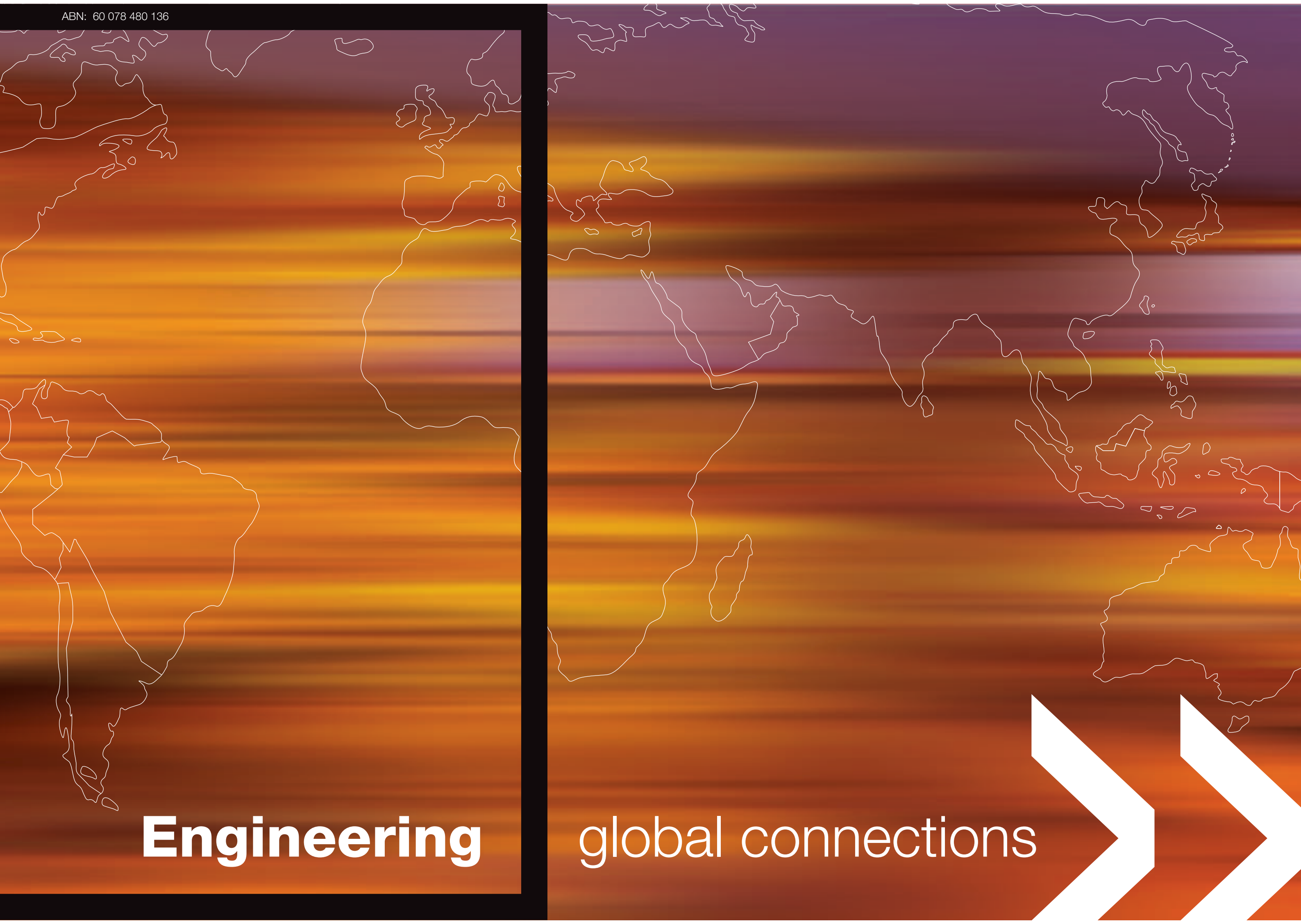


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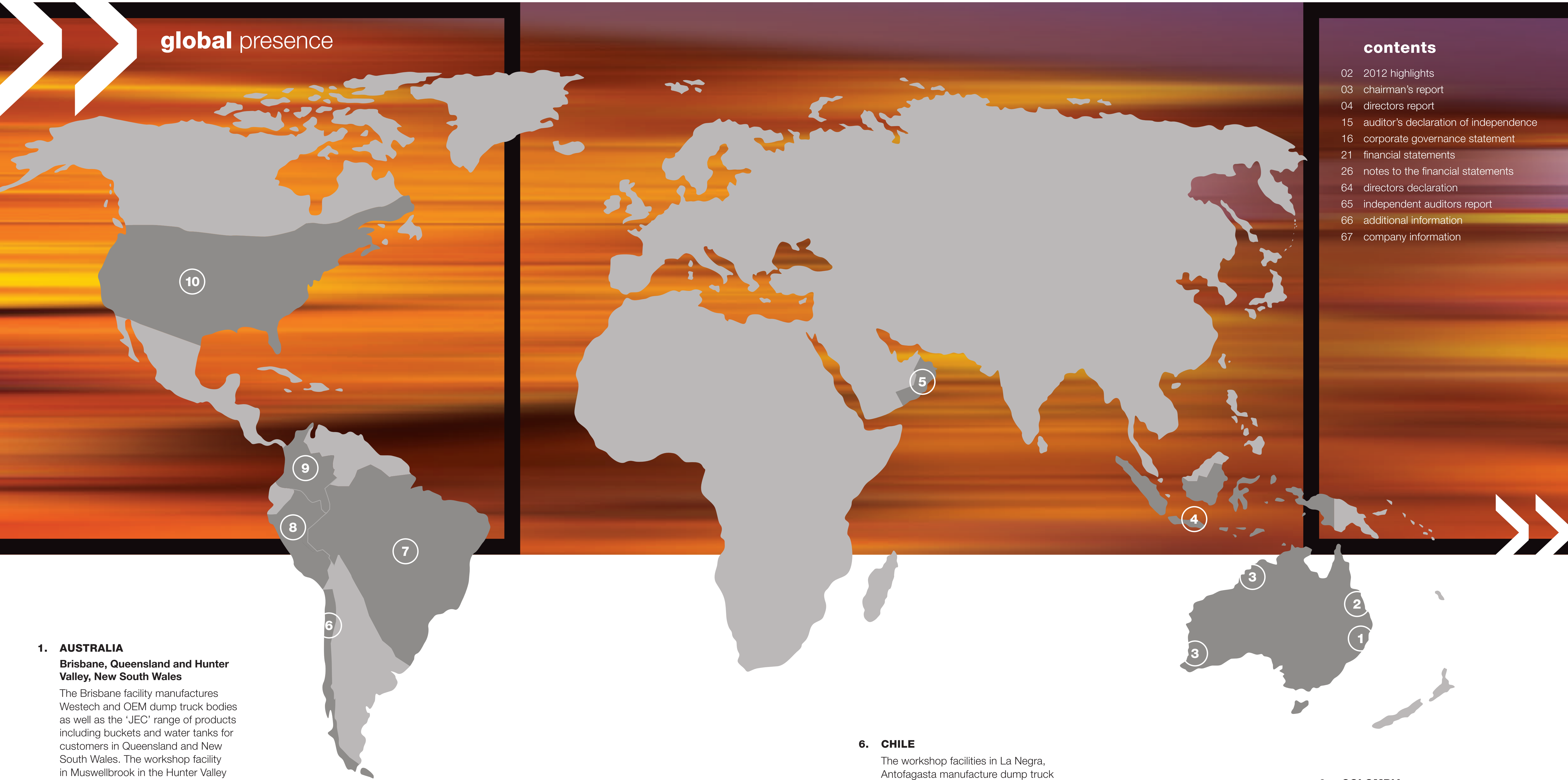
**austinengineering** LTD

**Annual Report 2012**

# global presence




## contents



**1. AUSTRALIA**

**Brisbane, Queensland and Hunter Valley, New South Wales**

The Brisbane facility manufactures Westech and OEM dump truck bodies as well as the 'JEC' range of products including buckets and water tanks for customers in Queensland and New South Wales. The workshop facility in Muswellbrook in the Hunter Valley provides workshop-based and on-site repair and maintenance services to key mining customers and is now also undertaking the full manufacture of mining products.

