
Issue of shares on completion of share purchase plan	-	-	3,409	4,942
Issue of performance-related shares	50	-	50	-
Cost of share issues	-	(68)	-	(926)
Deferred tax adjustment to cost of share issues	-	-	-	278
Balance at end of year	71,865	48,251	69,315	43,684

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. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Ordinary shares issued in the year to 30 June 2011 comprised of the following:

- 7 July 2010: 100,000 shares at \$1.50 each (\$150,000) in relation to the exercise of employee options
- 24 August 2010: 42,105 shares at \$1.90 each (\$80,000) in relation to the exercise of employee options
- 26 August 2010: 257,895 shares at \$1.90 (\$490,000) in relation to the exercise of employee options
- 26 August 2010: 250,000 shares at \$2.00 (\$500,000) in relation to the exercise of directors options
- 30 August 2010: 350,000 shares at \$1.90 (\$665,000) in relation to the exercise of employee options
- 8 September 2010: 1,000,000 shares at \$2.00 (\$2,000,000) in relation to the exercise of directors options
- 8 November 2010: 50,000 shares at nil cost on the grant of performance-related shares to the managing director
- 22 December 2010: 250,000 shares at \$1.50 (\$375,000) in relation to the exercise of employee options
- 2 March 2011: 100,000 shares at \$1.50 (\$150,000) in relation to the exercise of employee options
- 17 June 2011: 150,000 shares at \$1.50 (\$225,000) in relation to the exercise of employee options

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

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.

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 \$117,496,000 at 30 June 2011 (30 June 2010: \$88,818,000). 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-equity 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 gearing ratio remains below 40%, in accordance with required bank covenants. The gearing ratios for the years ended 30 June 2011 and 30 June 2010 are as follows:

	Consolidated Entity	
	2011	2010
	\$000	\$000
Total borrowings	51,170	23,284
Less cash and cash equivalents	(37,416)	(21,125)
Net debt	13,754	2,159
Total equity	103,742	86,659
Total capital	117,496	88,818
Net gearing ratio	12%	2%

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Note 22: Reserves

Foreign currency translation reserve

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

Option reserve

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

Available-for-sale investments reserve

The available-for-sale investments reserve records differences arising on the comparison of the purchase price of investments against the market value at the balance date.

Note 23: Capital and leasing commitments

	Consolidated Entity	
	2011	2010
	\$000	\$000
Finance and hire purchase lease commitments:		
Not later than one year	1,393	699
Between one and five years	1,366	323
Minimum lease payments	2,759	1,022
Less: future finance charges	(329)	(62)
	<u>2,430</u>	<u>960</u>
Representing lease liabilities:		
Current (note 17)	1,222	664
Non-current (note 17)	1,208	296
	<u>2,430</u>	<u>960</u>

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

Operating lease commitments:

Not later than one year	3,713	2,660
Between one and five years	11,094	9,479
Greater than 5 years	11,911	14,249
	<u>26,718</u>	<u>26,388</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	10,312	10,033
	<u>10,312</u>	<u>10,033</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 included in the working capital facilities shown in note 26.

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Note 25: Segment reporting

Management has determined that the strategic operating segments comprise of Australia (for mining equipment, other products and repair and maintenance services), Americas (for mining equipment and other products, comprising of North America and South America), Asia (currently Indonesia for mining equipment and other products) 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. Segment information for the years ended 30 June 2011 and 30 June 2010 is as follows:

	Australia		Americas		Middle East		Asia		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total segment revenue	162,573	107,404	48,424	38,641	2,114	6,666	115	-	213,226	152,711
Inter-segment revenue	(9,512)	(8,703)	-	-	-	-	-	-	(9,512)	(8,703)
Revenue from external customers	153,061	98,701	48,424	38,641	2,114	6,666	115	-	203,714	144,008
EBIT	25,668	17,495	5,363	6,594	853	2,423	(343)	-	31,541	26,512
Depreciation and amortisation	3,436	1,935	681	596	-	-	47	-	4,164	2,531
Share of net profit of joint ventures accounted for using the equity method	-	-	-	-	750	2,132	-	-	750	2,132
Segment assets	139,092	70,504	77,549	67,344	1,554	1,859	5,586	-	223,781	139,707
Total assets include: Investments in joint ventures	-	-	-	-	1,554	1,859	-	-	1,554	1,859
Additions to non-current assets (other than financial assets and deferred tax)	46,829	2,227	13,605	28,021	-	-	4,133	-	64,567	30,248

