

ASX Announcement

19 August 2004

Acquisition of John's Engineering in Western Australia

The Directors of Austin Engineering are pleased to announce the acquisition of the John's Engineering business in Western Australia. The acquisition of John's Engineering completes Austin Engineering's strategy of having manufacturing facilities in both Queensland and Western Australia to service a buoyant resources industry and move towards the critical mass required to penetrate into larger projects.

The Western Australian resources industry is in a growth stage with billions of dollars of projects due to be commenced or planned over the next 10 years. The closure of a number of large metal fabrication facilities puts John's Engineering in a unique position to capitalise on this situation, especially with the introduction of new technology from Austin Engineering.

John's Engineering has operated for 40 years and designs and manufactures products used in the resources industry. Its range of products includes excavator buckets, materials handling and large service vehicles for the mining industry.

John's Engineering is located at Kewdale in Perth and operates from a facility that was built in 1997. The total land area is 33,000 square metres with 8,000 square metres of workshop space. This facility is substantially larger than Austin Engineering's Queensland facility.

John's Engineering's unaudited forecast revenue for the financial year 2003/04 year is \$17.12 million. Its unaudited forecast profit before tax for the financial year 2003/04 is \$1.13 million. Current orders take production levels out to January 2005 with further orders expected in the coming months. Unaudited revenue for the financial year 2002/03 was \$10.7m.

The price for John's Engineering is \$6.9 million, plus allowances for inventory and stock and less rebates for employee leave liabilities assumed. The purchase price includes the land, buildings, plant and equipment. The retention of the property will be subject to regular board reviews. Goodwill arising on the acquisition of the business will be minimal.

The purchase price will be funded principally from cash resources and bank facilities. Of the total purchase price, \$0.52 million is deferred and payable no later than 28 October 2004. No interest is payable on this deferred payment.

A separate amount of \$0.375 million is also deferred until one year after completion. Until this date, the seller can convert the deferred payment into fully paid ordinary shares at a conversion price of 50 cents per share, being 750,000 shares. Interest on this deferred payment is payable at 7% per year quarterly in arrears until it is paid in cash or converted into shares. Austin Engineering's agreement to allow this deferred payment to be convertible into shares at the election of the seller does not require shareholder approval.

The acquisition of John's Engineering is expected to be completed on 1 September 2004.

Austin Engineering's strategy for John's Engineering will be in four stages:

- Introduce key personnel to the business;
- Expand the existing base product lines;
- Introduce technology to the product lines and
- Expand John's Engineering workload into the larger resource projects.

The Directors of Austin Engineering are also pleased to announce that unaudited revenue for the 2003/04 financial year is \$15.5m. Unaudited EBITDA is in excess of \$1.0m. Full results for the year will be released towards the end of August 2004. The current issued and paid-up share capital of Austin Engineering Ltd consists of 35,705,740 ordinary shares of 20c per share.

The foregoing comments should also be read with the accompanying Pro-forma Statement of Financial Position at 30 June 2004.

ENDS

For further information, please contact Michael Buckland, Managing Director, on 07 3271 2622.

Austin Engineering Ltd
Proforma Statement of Financial Position

	As At 30 June 2004 (Unaudited) \$000	As At 30 June 2004 (Unaudited Pro-forma) \$000
Current Assets		
Cash assets	1,754	1,079
Receivables	2,776	2,776
Inventories	177	277
Other financial assets	204	204
Total Current Assets	<u>4,911</u>	<u>4,336</u>
Non-Current Assets		
Property, plant and equipment	1,202	8,102
Intangible assets	790	790
Total Non-Current Assets	1,992	8,892
Total Assets	<u>6,903</u>	<u>13,228</u>
Current Liabilities		
Payables	2,494	2,494
Interest-bearing liabilities	11	331
Current tax liabilities	243	243
Provisions	229	679
Total Current Liabilities	<u>2,977</u>	<u>3,747</u>
Non-Current Liabilities		
Interest-bearing liabilities	21	5,201
Total Non-Current Liabilities	<u>21</u>	<u>5,201</u>
Total Liabilities	<u>2,998</u>	<u>8,948</u>
Net Assets	<u>3,905</u>	<u>4,280</u>
Equity		
Contributed equity	3,376	3,751
Retained profits	529	529
Total Equity	<u>3,905</u>	<u>4,280</u>

The accompanying notes form part of this Pro-forma Statement of Financial Position.

Austin Engineering Ltd

Notes to Pro-forma Statement of Financial Position at 30 June 2004

1. Basis of Preparation

The purpose of the Pro-forma Statement of Financial Position is to provide an indication of the effect of the acquisition of the business of John's Engineering, as detailed in the accompanying ASX Announcement dated 19 August 2004, on the unaudited Statement of Financial Position of Austin Engineering Ltd at 30 June 2004.

The Pro-forma Statement of Financial Position has been prepared based on the following assumptions and factors:

- Completion of the acquisition of the John's Engineering business on 1 September 2004
- Acquisition of the property at a valuation recommended by external valuers
- Granting of bank credit facilities as confirmed by letters of offer for finance provided by the Company's bankers
- Assumption of employee leave liabilities at estimated values at the date of completion of the acquisition of the John's Engineering business at 1 September 2004
- The unaudited accounts of Austin Engineering Ltd at 30 June 2004

2. Statement of Significant Accounting Policies

The Pro-forma Statement of Financial Position is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The Pro-forma Statement of Financial Position has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted in the preparation of the Pro-forma Statement of Financial Position. The accounting policies have been consistently applied with the previous periods unless otherwise stated.

(a) Income tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense shown in the Statement of Financial Performance is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account either as provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or liability become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Cash

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

(c) Inventories and Work-in-Progress

Inventories consist of raw materials, consumables and work in progress and are valued at the lower of cost and net realisable value.

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

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

Austin Engineering Ltd

Notes to Pro-forma Statement of Financial Position at 30 June 2004

(d) Property, Plant and Equipment

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

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

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

(e) Intangibles

Goodwill

Where a Company or operation is acquired, the identifiable net assets are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill and amortised on a straight line basis over the period which the benefits are expected to arise. The balances of goodwill balances are reviewed annually and any balances representing future benefits for which the realisation is considered to be no longer probable are written off.

Licences

Licences are valued at the cost of acquisition and are amortised over the period over which their benefits are expected to be realised. The balances of licences are reviewed annually and any balances representing future benefits for which the realisation is considered to be no longer probable are written off.

(f) Employee Benefits

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

Contributions are made by the economic Company to employee superannuation funds and are charged to expenses as incurred.

(g) Revenue Recognition

Project revenue and expenses are recognised on an individual project basis using the percentage of completion method when the stage of the project can be reasonably determined, costs to date can be clearly identified and total contract revenue and costs to complete can be reliably estimated.

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

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

(h) Leases

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

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

Austin Engineering Ltd

Notes to Pro-forma Statement of Financial Position at 30 June 2004

(i) Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(j) 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 Taxation Office. In these circumstances the GST is recognised as part of the cost of the 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.