**2. AUSTRALIA**

**Mackay, Queensland**

The Mackay facilities, comprising of Austin Mackay, Austbore and COR Cooling, manufacture and supply mining products such as dump truck bodies, buckets and industrial cooling systems. They also offer repair, maintenance and machining services to customers in the Bowen Basin area of Central Queensland and Indonesia.

**3. AUSTRALIA**

**Perth, Mandurah, Kalgoorlie and Pilbara Region, Western Australia**

The WA workshop facilities manufacture Westech and OEM dump truck bodies as well as the 'JEC' product range of buckets, tyre handlers, service modules, water tanks and associated equipment. Pilbara Hire offers site-based repair and maintenance services for fixed and mobile equipment across the Pilbara region whilst COR Cooling supplies new and overhauled cooling products to customers in the Pilbara and Kalgoorlie mining regions.

**4. BATAM ISLAND AND INDONESIA**

The completion of a new purpose-built workshop on Batam Island in late October 2012 enabled operations in Indonesia to become fully established in order to meet the product and service requirements of mining customers in Indonesia and Asia.

**5. OMAN**

Through a strong joint venture relationship with Special Technical Services LLC, Austin manufactures specialised equipment used in aluminium smelters across the Middle East.

**6. CHILE**

The workshop facilities in La Negra, Antofagasta manufacture dump truck bodies and other mining products and have service capabilities for large miners in Chile and other countries such as Bolivia. Further business expansion into the Calama region of Northern Chile was completed in January 2012 to service the requirements of customers in this important mining region.

**7. BRAZIL**

The Brazilian mining market continues to be an area of significant business development opportunity using the La Negra facility in Chile as a manufacturing base, supplemented by the potential purchase or set-up of an assembly, repair and maintenance facility in Brazil.

**8. PERU**

The establishment of a direct presence in Peru was completed in April 2012 following the purchase of two mining service divisions of Petroaceros S.A.C in Lima. Austin Engineering Peru will service the product, repair and maintenance requirements of large mining customers in this growing market.

**9. COLOMBIA**

The completion of a new workshop in Barranquilla, Colombia in the last quarter of the 2012 financial year enables Austin to offer its products and services to large and growing Colombian-based mining customers.

**10. USA**

The workshop facilities in Casper, Wyoming manufacture a range of purpose-built Westech dump truck body designs as well as buckets, water tanks, cable reels and other specialised equipment. It serves the North American, Canadian and West African mining and resources markets.

# global and financial highlights

## Record revenue of $290m, up 42% on prior year

## Record NPAT of $29.6m, up 38% on prior year

## Full year dividend of 14.0cps, up 22% on prior year

## Completion of new workshops on Batam Island, Indonesia and Barranquilla, Colombia

## Further business expansion into Northern Chile and Peru

**Revenue** $000m

| | |
|---|---|
| 2005 | 38.30 |
| 2006 | 48.90 |
| 2007 | 57.50 |
| 2008 | 106.34 |
| 2009 | 179.32 |
| 2010 | 144.01 |
| 2011 | 203.71 |
| 2012 | 290.10 |

**EBITDA*** $000m

| | |
|---|---|
| 2005 | 2.72 |
| 2006 | 3.56 |
| 2007 | 8.46 |
| 2008 | 18.86 |
| 2009 | 23.84 |
| 2010 | 29.04 |
| 2011 | 35.71 |
| 2012 | 50.11 |

*Excludes gain on sale of properties in 2006

**Dividends** per share (CPS)

| | |
|---|---|
| 2005 | 1.0 |
| 2006 | 2.0 |
| 2007 | 4.0 |
| 2008 | 7.5 |
| 2009 | 8.0 |
| 2010 | 9.5 |
| 2011 | 11.5 |
| 2012 | 14.0 |

**Net Profit After Tax** $000m

| | |
|---|---|
| 2005 | 1.19 |
| 2006 | 1.62 |
| 2007 | 4.97 |
| 2008 | 11.54 |
| 2009 | 14.83 |
| 2010 | 19.26 |
| 2011 | 21.47 |
| 2012 | 29.58 |

**Earnings per share** $000m

| | |
|---|---|
| 2005 | 3.33 |
| 2006 | 4.07 |
| 2007 | 12.45 |
| 2008 | 24.73 |
| 2009 | 31.39 |
| 2010 | 28.25 |
| 2011 | 30.37 |
| 2012 | 41.00 |

**Market Capitalisation**** $000m

| | |
|---|---|
| 2005 | 11 |
| 2006 | 17 |
| 2007 | 70 |
| 2008 | 106 |
| 2009 | 153 |
| 2010 | 295 |
| 2011 | 260 |
| 2012 | 297 |

**2012 based on company's share price at 14 September 2012

1.


2.


3.


4.

1. New workshop facility in Barranquilla, Colombia completed in the last quarter of the 2012 financial year.
2. New workshop facility on Batam Island, Indonesia completed in late October 2011.
3. The new 'La Negra' workshop facility in Chile became fully operational at the beginning of the 2012 financial year.
4. New 'JEC'-branded lightweight dump truck body, which has been successfully introduced to the market and readily accepted by customers.

# chairman's report

I am pleased to be able to report to you, the owners of the Company, that the results for the year ended 30 June 2012 reflect the eighth consecutive year of growth. This has been achieved by record revenues of $290m, up 42% and net profit after tax of $30m, up 38% on the previous year, driven by both acquisitions and organic growth.

The EBITDA gain of 13% in the Australian operations is largely attributable to a very strong performance in Perth and better than anticipated results in Brisbane and Mackay. These were however impacted by below budget performances by the Pilbara Hire and Hunter Valley business units. The Americas delivered a 104% increase in EBITDA in the year underpinned by solid performance in North America and increasing workflows from the Chilean operations as the year progressed. In addition the new business in Peru that was acquired in April 2012 made a small positive contribution. The facility in Colombia commenced operations only in June 2012 and made a negative contribution due to start-up costs. The Middle East joint venture, while only performing repair work, still improved upon the previous year. The Indonesian workshop went from a negative contribution last year to an EBITDA result of just under $4m.

Your Board visited the South American operations in June of this year and can confirm that the opportunities are very exciting, not only in the countries where we have facilities, but also in other countries in the region to which we can supply our products and services.

The Managing Director and his team are currently looking at other geographies where it would be appropriate to take our products and expertise, both in terms of the export of products but also in the creation of new facilities. This approach is consistent with what we have done in South America.

There has been much commentary in recent times concerning the reduction in the price of commodities and the delay in new mining investments. The majority of the products that we supply are "wearing products" and as such need replacement so the price of commodities is less relevant to us than the quantity of commodities extracted.

Your Directors are anticipating a further year of substantial growth in 2012/13 due to record order levels, improvements in the Hunter Valley operation and a full year contribution from acquisitions and expansions in South America and Indonesia.

All of the acquisitions made and capital expenditure incurred during the year have been funded by cash and debt, raising our gearing level from 12% to 33%. This level of gearing is conservative and comfortably within our bank covenant requirements.

The Board is pleased to be able once again to increase the full year dividend to 14 cents per share, an increase of 22% on the previous year. This will provide a dividend payout ratio of approximately 34%, which is within the Company's stated dividend payout policy range of 25% to 40%.

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

Austin Engineering Limited will hold its Annual General Meeting at 10.30am on Friday 23 November 2012 at the offices of BDO, Level 14, 140 William Street, Melbourne, Victoria 3000. I look forward to meeting with shareholders and updating them on the progress of their Company at that time.

**Paul Reading**

NON-EXECUTIVE CHAIRMAN

# 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 2012.

## Directors

The following persons held the position of director throughout the course of the financial year and up to the date of this report, unless otherwise stated:

*Managing Director:*

Michael Buckland

*Chairman and Independent Non-Executive Director:*

Paul Reading

*Independent Non-Executive Directors:*

Peter Fitch (retired on 25 November 2011)
Eugene Fung
Peter Pursey

*Secretaries*

Colin Anderson
Gerard See (co-company secretary, resigned 14 September 2012)

## 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 2012 | Year Ended 30 June 2011 | Change % |
|---|---|---|---|
| Revenue ($m) | 290.10 | 203.71 | +42% |
| EBITDA ($m) | 50.10 | 35.71 | +40% |
| PBT ($m) | 41.21 | 30.28 | +36% |
| NPAT ($m) | 29.58 | 21.47 | +38% |
| Basic earnings per share (cents) | 41.00 | 30.37 | +35% |
| Net assets ($m) | 125.29 | 103.74 | +21% |
| Final dividend per share (cents) | 10.5 | 8.5 | +24% |
| Total annual dividend per share (cents) | 14.0 | 11.5 | +22% |

### Operational Review

Market and operating conditions were very strong for the mining and mining services business sectors during the year as demand for commodities increased. This resulted in elevated levels of activity for the sectors which translated into high demand for equipment. Austin was able to take advantage of these conditions through its growing market presence in key mining regions globally and its ability to provide customers with a wide range of products and services.