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:

	2011	2010
	\$000	\$000
EBIT	31,541	26,512
Interest revenue	492	489
Finance costs	(1,756)	(531)
Profit before income tax	30,277	26,470

Accounting policies

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

Inter-segment transfers

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

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Note 25: Segment reporting (cont'd)

Segment revenue and non-current assets

Total revenue from external customers attributed to Australia (country of domicile) is \$150,129,000 (2010 – \$92,228,000), and total revenue from external customers attributed to all foreign countries is \$53,585,000 (2010 – \$51,780,000). Revenues from external customers attributed to the USA, as an individual foreign country, are material and amount to \$29,493,000 (2010 - \$21,766,000).

Revenues of approximately \$50,868,000 (2010 – \$23,440,000) are derived from a single external customer. These revenues are attributable to the Australia segment.

Non-current assets located in Australia amounted to \$71,481,000 (2010 - \$31,958,000) and non-current assets located in foreign countries amounted to \$58,651,000 (2010 - \$45,350,000). These non-current assets exclude financial instruments, deferred tax assets and post-employment benefit assets. Non-current assets located in the USA and Chile are material as individual foreign countries and amounted to \$13,507,000 (2010 - \$15,550,000) and \$36,891,000 (2010 - \$27,941,000) respectively.

Note 26: Cash flow information

	Consolidated Entity	
	2011	2010
	\$000	\$000
a) Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	21,468	19,264
Depreciation and amortisation	4,164	2,531
Share of joint venture profits	(750)	(2,132)
Gain on sale of available-for-sale financial assets	(2,183)	-
Share options expense	412	194
Changes in operating assets and liabilities, net of effects from purchase of controlled entities:		
(Increase)/decrease in receivables	(2,429)	(6,099)
(Increase)/decrease in inventories	(8,525)	(1,787)
(Increase)/decrease in other assets	(256)	(1,576)
Increase/(decrease) in payables	29,936	2,074
Increase/(decrease) in income taxes payable	1,541	1,657
Increase/(decrease) in provisions	391	(848)
Net cash provided by operating activities	43,769	13,278

b) Non-cash investing and financing activities

The deferred settlement on the purchase of the Pilbara Hire Group is disclosed in note 31 and the acquisition of plant and equipment by means of finance leases is disclosed in note 13.

c) Bank facilities

	Consolidated Entity	
	2011	2010
	\$000	\$000
The consolidated group had access to the following bank facilities at the balance date:		
Business acquisition finance facilities	51,822	22,324
Utilised	(45,129)	(22,324)
Unused	6,693	-
Business development facility	20,000	11,000
Utilised	(2,323)	-
Unused	17,677	11,000
Asset finance facilities	21,236	6,060
Utilised	(6,146)	(960)
Unused	15,090	5,100
Working capital facilities	7,976	8,267
Utilised	(6,443)	(1,207)
Unused	1,533	7,060
Total facilities	101,034	47,651
Utilised	(60,041)	(24,491)
Unused	40,993	23,160

During the year the group maintained principal banking facilities with National Australia Bank Limited, and Banco BCI and Banco Santander in Chile. The major facilities are summarised as follows:

Business acquisition finance facilities:

These facilities consist of a USD 19m facility (2010: USD 19m) which lasts until 31 May 2013 in relation to the refinancing of a bank loan that was originally drawn-down to accommodate the purchase of Western Technology Services Inc. on 30 November 2007. This facility has been fully drawn-down in US dollars and is revolving and variable interest-only until the end of its term. In addition, the facilities include a total of AUD 34m, which lasts until 31 May 2015, in relation to the purchase in the year ended 30 June 2011 of the Pilbara Hire Group Pty Ltd and Pilbara Hire Services Pty Ltd (together the "Pilbara Hire Group") the business and assets of Phillips Engineering Aus Pty Ltd and COR Cooling Pty Ltd. These facilities have been partially drawn-down and are revolving and variable interest-only until the end of their term.

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Note 26: Cash flow information (cont'd)

c) Bank facilities (cont'd)

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 review on 31 May 2013. Commercial bills attract variable interest rates applicable at the date of utilisation whilst guarantees and standby letters of credit are priced at a set fee every quarter.

Asset finance facilities:

These facilities have been granted to assist with the purchase of property, plant and equipment for use in the group's operations and attract various variable and fixed interest rates applicable at the date of utilisation. The facilities include a \$6m (USD 6.5m) construction development loan of which \$3.6m was utilised at 30 June 2011. These facilities last over the period 31 May 2013 to 30 June 2016 and are reviewable at the end of their terms. Interest rates are a combination of variable and fixed rates.

Working capital facilities:

These facilities are used to provide working capital support as well as security for the performance and delivery of products and services delivered by the group. These facilities are multi-option and multi-currency and can be utilised in the form of commercial bills, guarantees or standby letters of credit. The facilities are subject to review on 31 May 2013. Commercial bills attract variable interest rates applicable at the date of utilisation whilst guarantees and standby letters of credit are priced at a set fee every quarter.

At 30 June 2011 the bank facilities of the consolidated entity are secured by a fixed and floating charge over the assets and undertakings of each of the entities. The assets pledged as security are disclosed in note 17. 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 2011. The group's policy is to centralise debt and surplus cash balances whenever possible.

Note 27: Share-based payments

The following share-based payment arrangements existed at 30 June 2011:

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 8 November 2010, 50,000 shares (the '2010 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 \$4.72 each (2010: 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).

Options:

- 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 were exercisable between 1 September 2009 and 1 September 2010. During the year, 650,000 of the options were exercised leaving none 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 were exercisable between 23 November 2007 and 23 November 2010. During the year, 1,250,000 of the options were exercised leaving none 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 had a one year vesting period and were exercisable by 22 December 2010. The options are unlisted, hold no voting rights or dividend rights and are not transferable. During the year 1,050,000 of the options vested and 600,000 of the options were exercised leaving 450,000 unexercised at the balance date.
- On 26 March 2010, 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.
- On 26 November 2010, 500,000 share options were granted to Managing Director Michael Buckland 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 November 2012 and 26 November 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 500,000 unexercised at the balance date.

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

All options granted are for ordinary shares in Austin Engineering Ltd which confer a right of one ordinary share for every option held and vest if service conditions are met. There are no performance conditions attaching to these options. Share options outstanding and exercisable at the balance date are as follows:

	2011		2010	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at beginning of year	3,800,000	2.40	3,700,000	1.54
Granted	500,000	4.50	850,000	4.50
Exercised	(2,500,000)	1.85	(750,000)	0.60
Outstanding at end of year	1,800,000	3.75	3,800,000	2.40
Total exercisable at end of year	450,000	1.50	2,000,000	1.94

The options outstanding at 30 June 2011 had a weighted average remaining contractual life of 1.61 years (2010: 1.05 years). The exercise prices for these options range from \$1.50 to \$4.50 (2010: \$1.50 to \$4.50). The weighted average share price at the date of exercise of options during the year was \$3.92 (2010: \$2.32).

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 price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The following inputs were used for the options issued in 2011 and 2010:

	Options Issued 26 November 2010		Options Issued 26 March 2010	
	Black	Scholes Merton	Black	Scholes Merton
Pricing model				
Underlying share price at grant date	\$4.32		\$3.20	
Exercise price	\$4.50		\$4.50	
Expected volatility	40.0%		40.0%	
Expected option life	3 years		3 years	
Dividend yield	2.44%		2.50%	
Risk-free rate	4.75%		5.29%	
Weighted average fair value at measurement date	\$0.52		\$0.26	

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.

Included under employee benefits expense in profit or loss is \$412,000 (2010: \$194,000) and this relates, in full, to equity-settled share-based payment transactions.

Note 28: Events after the balance sheet date

On 29 July 2011 COR Cooling Pty Ltd, a 100% subsidiary company of Austin Engineering Ltd, acquired the business and assets of Diecon Engineering, a specialised manufacturer and repairer of industrial and marine transmission and cooling products based in Brisbane. The purchase price, which was paid in cash, was \$0.8m. The fair value of tangible and intangible assets acquired is in the process of being determined and finalised. The transaction is not significant to the group.