Austin's Australian operations were very busy for most of the year. The group's main workshop facilities in Perth experienced very high workload levels, particularly in the second half of the year, as major mining customers in Western Australia expanded their fleets of equipment and standardised existing fleets with Westech custom-designed dump truck bodies. The Brisbane and Mackay facilities also operated at high levels of capacity utilisation with a large number of buckets as well as dump truck bodies being delivered to an expanded customer base. The COR Cooling business units in Queensland and Western Australia provided a full year of revenue contribution to the group, compared to seven months in the previous year following acquisition in December 2010, and also strengthened their market position.

Business conditions were very buoyant across the Americas in the year, particularly for Westech in North America, with increased revenues from the sale of products in the USA, Canada and West Africa. The group's operations in Chile enjoyed more consistent workload levels in the second half of the year as the benefits of expanded capacity of the new La Negra workshop were realised. The acquisition of the V&V business in Calama in Northern Chile in early January 2012 resulted in new revenue streams from the hire of heavy lifting equipment to large mining customers in the region as well as the repair of mining equipment. The set-up of operations in Peru was achieved through the acquisition of two business divisions of Petroaceros S.A.C in mid-April 2012 which resulted in some revenue streams coming through from this important and growing market. The new workshop in Barranquilla, Colombia was completed in the last quarter of the financial year and the manufacture of the first dump truck bodies for Colombian mining customers commenced in June 2012.

The group's expansion into Indonesia became fully established during the year following the completion of the new workshop facility on Batam Island in October 2011. The first eight months of operation were very successful with a significant number of the new 'JEC'-branded lightweight dump truck bodies being delivered to very supportive customers in the region. The joint venture in Oman continued to provide alternative sources of revenue for the group through the supply of services and products to the aluminium smelter industries in the region.

### Result for the Financial Year

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 40% to $50.1m at a margin of 17.3% which was broadly similar to last year. Underlying performance across most of the group's operations was largely satisfactory as high workloads led to above-average levels of capacity utilisation. The Australian business units provided around $33m of total EBITDA, up 13% on the previous year, although overall margins of 16.2% were impacted by a $2.0m operating loss for the Hunter Valley operation. The business unit did not perform to expectations due to some lingering issues with production efficiencies which are continuing to be addressed.

The EBITDA contribution from the business units based in the Americas doubled to $12.3m in the year at a margin of 17.5% which reflected the robust business conditions, the associated lift in productive performance and above-average margins from the new Calama operation. The result for this sector included the expensing of approximately $1.0m of start-up and initial operating costs for the Colombian operation.

The Indonesian operation performed very well, generating EBITDA of $4.0m at a margin of 26.1%. The solid workload base during the year, together with the enhanced production efficiencies derived from the purpose-built workshop facilities, resulted in a very satisfactory EBITDA contribution and showed the earnings potential from this strategically important business unit. The Oman joint venture also provided a solid EBITDA contribution of $1.0m at a margin of 40.0%, similar to the previous financial year.

The increases in NPBT and NPAT were mainly influenced by EBITDA, with some additional depreciation charges arising from investments in the new Indonesian and Colombian facilities and additional interest costs on bank loans drawn-down to finance the acquisition of the new Calama operation during the year.

The 2012 financial year was a milestone year in the development of Austin Engineering as a global supplier of mining products and services. The record EBITDA result of $50.1m confirms Austin's leading position in existing and emerging mining markets as well as the successful implementation of its expansion strategy over the past few years.

The group was able to further expand products and services to its existing and new customers across major mining regions. In addition, the result for the year only partly reflects the full earnings potential for the group. The principal Calama, Indonesia and Peru acquisitions only provided contributions for part of the year and the Hunter Valley operation, which remains of important strategic value to the group, is set to become profitable.

### Financial Position

Net assets increased by 21% over the year to $125.3m. The increase from the end of the previous financial year mainly reflected the $29.6m NPAT result for the year as well as $8.7m of dividend payments. Net tangible asset backing per share rose by 38% to 55.3c at the end of June 2012.

### Cash Flow and Liquidity

Operating cash flows for the year were $24.6m, with particularly strong flows coming through in the second half of the year, but down on $43.8m of operating cash flows in the previous year. The reported net operational cash flow for the year must be recognised in light of the $18m of advance payments that were received just before the end of the FY 10-11 financial year for products to be manufactured in the current financial year and beyond. Had these payments been received in the current financial year, operating cash flows would have been more closely correlated to NPAT adjusted for non-operational cash flows and other working capital movements.

Non-operational cash flows in the year included $33.3m expended on the acquisition of the V&V and Petroaceros businesses in South America and some smaller business acquisitions by COR Cooling in Australia. $18.8m was expended on capital investment programs, mainly in relation to the new workshop facilities in Indonesia and Colombia. New net borrowings during the year of $14.5m included $24.4m of bank debt drawn-down for the purchase of V&V, offset by approximately $14m of available cash at the end of the financial year.

Available cash at the end of the year was $15.7m ($29.8m including $14m offset against bank debt), down from $37.4m at the end of the previous financial year.

### Debt

Gross debt at the end of the financial year was $70.5m, up from $51.1m at June 2011. Net debt (gross debt less available cash) of $54.8m, whilst up on the previous year's level of $13.8m, was higher due to the funding of business expansion initiatives. The net gearing ratio (net debt/net debt plus equity) of 33.4% at the end of the financial year was well within bank covenant requirements. The company was in compliance with bank covenants throughout the year and continues to be so.

### Dividends

In recognition of the group's financial performance during FY 11-12, a fully-franked final dividend of 10.5c per share has been declared, up 24% from the previous year's final dividend. This brings total dividends for the financial year to 14.0c, an increase of 22%, and a dividend payout ratio of approximately 34%. The record date for determining entitlement to the final dividend is 3 September 2012 with payment being made on 12 October 2012.

### After Balance Date Events

The Directors have declared a final fully-franked dividend of 10.5 cents per share for the financial year ended 30 June 2012 (up 24% from 8.5 cps in 2011) payable on 12 October 2012. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2012, but not recognised as a liability at the end of the year, is $7,593,000.

On 6 July 2012 COR Cooling Pty Ltd, a 100% subsidiary company of Austin Engineering Ltd, acquired the business and assets of Beltrax Pty Ltd (trading Bells Radiator Services), a specialised manufacturer and repairer of cooling products based in Toronto, Hunter Valley, Australia. The purchase price, which was paid in cash, was $1.60m plus $0.08m for inventories. 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.

# directors' report



## Outlook

The 2013 financial year will provide Austin with a number of opportunities and challenges as it continues on its path of domestic and international growth.

Global commodity markets have experienced some volatility in recent periods due to ongoing and well-publicised macroeconomic issues, particularly in Europe, which has led to some perceived short-term uncertainty for miners and the mining services business sector.

From Austin's perspective, whilst developments in coal-related markets are of some concern in the near-term, there is the equal possibility that conditions could improve over 2013 as wider economic issues are addressed more effectively and growth continues on its longer-term upward trend. Demand for the company's products from miners of iron ore and other metals and minerals is not currently showing any sign of a slowdown.

Over the course of the coming year the group will benefit from the full-year contribution of the acquisitions and business expansion initiatives completed in 2011 and 2012.

The replacement cycle for a significant number of mining products such as dump truck bodies and buckets supplied by Austin to key customers in 2007-2008 has also now commenced. This will continue to grow over the coming years and will alleviate some concerns in coal markets as product demand continues. Significant opportunities still exist with the promotion and rollout of the full range of the group's products and services to existing and new customers based in South America and Indonesia as well as pursuing a long-term relationship with Brazil's largest miner. These, together with the development of African, Russian and Mongolian markets, are priorities for the business and its management team in FY 2012/13.

The group is also continuing to consider further business acquisitions with the objective of widening its revenue base and providing customers with additional and enhanced products and services. In the meantime, business conditions over the first-half of FY 2012/13 are expected to be solid and an increase in profit over the prior corresponding period is currently forecast. Anticipated stabilisation of business conditions in the second half of FY 2012/13 will benefit Austin and increased revenue, profit and dividends are envisaged over the full year.

## Technology

The development of new, innovative products and production methodologies continues to be of significant importance to the company in the pursuit on ongoing growth and improved customer service. In the year ended 30 June 2012 further investment was made in the development of market-leading products, such as the 'JEC' range of lightweight dump truck bodies, underground dump truck bodies and tyre handlers, all of which have gained market acceptance. Continued investment in the development of new products and services is planned for the forthcoming financial year and beyond in order to retain a competitive edge and to deliver growth in revenue and profitability.

## 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 28 years of 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 aiEngineeering 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 2012: 3,564,000 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 2012: 34,483 ordinary shares.*

### Peter Pursey

*AM, Non-Executive Director since 2004*

Peter Pursey is an experienced company director of both listed and non-listed public companies. In the last decade his commercial interests have included the resources, energy, defence and pharmaceutical industry sectors. He is experienced in executive management and leadership and currently provides business advisory services to emerging and growth companies, particularly in the areas of strategic planning, capital raising, operational matters, leadership and project management. He completed an executive career in the military in 1999 as a Brigadier, having held various significant leadership and command positions. He is a Member of the Australian Institute of Company Directors and a Fellow of the Australian College of Defence and Strategic Studies.

*Qualifications: MBA, ACDSS, psc*
*Honours and Awards: Order of Australia (AM).*
*Directorships held in other listed entities: none.*
*Former directorships in last 3 years: Non-executive director and chairman of Redflow Ltd from July 2010 to January 2012.*
*Special responsibilities: Chair of audit committee.*
*Interests in shares and options at 30 June 2012: 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 and Chairman of nomination and remuneration committee as of 1 July 2012.*
*Interests in shares and options at 30 June 2012: 778,048 ordinary shares.*

### Peter Fitch

*Non-Executive Chairman from 2004 to 26 November 2010 and Non-Executive Director thereafter until retirement on 25 November 2011*

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 until retirement.*
*Interests in shares and options at the date of retirement: 503,939 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 from 8 June 2011 to 14 September 2012*

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

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Austin Engineering Limited's key management personnel for the financial year ended 30 June 2012. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including any director (whether executive or otherwise) of the group.

### Voting and comments made at the company's 2011 Annual General Meeting:

At the last Annual General Meeting in November 2011, 27% of the votes cast at the meeting rejected the adoption of the remuneration report. The votes cast against the report represented only around 9% of the total number of shareholders eligible to vote. Whilst no specific concerns were raised on the remuneration report at the Annual General Meeting, concerns were subsequently raised by some of the voting shareholders and shareholder advisory groups, particularly in relation to the disclosure of the company's short-term incentive arrangements.

Whilst the Board believes the company's remuneration policies are based on sound and commonly-used principles and practices, the "first strike" has been taken seriously. In order to better understand the concerns raised, the Board increased its engagement with key shareholders and shareholder advisory groups and acknowledges that it has a responsibility to clearly communicate the company's remuneration strategies and how these relate to performance and value to shareholders.

The remuneration report in pages 8 to 13 communicates, in clear and concise terms, the basis for determining short and long-term incentives paid to key management personnel and the link between these and the performance of the company, as delivered through increased profitability, net worth and dividends paid to shareholders.

### 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 2012 was $285,163 (2011: $311,250).

In order to align the interests of shareholders and non-executive directors, in the past the group has granted 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 and none are proposed for consideration at the 2012 Annual General Meeting.

*Key management personnel - 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 or 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 contracts.

*Short-term incentives:*
*Executive directors*

The managing director is the only executive director. He is eligible for short-term incentive cash bonus payments based on the achievement of the KPIs as specified in his executive service agreement. The key KPIs link remuneration to increased profitability and net worth to shareholders. No bonus is awarded where performance falls below the minimum acceptable KPI levels. Accordingly, the KPIs are structured as follows:

Financial performance incentives:

- Business units meeting annual budgeted profit: The overall success of the group is inherently linked to improved profit performance. This in turn is reliant upon the company's core operations and its principal business units delivering planned financial performance in any given year. At the outset of each financial year a budget is established for each business unit which recognises, amongst other things, the results achieved in the previous financial year, desired productivity improvement targets, identified business growth plans and industry and general business conditions. Based on these factors a challenging but achievable EBITDA budget is set by the Board for each financial year and actual performance is measured against it.

  The use of EBITDA is considered an appropriate measure as it is a reliable indicator of core operating performance that can be easily determined and benchmarked. The cash bonus payable in relation to this KPI is 10% of base salary for each principal business unit group that meets budget EBITDA, subject to a maximum of 60% of base salary.

  The cash bonus paid in the year ended 30 June 2012 was in relation to the achievement of the principal business unit groups meeting budget for the financial year ended 30 June 2011 and a bonus of 40% of base salary was paid for this KPI.
- Company as a whole meeting budgeted profit: In addition to the principal business unit groups meeting budget, the overall company is required to meet budgeted profitability. This KPI is measured in terms of net profit before tax (NPBT) as it recognises underlying core performance as well as the effective utilisation of working capital, resources and facilities and the impacts of financing and funding costs at a group level. Similar to the budget setting process for business units meeting annual budget, the NPBT budget set for a particular financial year recognises the financial performance of the overall group achieved in the previous financial year, likely business conditions, and growth plans as reviewed, approved and set by the Board. The cash bonus payable in relation to this KPI is 10% if the budget is achieved. If the actual results achieved are at least 10%, 20% or 30% over budget, an additional 10% is paid for the achievement of each level, subject to an overall maximum of 30%.

  The cash bonus paid in the year ended 30 June 2012 was in relation to the achievement of the company as a whole meeting and exceeding the budget for the financial year ended 30 June 2011 and a bonus of 20% of base salary was paid for this KPI.
- Business development: The ongoing development and growth of the company through acquisitions of other domestic and international businesses is a key objective. The overall company's growth since 2004 has been marked by strategic acquisitions which have delivered increased profitability through the expansion of operations and the supply of the company's products and services globally. This KPI requires that any acquisition made in a financial year exceeds budgeted financial performance, measured in terms of EBITDA, in the first full year after the date of completion. The use of EBITDA is considered an appropriate measure as it is a reliable indicator of core operating performance that can be easily determined and benchmarked. The cash bonus payable in relation to this KPI is a maximum of 10% of base salary.

  The cash bonus paid in the year ended 30 June 2012 was in relation to the achievement of this for the acquisition of Pilbara Hire Group Pty Ltd on 1 July 2010 and a bonus of 10% of base salary was paid for this KPI.

*Market capitalisation incentive:*

The delivery of increased worth to shareholders is also an important and key objective. In recognition of this, a market capitalisation incentive, measured in terms of delivering a target company share price, has been established. This assesses company performance through its share price relative to industry peer groups and aligns it with increased shareholder value.

The managing director, after the end of any financial year, is entitled to 50,000 ordinary shares in the company at nil cost where the volume weighted average price ('VWAP') of the company's shares in the twenty trading days after the release of the company's full year final audited financial statements exceeds a pre-determined target share price. The target share price is calculated as follows:

Target Price = Forecast NPAT x 105% x Multiple ÷ Shares on issue

Where:

'Forecast NPAT' means the higher of net profit after tax of:

- 115% of the budget NPAT adopted by the Board for the financial year preceding the date of calculation of the target price; or
- 115% of the actual NPAT of the Company as disclosed in the audited financial statements for the financial year preceding the date of calculation of the target price.

'Multiple' means the average price earnings multiple during the period from the date of lodgement of the Company's Appendix 4E - preliminary final report with ASX through to the end of VWAP period, of a group of peer companies (including Bradken Limited, Imdex Limited, RCR Limited, Ausenco Limited, NRW Holdings Limited and Ludowici Limited) based on the NPAT of those companies in their financial years preceding the date of calculation of the target price.

'Shares on Issue' means the total number of shares on issue as at the end of the financial year preceding the date of calculation of the target price.