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, was 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 \$123,568 during the year (2010: \$93,279). There were no balances outstanding to DLA Phillips Fox at 30 June 2011 and 30 June 2010 respectively.

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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 principles and parameters 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.

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.

(i) 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.

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 2011, had the Australian dollar weakened or strengthened by 10% against the US dollar, Chilean Peso, Indonesian Rupiah and Colombian Peso with all other variables held constant, post-tax profit for the year would have been \$386,000 higher or lower (2010: \$423,000) due to the change in value of the net income by entities in the group having these currencies as their functional currency. Equity would have been \$2,484,000 higher or lower (2010: \$2,867,000) had the Australian dollar weakened or strengthened by 10% against these currencies arising as a result of the change in value of the net equity of entities in the group with these currencies 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.

(ii) Price risk:

The group is not exposed to material price risk relating to equity securities and it has therefore not been included in the sensitivity analysis.

(iii) Cash flow and fair value interest rate risk:

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 oppositions 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.

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

	30 June 2011		30 June 2010	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	\$000	%	\$000
Cash	2.8	35,540	2.8	21,125
Bank loans	4.2	(45,129)	1.4	(22,324)
Net exposure to cash flow interest rate risk		(9,589)		(1,199)

The group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

Sensitivity

Based on the simulations performed, the annual impact on profit and loss of a one per cent shift in interest rates, with all other variables held constant, is estimated to be a maximum increase or decrease of \$414,000 (2010: \$225,000). The simulation is performed on a bi-annual basis to estimate the maximum loss potential.

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Note 30: Financial risk management (cont'd)

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 cash deposits and receivables. 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.

Revenues of approximately \$50,868,000 (2010 – \$23,440,000) are derived from a single external customer. There were no other significant concentrations of credit risk.

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

Refer note 10 for a summary of the group's exposure to credit risk relating to receivables 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 \$40,993,000 were undrawn at 30 June 2011 (2010: \$23,160,000). The principal terms of repayment are detailed in note 26.

The table below analyses the group's financial assets and 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 statement of financial position.

	1 Year \$000	1 to 5 Years \$000	Total \$000
2011			
Payables	55,446	-	55,446
Bank loan	1,971	54,369	56,340
Lease liabilities	1,392	1,366	2,758
Total	58,809	55,735	114,544
2010			
Payables	22,857	-	22,857
Bank loan	279	22,539	22,818
Lease liabilities	699	323	1,022
Total	23,835	22,862	46,697

Fair value measurements:

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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Note 30: Financial risk management (cont'd)
Fair value measurements: (cont'd)

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010:

	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
At 30 June 2011				
Contingent consideration	-	-	813	813
At 30 June 2010				
Available-for-sale financial assets	3,683	-	-	3,683

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The specific valuation techniques used to value financial instruments include:

- (a) Available-for-sale financial assets - quoted market prices
- (b) Contingent consideration - discounted cash flow analysis

The contingent consideration of \$813,000 represents the fair value of the earn-out at the date of acquisition of the Pilbara Hire Group (refer note 31).

The aggregate fair values of all other financial assets and liabilities approximate their carrying values at the balance date.

Note 31: Business combinations

2011

On 2 July 2010, the company acquired 100% of Pilbara Hire Group Pty Ltd and PHG Services Pty Ltd (together the "Pilbara Hire Group"), with operations based in the Pilbara region of Western Australia, for a cash consideration of \$12.1m. The Pilbara Hire Group is an on-site fixed and mobile mining equipment repair and maintenance business. The purchase agreement provided for an earn-out payment of up to \$1.45m to be payable to the previous owners based upon the achievement of a pre-determined minimum EBIT target of \$3.25m for the financial year ended 30 June 2011, with the excess over \$3.25m being paid to the previous owners. The fair value of this earn-out at the date of acquisition has been determined as \$813,000 and this has been provided for at 30 June 2011. The acquisition of the Pilbara Hire Group was a strategic development of the group's operations into repair and maintenance activities. The acquisition was funded by way of a bank loan.

On 1 November 2010 the company acquired the business and assets of Phillips Engineering Aus Pty Ltd, with operations based in the Hunter Valley region of New South Wales, for a cash consideration of \$4.6m. Phillips Engineering Aus Pty Ltd is a workshop and site-based mining equipment repair and maintenance business. The acquisition was a strategic development of the group's operations into an important and growing coal mining region. The acquisition was funded by way of a bank loan.