The setting of a KPI on this basis recognises the importance of shareholder value as delivered through the company's market share price.

# directors' report

As announced on 1 November 2011, this KPI was not met in relation to the financial year ended 30 June 2011 as the actual share price of $3.78 at the end of the VWAP testing period was below the target share price of $4.42 and the shares were not issued.

*Short-term incentives:*
*Senior executives*

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 directly linked to the achievement of budgeted profit on similar principles to those for executive directors as well as various performance targets for each area of operational responsibility, including the preparation and delivery of reports on time and meeting industry targets and standards in relation to workplace health and safety. 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 and selected senior executives from time to time as part of their remuneration. In the past options have also been provided to non-executive directors as part of their remuneration but were only, and can only be, granted subject to shareholder approval. The issue of options is based upon a number of factors including, but not limited to:

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

Options are considered to be an appropriate long-term incentive as they align the interest and objectives of directors, executives and shareholders through the delivery of increased net worth and shareholder returns. Options issued to directors require the approval of shareholders in general meeting whilst options issued to executives must be approved by the Board. The issue of options is generally subject to the operation of a two-year vesting period linked to continuing employment with the company. This is considered to be a sufficient period of time within which improvements in performance and the delivery of increased shareholder value can be measured and returned. The exercise price of options is determined in relation to value of the company's share price at the date of grant, uplifted for expected and required share price growth during the vesting period in recognition of the company's growth and business development objectives. The setting of the exercise price is challenging but achievable, as demonstrated by the issue of $4.50 options on 26 March 2010 when the company's current share price was $3.20, an uplift of approximately 41%. Options are issued to executives who are in a position to have a significant influence on the execution and delivery of the company's growth and business development plans.

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth since 2008 and forms the background against which short-term incentives and also long-term incentives through the grant of options, over the relevant periods has been considered:

| | 30 June 2012 | 30 June 2011 | 30 June 2010 | 30 June 2009 | 30 June 2008 |
|---|---|---|---|---|---|
| Revenue ($000s) | 290,097 | 203,714 | 144,008 | 179,316 | 106,343 |
| Earnings before interest, tax depreciation and amortisation ('EBITDA' $000s) | 50,109 | 35,705 | 29,044 | 23,840 | 18,857 |
| Profit after tax ($000s) | 29,580 | 21,468 | 19,264 | 14,832 | 11,536 |
| Share price at start of year ($) | 4.84 | 3.33 | 1.53 | 2.09 | 1.83 |
| Share price at end of year ($) | 4.30 | 4.84 | 3.33 | 1.53 | 2.09 |
| Interim dividend - fully franked (cents) | 3.5 | 3.0 | 2.0 | 1.5 | 1.0 |
| Final dividend - fully franked (cents) | 10.5 | 8.5 | 7.5 | 6.5 | 6.5 |
| Basic earnings per share (cents) | 41.00 | 30.37 | 28.25 | 31.39 | 24.73 |
| Diluted earnings per share (cents) | 40.16 | 29.29 | 26.97 | 29.39 | 23.44 |

Whilst the company's share price has continued to be influenced by wider global economic issues, the company has continued to deliver consistently higher financial results each year measured in terms of EBITDA, profit after tax and dividends paid. Over the period 2007 to 2012 compounded annual growth of 35% has been returned for revenue and 38% for EBITDA. The growth of operations into existing and emerging markets will remain a primary focus and the full benefits of expansion into South America and Indonesia will be realised over coming years.

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, either at the date of exercise or subsequent to the issue of shares. There are no margin products in existence at 30 June 2012.

*Use of remuneration consultants:*

The company did not engage remuneration consultants during the financial year ended 30 June 2012.



## Details of remuneration of key management personnel

The following tables show details of the remuneration received by Austin Engineering Limited non-executive directors, executive directors and other key management personnel of the group for the current and previous financial year. The names of the directors of Austin Engineering Limited and their position are set out on pages 6 to 7.

The other key management personnel of the group consisted of the following senior executives:

| | |
|---|---|
| Colin Anderson | Chief Financial Officer and Company Secretary |
| Gerard See | Co-Company Secretary (resigned 14 September 2012) |
| 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 (in round dollars) 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 | | | |
| **2012** | | | | | | | | | | |
| *Executive Director:* | | | | | | | | | | |
| Michael Buckland | 585,870 | 367,500 | 34,016 | 52,728 | 9,765 | 50,000[2] | 135,000 | 1,234,879 | 34 | 11 |
| *Non-Executive Directors:* | | | | | | | | | | |
| Peter Fitch[1] | 27,673 | - | - | 2,490 | - | - | - | 30,163 | - | - |
| Eugene Fung | 68,804 | - | - | 6,196 | - | - | - | 75,000 | - | - |
| Peter Pursey | 73,396 | - | - | 6,604 | - | - | - | 80,000 | - | - |
| Paul Reading | 91,743 | - | - | 8,257 | - | - | - | 100,000 | - | - |
| | 261,616 | - | - | 23,547 | - | - | - | 285,163 | | |
| *Senior Executives:* | | | | | | | | | | |
| Colin Anderson | 320,369 | 76,789 | - | 35,744 | - | - | 28,272 | 461,174 | 17 | 6 |
| Gerard See | 173,267 | 18,500 | - | 17,259 | - | - | - | 209,026 | 9 | - |
| Steve Shellenberger | 230,823 | 174,250 | - | 10,044 | - | - | 16,963 | 432,080 | 40 | 4 |
| Steve Warner | 172,759 | 29,358 | - | 12,614 | - | - | 16,963 | 231,694 | 13 | 7 |
| Chris Lees | 249,003 | 30,103 | - | 23,522 | - | - | - | 302,628 | 10 | - |
| | 1,146,221 | 329,000 | - | 99,183 | - | - | 62,198 | 1,636,602 | | |
| **Total** | 1,993,707 | 696,500 | 34,016 | 175,458 | 9,765 | 50,000 | 197,198 | 3,156,644 | | |

1. Peter Fitch retired on 25 November 2011
2. The expense of $50,000 (which was not paid in cash during the year) is in relation to the potential issue of 150,000 ordinary shares, as approved by shareholders at the Annual General Meeting on 25 November 2011

| | 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** | | | | | | | | | | |
| *Executive Director:* | | | | | | | | | | |
| Michael Buckland | 514,998 | 372,000 | 32,040 | 46,350 | 17,192 | 236,000 | 78,750 | 1,297,330 | 47 | 6 |
| *Non-Executive Directors:* | | | | | | | | | | |
| 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 | | |
| *Senior Executives:* | | | | | | | | | | |
| Colin Anderson | 274,800 | 165,138 | - | 25,000 | - | - | 28,603 | 493,541 | 33 | 6 |
| Gerard 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 | - | 58,378 | - | - | 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. Gerard See was appointed Co-Company Secretary on 8 June 2011 and resigned on 14 September 2012.
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 Lees from the date of acquisition of COR Cooling Pty Ltd to 30 June 2011.

No key management personnel appointed during the period received a payment as part of their consideration for agreeing to hold the position.

# directors' report

On 25 November 2011, the issue of 150,000 shares to Michael Buckland was approved by shareholders in general meeting, pursuant to the executive services agreement entered into with Michael Buckland on 4 April 2011. This executive services agreement includes an equity based 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 2011, 2012 and 2013. The issue of the shares, which is dependent upon the achievement of certain performance targets and requirements, as described on page 9, is at no cost to Michael Buckland. The equity based remuneration component of the executive services agreement is a continuation of Michael Buckland's previous remuneration structure.

On 8 November 2010, 50,000 shares in respect of the 30 June 2010 financial year (the '2010 shares') were issued to Michael Buckland in recognition of the achievement of the performance targets pursuant to his previous executive services agreement. The weighted average fair value of the 2010 shares at the measurement date was $4.72 each. The shares relating to the 2011 financial year (the '2011 shares') were not issued to Michael Buckland as the share price performance hurdle was not met.

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each director of the company and other key management personnel are detailed below.

| | Included in remuneration | Vested in year* | Forfeited in year** |
|---|---|---|---|
| | $ | % | % |
| *Executive Director:* | | | |
| Michael Buckland | 367,500 | 64 | 36 |
| *Senior Executives:* | | | |
| Colin Anderson | 76,789 | 43 | 57 |
| Gerard See | 18,500 | 100 | - |
| Steve Shellenberger | 174,250 | 100 | - |
| Steve Warner | 29,358 | 100 | - |
| Chris Lees | 30,103 | 28 | 72 |

* The bonuses were paid on the achievement of predetermined profit and business development KPI targets set for the financial year as described on pages 9 and 10. No part of the bonus is payable in future years.

** The amounts forfeited are due to the performance criteria not being met in relation to the current financial year.

## 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 on 4 April 2011 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. The terms of this termination arrangement were a continuation of Michael Buckland's previous executive service agreement. Any new agreements or variations to this agreement in the future will recognise that termination benefits payable may be limited to a maximum of twelve months of base salary and that shareholder approval will be required for payments greater than twelve months base pay.

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 sixty 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 to the end of the employment term plus a severance amount equal to one year's base salary.

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 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.

Gerard 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:*

There were no options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2012.

*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 issued on shares exercise of options during the year | Value at exercise date |
|---|---|---|
| | | ($) |
| Colin Anderson | 150,000 | 645,000 |
| Steve Shellenberger | 150,000 | 616,500 |

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 2012 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 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | $ | $ | % |
| *Executive Director:* | | | | | | | | |
| Michael Buckland | 500,000 | 26 Nov 2010 | 2 years | 26 Nov 2012 | 26 Nov 2013 | 0.52 | 4.50 | Nil |
| *Senior Executives:* | | | | | | | | |
| Colin Anderson | 250,000 | 26 Mar 2010 | 2 years | 26 Mar 2012 | 26 Mar 2013 | 0.26 | 4.50 | 100 |
| Steve Shellenberger | 150,000 | 26 Mar 2010 | 2 years | 26 Mar 2012 | 26 Mar 2013 | 0.26 | 4.50 | 100 |
| Steve Warner | 150,000 | 26 Mar 2010 | 2 years | 26 Mar 2012 | 26 Mar 2013 | 0.26 | 4.50 | 100 |

*(End of Remuneration Report)*

## Options

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

| Date Options Granted | Expiry Date | Exercise Price | Number of Options |
|---|---|---|---|
| 26 Mar 2010 | 26 Mar 2013 | $4.50 | 850,000 |
| 26 Nov 2010 | 26 Nov 2013 | $4.50 | 500,000 |
| | | | 1,350,000 |

No option holder has any right under the options to participate in any other share issue, or receive dividends, 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 2012 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 |
|---|---|---|
| 22 December 2008 | $1.50 | 450,000 |

# directors' report

## Meetings of Directors

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

| | Board of Directors | | Audit Committee | | Nomination & Remuneration Committee | |
|---|---|---|---|---|---|---|
| | Eligible to Attend | Attended | Eligible to Attend | Attended | Eligible to Attend | Attended |
| Michael Buckland | 10 | 10 | - | - | - | - |
| Paul Reading | 10 | 10 | 4 | 4 | 2 | 2 |
| Peter Fitch* | 4 | 4 | - | - | 2 | 2 |
| Peter Pursey | 10 | 10 | 4 | 4 | - | - |
| Eugene Fung | 10 | 10 | 4 | 4 | - | - |

* Peter Fitch retired on 25 November 2011

## 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 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 2012:

| Consolidated Entity | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| *Auditor of the parent entity (BDO Audit Pty Ltd):* | | |
| Taxation services | 90,830 | 47,544 |
| Corporate advisory services | 7,100 | - |
| | 97,930 | 47,544 |
| *Auditors of subsidiary companies (Leinhart, Masons, and Associates LLC):* | | |
| Taxation services | 5,087 | 6,181 |
| Corporate advisory services | 189 | 632 |
| | 5,276 | 6,813 |

## 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

25 September 2012



BDO

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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 2012, 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 Austin Engineering Ltd and the entities it controlled during the period.

**P A GALLAGHER**

Director

**BDO Audit Pty Ltd**

Brisbane, 25 September 2012

# 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 2012 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 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;
» oversee and monitor progress in relation to the company's diversity objectives;
» 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 members of the nomination and remuneration committee during the year were: Peter Fitch (Chairman - retired 25 November 2011, subsequently replaced by Eugene Fung on 1 July 2012) 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 as disclosed on page 9. During the 2012 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 as disclosed on page 10. The process is performed formally once a year and took place for each senior executive during the 2012 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 four directors, three of whom, including the chairman, are non-executive and independent directors. The managing director is an executive director. Profiles of the directors are set out on pages 6 and 7 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;
» 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.

Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomsons Lawyers. Thomsons Lawyers annual billings to the company represent less than 1% of the company's annual revenue and less than 5% of that firm's total annual billings. The legal services provided by Thomsons Lawyers during the year were general in nature and included the preparation and review of notices for the company's annual general meeting, legal work for the completion of acquisition of businesses by COR Cooling Pty Ltd, advice in relation to workplace employment and health and safety practices and conveyancing. The procurement of the services was not influenced by Eugene Fung and was requested and controlled by the company's management team. Eugene Fung did not perform any of the legal work or services for the company and did not communicate with the engaged lawyers on matters and work being performed for the company at an executive or operational level. The Board considers that Eugene Fung satisfies the criteria for independence as set out in the company's Corporate Governance Statement and is an Independent Director.

Transactions during the year with director-related parties are disclosed in note 29 of the notes to the financial statements. 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 (Chairman until 25 November 2011, subsequently replaced by Eugene Fung on 1 July 2012) 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 including a one-on-one session with each director in June 2012. 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.

# corporate governance statement



## 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; and
» commitment to and recognition of the legitimate interests of stakeholders.

*Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy*

*Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them*

*Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board*

The company has adopted a formal diversity policy that is available on its website.

As the company has grown over the years and expanded its operations internationally, it now has a very diverse workforce comprising of numerous ethnic, indigenous backgrounds and races of both genders. The company recognises that diversity is a desirable and necessary feature of its operations and it adds to the ability to develop and maintain a high-performing workforce to take advantage of the challenges and opportunities faced in Australia and around the world. Wherever possible, the company seeks to preserve the local management and operational teams across all the areas and regions in which it operates and it actively encourages employees to integrate with team members in other parts of the group through the sharing of technical and operational information and experiences.

Within Australia, the recruitment of personnel from overseas remains a key part of operations in order to ensure that the appropriate skill sets exist in the production environment so that customer delivery commitments can be met.

At 30 June 2012, female employees represented approximately 8% of the total workforce. A significant proportion of the company's and wider group's operations centre around medium to heavy engineering activities in workshop environments which require trade qualifications such as boilermaking, welding and fabricating. Participation rates of woman in these trades are low. A growing proportion of the company's activities are also site-based in remote locations performing largely manual engineering activities and the available pool of female candidates is extremely limited. Over the course of the coming year the Board intends to improve opportunities for women wherever possible through internal promotion and external recruitment across all levels. The Board set measurable objectives as follows:

| Objective | Initiatives to facilitate achievement of the objective | Status of the objective at 30 June 2012 |
|---|---|---|
| Maintain current level of participation by women in Operations (employees excluding those in finance and administration). | Equal employment treatment is to be given without regard to gender. | 3% |
| At least maintain current level of participation by women in Corporate Services (employees in finance and administration). | Equal employment treatment is to be given without regard to gender. | 5% |
| Increase the number of women on the Board by 2014. | Equal employment treatment is to be given without regard to gender. | Nil |

## 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 the 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 the ASX will be promptly placed on the website following receipt of confirmation from the ASX and, if deemed desirable, released to the wider media; and
» the company will not respond to market rumours 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 to 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 recommendations and guidelines as published in the Council's Corporate Governance Principles and 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 centralised management team, the nature of the products and services supplied by the company and that all 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.

*Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

In accordance with section 295A of the Corporations Act, the CEO and CFO have provided a written statement to the Board that:

- Their view provided on the company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board.
- The company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not, and cannot be, designed to detect all weaknesses in control procedures.

## Principle 8:

### Remunerate fairly and responsibly

*Recommendation 8.1: The board should establish a remuneration committee*

The committee operates pursuant to a nomination and remuneration committee charter. The nomination and remuneration committee is responsible for various aspects of remuneration, including the review of the managing director and board members at least annually.

*Recommendation 8.2: The remuneration committee should be structured so that it:*

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least three members

The members of the nomination and remuneration committee during the year were: Peter Fitch (Chairman - retired 25 November 2011, subsequently replaced by Eugene Fung on 1 July 2012) and Paul Reading. The committee consists only of independent directors and is chaired by an independent director who is not Chairman of the Board. 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.