On 17 December 2010 the company acquired 100% of COR Cooling Pty Ltd, with operations based in Queensland and Western Australia, for a cash consideration of \$20.5m. COR Cooling Pty Ltd specialises in the sale and repair of radiators and other products for the mining and other industries. The acquisition was a strategic diversification of the group's operations into a new area of the mining services market offering expanded services to existing customers domestically and overseas. The acquisition was funded by way of a bank loan as well as existing available cash resources.

Acquisition-related costs of \$108,000, comprising of legal and other fees, have been recognised in the period and are included within other expenses from ordinary activities in the consolidated statement of comprehensive income.

Details of net assets and intangibles acquired are as follows:

	Pilbara Hire Group \$000	Phillips Engineering \$000	COR Cooling \$000	Total \$000
Purchase consideration	12,961	4,607	20,487	38,055
Fair value of net tangible assets acquired	125	(1,303)	(6,205)	(7,383)
Intangible assets and goodwill	13,086	3,304	14,282	30,672

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Notes to the financial statements

Note 31: Business combinations (cont'd)

The fair value of net tangible assets from the acquisitions is as follows:

	Pilbara Hire Group \$000	Phillips Engineering \$000	COR Cooling \$000	Total \$000
Cash	30	-	828	858
Property, plant and equipment	2,469	1,250	1,442	5,161
Inventories and work-in-progress	-	328	2,023	2,351
Receivables	-	-	3,491	3,491
Other assets	150	-	407	557
Payables	(1,080)	-	(1,718)	(2,798)
Employee leave entitlements	-	(275)	(268)	(543)
Financial liabilities	(1,694)	-	-	(1,694)
Net identifiable tangible assets acquired	(125)	1,303	6,205	7,383

The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisitions are as follows:

	Pilbara Hire Group \$000	Phillips Engineering \$000	COR Cooling \$000	Total \$000
Customer relationships and service agreements	7,845	2,083	-	9,928
Licence agreement and relationship	-	-	299	299
Brands	50	-	2,699	2,749
Designs	-	-	149	149
Non-compete agreement	70	35	140	245
Goodwill	7,511	1,821	11,981	21,313
Deferred tax liability	(2,390)	(635)	(986)	(4,011)
Total intangible assets and goodwill acquired	13,086	3,304	14,282	30,672

Purchase consideration – cash outflow:

	Pilbara Hire Group \$000	Phillips Engineering \$000	COR Cooling \$000	Total \$000
<i>Outflow of cash to acquire subsidiaries, net of cash acquired</i>				
Total purchase consideration	12,961	4,607	20,487	38,055
Less: contingent consideration	(813)	-	-	(813)
Cash consideration	12,148	4,607	20,487	37,242
Less: balances acquired				
Cash	(30)	-	(828)	(858)
Outflow of cash – investing activities	12,118	4,607	19,659	36,384

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. The fair value of acquired trade receivables approximates to their carrying value.

Goodwill is attributable to the profitability of the acquired business and the significant business development opportunities that are expected to arise after the group's acquisition of the respective businesses. 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 dates of their respective acquisitions to 30 June 2011, the acquired businesses contributed \$42,979,000 of revenue and \$4,068,000 of net profit after tax to the group. If the acquisitions had occurred on 1 July 2010, the revenue of the group on a pro-forma, pro-rata basis would have been \$216,145,000 and net profit after tax would have been \$23,062,000.

2010

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)	24,748

Goodwill is attributable to the profitability of the acquired business and the significant business development opportunities that are expected to arise after the group's acquisition of the business. 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 to 30 June 2010, the acquired business, which operates as Austin Ingenieros Chile Limitada, 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.

Directors' Declaration

The directors of the company declare:

1. The financial statements and notes, as set out in pages 17 to 46 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 2011 and of the performance for the year ended on that date of the consolidated entity.
2. The remuneration disclosures contained in the Remuneration Report in the Directors' Report comply with section 300A of the Corporations Act 2001.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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



Michael D Buckland
Director

29 September 2011

INDEPENDENT AUDITOR'S REPORT

To the members of Austin Engineering Ltd

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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*, which has been given to the directors of Austin Engineering Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- a) the financial report of Austin Engineering Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 9 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Austin Engineering Ltd for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd



P A GALLAGHER
Director

Brisbane, 29 September 2011

Austin Engineering Ltd
Annual and Financial Report 2011

Additional Information for Public Listed Companies

1. Substantial Shareholders at 20 September 2011

	Number of Ordinary Fully Paid Shares Held	% Held of Ordinary Shares
Bradken Resources Pty Ltd	14,473,849	20.10
Thorney Investment Group Australia Pty Ltd	5,098,351	7.08

2. Distribution of Shareholdings at 20 September 2011

<u>Range of Holding</u>	Number of Shareholders	Number of Shares
1 - 1,000	1,183	562,138
1,001 - 5,000	1,428	3,842,298
5,001 - 10,000	562	4,284,798
10,001 - 100,000	550	13,539,570
100,001 and over	40	49,785,599
	<u>3,763</u>	<u>72,014,403</u>
Holding less than a marketable parcel	<u>299</u>	

3. Voting Rights

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

4. Twenty Largest Shareholders at 20 September 2011

<u>Name</u>	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
Merrill Lynch (Australia) Nominees Pty Limited	14,350,067	19.93
HSBC Custody Nominees (Australia) Limited	6,927,230	9.62
National Nominees Limited	6,095,843	8.47
J P Morgan Nominees Australia Limited	3,812,891	5.30
S J Quinlivan Pty Ltd	2,916,448	4.05
Mr Michael Douglas Buckland	2,561,552	3.56
Cogent Nominees Pty Limited	2,411,828	3.35
Citicorp Nominees Pty Limited	1,452,970	2.02
Redcentre Pty Ltd	988,448	1.37
Mr Peter Louis Pursey and Mrs Helen Elizabeth Pursey <The Pursey Super Fund A/C>	851,448	1.18
Mr Eugene Fung and Ms Cindy Dean	778,048	1.08
Bond Street Custodians Limited	727,027	1.01
Vasbyt Pty Ltd	503,939	0.70
Achim Decker Holdings Pty Ltd <Decker 27 Super Fund A/C>	485,000	0.67
Mr Livio Pietro Divitini <L P Divitini Family A/C>	407,340	0.57
Depofo Pty Ltd	403,448	0.56
Mr Iain Macgregor Hepburn & Mrs Rachael Frances Hepburn <The Hepburn Super Fund A/C>	399,999	0.56
RBC Dexia Investor Services Australia Nominees Pty Limited	355,569	0.49
WRG Investments Pty Ltd	353,458	0.49
Aust Executor Trustees NSW Ltd	345,018	0.48
	<u>47,127,571</u>	<u>65.46</u>

5. Additional Information

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

Austin Engineering Ltd
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Company Information

Registered Office, Principal Place of Business and Brisbane Operation:

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Principal Australian Operations:

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Mackay:

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P: +61 7 4952 4687

Mackay:

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

Brisbane:

COR Cooling Pty Ltd
960 Lytton Road
Murarrie, Qld 4172
P: + 61 7 3390 8190
F: + 61 7 3390 8290

Western Australia:

Perth:

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Mandurah:

Pilbara Hire Group Pty Ltd
Suite 1, 4 Sutton Street
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F: +61 8 9583 5998

New South Wales:

Hunter Valley:

Austin Hunter Valley
34 Carramere Road
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P: +61 2 6541 0111
F: +61 2 6541 0222

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Western Technology Services Inc.
415 First Street
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PO Box 52
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Lawyers:

Thomsons Lawyers
Level 16
Waterfront Place
1 Eagle Street
Brisbane, 4000

Auditors:

BDO (Audit) Qld Pty Ltd
Level 18
300 Queen Street
Brisbane, 4000

Austin Engineering Ltd
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Company Information (cont'd)

Principal Bankers:

National Australia Bank Limited
100 Creek Street
Brisbane
Queensland, 4000

Westpac Banking Corporation
260 Queen Street
Brisbane
Queensland, 4000

Secretaries:

Colin Anderson, Gerry See

Stock Exchange:

Australian Securities Exchange

Home Exchange:

Brisbane

ASX Code:

ANG

Website:

www.austineng.com.au