*Recommendation 8.3: 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. In the past the company has provided options to non-executive directors as part of their remuneration but any options can only be granted subject to shareholder approval. There is no scheme for retirement benefits, other than statutory superannuation. Executive directors are paid a salary and provided with shares and/or options (subject to shareholder approval) and bonuses as part of their remuneration and incentive package. They do not receive a separate payment for participation on the board.

# financial statements

FOR THE YEAR ENDED 30 JUNE 2012

## contents

# consolidated statement of **comprehensive income**

for the year ended 30 June 2012

| | Notes | **2012 $000** | 2011 $000 |
|---|---|---|---|
| Revenue | 2 | 290,097 | 203,714 |
| Other income | 2 | - | 2,183 |
| Raw materials and consumables used | | (109,235) | (71,792) |
| Change in inventories and work in progress | | 9,645 | 7,866 |
| Employment expenses | | (102,462) | (83,182) |
| Subcontractor expenses | | (5,833) | (566) |
| Occupancy and utility expenses | | (6,521) | (5,148) |
| Depreciation expense | 13 | (5,621) | (3,566) |
| Amortisation expense - customer relationships and other intangibles | | (773) | (598) |
| Other expenses from ordinary activities | | (25,204) | (16,878) |
| Finance costs | 3 | (2,883) | (1,756) |
| Profit before income tax | 3 | 41,210 | 30,277 |
| Income tax expense | 4 | (11,630) | (8,809) |
| **Net profit for the year** | | **29,580** | **21,468** |
| Other comprehensive income: | | | |
| Changes in fair value of available-for-sale financial assets | | - | 541 |
| Foreign currency translation differences | | (303) | (2,405) |
| Other comprehensive income for the year, net of tax | | (303) | (1,864) |
| **Total comprehensive income for the year** | | **29,277** | **19,604** |
| Profit for the year is attributable to: | | | |
| Owners of Austin Engineering Limited | | 29,580 | 21,468 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of Austin Engineering Limited | | 29,277 | 19,604 |
| **Earnings per share attributable to owners of Austin Engineering Limited:** | | | |
| Basic earnings per share (cents per share) | 8 | 41.00 | 30.37 |
| Diluted earnings per share (cents per share) | 8 | 40.16 | 29.29 |

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



# consolidated statement of **financial position**

at 30 June 2012

| | Notes | **2012 $000** | 2011 $000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 9 | 15,748 | 37,416 |
| Trade receivables | 10 | 50,687 | 29,985 |
| Inventories | 11 | 30,842 | 20,940 |
| Other receivables and other assets | 12 | 4,344 | 2,780 |
| **Total Current Assets** | | 101,621 | 91,121 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 13 | 92,852 | 53,670 |
| Investments accounted for using the equity method | 14 | 1,645 | 1,554 |
| Intangible assets | 15 | 85,268 | 74,908 |
| Deferred tax assets | 19 | 4,255 | 2,528 |
| **Total Non-Current Assets** | | 184,020 | 132,660 |
| **Total Assets** | | 285,641 | 223,781 |
| **Current Liabilities** | | | |
| Trade and other payables | 16 | 71,872 | 55,445 |
| Financial liabilities | 17 | 3,451 | 1,222 |
| Current tax liabilities | 18 | 3,733 | 2,525 |
| Provisions | 20 | 5,593 | 4,481 |
| **Total Current Liabilities** | | 84,649 | 63,673 |
| **Non-Current Liabilities** | | | |
| Financial liabilities | 17 | 67,035 | 49,948 |
| Deferred tax liabilities | 19 | 8,672 | 6,418 |
| **Total Non-Current Liabilities** | | 75,707 | 56,366 |
| **Total Liabilities** | | 160,356 | 120,039 |
| **Net Assets** | | **125,285** | **103,742** |
| **Equity** | | | |
| Contributed equity | 21 | 48,938 | 48,251 |
| Reserves | 22 | (1,835) | (1,763) |
| Retained earnings | | 78,182 | 57,254 |
| **Total Equity** | | **125,285** | **103,742** |

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

# consolidated statement of **changes in equity**

for the year ended 30 June 2012

| | Contributed Equity | Options Reserve | Foreign Currency Translation Reserve | Available-for-sale Investments Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Consolidated Entity** | | | | | | |
| Opening balance at 1 July 2010 | 43,684 | 920 | (690) | (541) | 43,286 | 86,659 |
| Total comprehensive income for the year: | | | | | | |
| Profit for the year | - | - | - | - | 21,468 | 21,468 |
| *Other comprehensive income:* | | | | | | |
| 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** |
| Total comprehensive income for the year: | | | | | | |
| Profit for the year | - | - | - | - | 29,580 | 29,580 |
| *Other comprehensive income:* | | | | | | |
| Currency translation differences | - | - | (303) | - | - | (303) |
| Total comprehensive income for the year | - | - | (303) | - | 29,580 | 29,277 |
| Transactions with owners in their capacity as owners: | | | | | | |
| Issue of share capital | 675 | - | - | - | - | 675 |
| Share issue costs | (6) | - | - | - | - | (6) |
| Deferred tax relating to equity items | 18 | - | - | - | - | 18 |
| Dividends paid | - | - | - | - | (8,652) | (8,652) |
| Share-based payments | - | 231 | - | - | - | 231 |
| | 687 | 231 | - | - | (8,652) | (7,734) |
| **At 30 June 2012** | **48,938** | **1,563** | **(3,398)** | **-** | **78,182** | **125,285** |

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



# consolidated statement of **cash flows**

for the year ended 30 June 2012

| | Notes | 2012 $000 | 2011 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 288,735 | 234,579 |
| Payments to suppliers and employees | | (251,703) | (181,572) |
| Interest received | | 378 | 492 |
| Dividends received | | - | 133 |
| Finance costs | | (2,883) | (1,756) |
| Income tax paid | | (9,903) | (8,107) |
| **Net cash provided by operating activities** | 26a | **24,624** | **43,769** |
| **Cash flows from investing activities** | | | |
| Payments for acquisitions of businesses/subsidiaries, net of cash acquired | 31 | (33,273) | (36,384) |
| Payments for property, plant and equipment | | (18,788) | (24,371) |
| Distribution from joint venture entity | 14 | 753 | 1,055 |
| Settlement of contingent consideration of business combination | | (813) | - |
| Proceeds from sale of other financial assets | | - | 6,638 |
| **Net cash used in investing activities** | | **(52,121)** | **(53,062)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares, net of transaction costs | | 687 | 4,567 |
| Proceeds from borrowings | | 40,663 | 37,141 |
| Repayment of borrowings | | (26,144) | (6,404) |
| Dividends paid | 7 | (8,652) | (7,500) |
| **Net cash provided by financing activities** | | **6,554** | **27,804** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(20,943)** | **18,511** |
| Cash and cash equivalents at the beginning of the year | | 37,416 | 21,125 |
| Effects of exchange rate changes on cash and cash equivalents | | (725) | (2,220) |
| **Cash and cash equivalents at the end of the year** | **9** | **15,748** | **37,416** |

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

# **notes** to the consolidated financial statements

for the year ended 30 June 2012

## **Note 1:** Statement of compliance and significant accounting policies



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

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.

The financial statements were authorised for issue by the directors on 25 September 2012.

### 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. Austin Engineering Limited is a for-profit entity for the purpose of preparing the financial statements.

*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*

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

*Early adoption of standards*

The group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

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 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.

# **notes** to the consolidated financial statements

for the year ended 30 June 2012

**Note 1:** Statement of compliance and significant accounting policies *(cont'd)*



## 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 10 to 18 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.

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 1:** Statement of compliance and significant accounting policies *(cont'd)*

## 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. 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. Percentage completion is 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*

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*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. For information relating to option valuation inputs refer to note 27.

*Key Estimates*

*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.

*Contractual customer relationships*

The useful life of contractual customer relationships of 10 to 18 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. The carrying value of contractual customer relationships is disclosed in note 15.

# **notes** to the consolidated financial statements

for the year ended 30 June 2012





*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. For information on business combinations refer to note 31.

*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 2012 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 2015)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 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 2010-8 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.

*AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

*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.

*AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 July 2012 will impact the company's presentation of its statement of comprehensive income.

*AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments include clarification of the requirements for comparative information under AASB101: Presentation of Financial Statements.

*Other standards and interpretations*

There are no other standards and interpretations that are not yet effective and that are expected to have a material impact on the group in the current or future reporting periods and on foreseeable future transactions.

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



## **Note 2:** Revenue and other income

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Revenue** | | |
| *Sales revenue:* | | |
| Sale of goods | 212,053 | 140,506 |
| Services | 77,354 | 62,487 |
| | 289,407 | 202,993 |
| *Other revenue:* | | |
| Interest - bank deposits | 378 | 492 |
| Dividends | - | 133 |
| Other | 312 | 96 |
| | 690 | 721 |
| **Total revenue** | **290,097** | **203,714** |
| **Other income:** | | |
| Net gain on sale of available-for-sale financial assets | - | 2,183 |

## **Note 3:** Profit for the year

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Profit for the year is derived after charging: | | |
| Cost of goods sold | 156,862 | 108,217 |
| Finance costs - bank loans | 2,883 | 1,756 |
| Rental expense on operating leases - minimum lease payments | 4,785 | 4,008 |
| Defined contribution superannuation costs | 4,153 | 3,616 |
| Earn-out expense arising on business combination | 638 | - |
| Realised foreign currency exchange (gains)/losses - net | (293) | 81 |
| Unrealised foreign currency exchange (gains)/losses - net | 364 | (147) |

## **Note 4:** Income tax expense

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Components of tax expense:** | | |
| The components of tax expense comprise: | | |
| Current tax - current period | 11,257 | 7,771 |
| Deferred tax - origination and reversal of temporary differences | 484 | 1,038 |
| Over-provision in respect of prior years | (111) | - |
| | **11,630** | **8,809** |
| **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% (2011: 30%) | 12,363 | 9,083 |
| Tax effect of: | | |
| Non-allowable items | 1,173 | 23 |
| Accounting expenditure on research and development | - | 728 |
| Over-provision for tax in prior years | (260) | - |
| Share options expensed in the year | 69 | 124 |
| Differences in overseas tax rates | (620) | 32 |
| Research and development expenses | - | (1,169) |
| Other capital allowances | - | 28 |
| Non-assessable items | (584) | - |
| Fully-franked dividends | - | (40) |
| Tax losses recovered | (511) | - |
| **Income tax expense** | 11,630 | 8,809 |
| **Amounts recognised directly in equity:** | | |
| Net deferred tax – debited/(credited) directly to equity | (18) | - |
| **Tax expense/(income) relating to items of other comprehensive income:** | | |
| Available-for-sale financial assets | - | 231 |

## **Note 5:** Key management personnel disclosures

| | **2012 $** | 2011 $ |
|---|---|---|
| **Remuneration for key management personnel:** | | |
| Short-term employment benefits | 2,724,223 | 2,335,939 |
| Post-employment benefits | 175,458 | 130,428 |
| Long-term benefits | 9,765 | 17,192 |
| Share-based payments | 247,198 | 377,677 |
| | **3,156,644** | **2,861,236** |

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 5:** Key management personnel disclosures *(cont'd)*

| | Balance at beginning of year | Granted during the year as compen-sation | Exercised during the year | Balance at end of year | Total vested at reporting date | Total exercisable at reporting date |
|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. |
| **Options held by key management personnel:** | | | | | | |
| **2012:** | | | | | | |
| Michael Buckland | 500,000 | - | - | 500,000 | - | - |
| Peter Fitch* | - | - | - | - | - | - |
| Eugene Fung | - | - | - | - | - | - |
| Peter Pursey | - | - | - | - | - | - |
| Paul Reading | - | - | - | - | - | - |
| Colin Anderson | 400,000 | - | (150,000) | 250,000 | 250,000 | 250,000 |
| Steve Shellenberger | 300,000 | - | (150,000) | 150,000 | 150,000 | 150,000 |
| Steve Warner | 150,000 | - | - | 150,000 | 150,000 | 150,000 |
| Total | 1,350,000 | - | (300,000) | 1,050,000 | 550,000 | 550,000 |

* Mr Peter Fitch retired as a director on 25 November 2011

| | Balance at beginning of year | Granted during the year as compen-sation | Exercised during the year | Balance at end of year | Total vested at reporting date | Total exercisable at reporting date |
|---|---|---|---|---|---|---|
| **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 | 2,400,000 | 500,000 | (1,550,000) | 1,350,000 | 300,000 | 300,000 |

| | Balance at beginning of year | Options exercised during the year | Bought during the year | Granted during the year | Sold during the year and other changes | Balance at end of year |
|---|---|---|---|---|---|---|
| | No. | No. | No. | No. | No. | No. |
| **Shares held by key management personnel:** | | | | | | |
| **2012:** | | | | | | |
| Michael Buckland | 3,550,000 | - | 14,000 | - | - | 3,564,000 |
| Peter Fitch* | 503,939 | - | - | - | (503,939) | - |
| Eugene Fung | 778,048 | - | - | - | - | 778,048 |
| Peter Pursey | 1,001,448 | - | - | - | - | 1,001,448 |
| Paul Reading | 34,483 | - | - | - | - | 34,483 |
| Colin Anderson | 204,000 | 150,000 | - | - | (14,748) | 339,252 |
| Steve Shellenberger | - | 150,000 | - | - | (30,000) | 120,000 |
| Steve Warner | 100,000 | - | - | - | - | 100,000 |
| Total | 6,171,918 | 300,000 | 14,000 | - | (548,687) | 5,937,231 |

* Mr Peter Fitch retired as a director on 25 November 2011

| | Balance at beginning of year | Options exercised during the year | Bought during the year | Granted during the year | Sold during the year and other changes | Balance at end of year |
|---|---|---|---|---|---|---|
| **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 | 5,200,275 | 1,550,000 | - | 50,000 | (628,357) | 6,171,918 |

No other key management personnel held shares at 30 June 2012 and 30 June 2011.

**Other transactions with key management personnel:**

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

## **Note 6:** Auditor's remuneration

| | **2012 $** | 2011 $ |
|---|---|---|
| Remuneration of the auditor of the parent entity (BDO Audit Pty Ltd) for: | | |
| Auditing or reviewing the financial reports of any entity in the group | 155,156 | 91,749 |
| Taxation services | 90,830 | 47,544 |
| Corporate advisory services | 7,100 | - |
| | 253,086 | 139,293 |
| Remuneration of other auditors of subsidiaries for: | | |
| Auditing or reviewing the financial reports | 85,016 | 70,172 |
| Taxation services | 5,087 | 6,181 |
| Corporate advisory services | 189 | 632 |
| | 90,292 | 76,985 |

## **Note 7:** Dividends

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Recognised amounts:** | | |
| Distributions paid - final dividends: | | |
| Fully franked ordinary dividend of 8.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2011, paid on 7 October 2011 | 6,121 | - |
| 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 |
| Distributions paid - interim dividends: | | |
| Fully franked ordinary dividend of 3.5 cents per share franked at a tax rate of 30% for the financial year ended 30 June 2012, paid on 23 March 2012 | 2,531 | - |
| 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 |
| | **8,652** | **7,500** |
| **Unrecognised amounts:** | | |
| The directors have declared a final fully-franked dividend of 10.5 cents per share for the financial year ended 30 June 2012 (2011: 8.5 cents per share) payable on 12 October 2012. The aggregate amount of the dividend to be paid out of retained profits based on the number of ordinary shares issued at 30 June 2012, but not recognised as a liability at the end of the year, is | 7,593 | 6,108 |
| **Franked dividends:** | | |
| The franked portion of the final dividend recommended after 30 June 2012 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 2013. | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2011 - 30%) | 13,077 | 12,062 |

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 $3,254,000 (2011 - $2,618,000).

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



## **Note 8:** Earnings per share

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Reconciliation of earnings to profit:** | | |
| Profit after tax | 29,580 | 21,468 |
| Earnings used to calculate basic and diluted earnings per share | **29,580** | **21,468** |
| **Weighted average number of ordinary shares:** | **No. (000)** | **No. (000)** |
| Used to calculate basic earnings per share | 72,149 | 70,693 |
| Effect of dilutive securities - share options | 1,516 | 2,613 |
| Used to calculate diluted earnings per share | 73,665 | 73,306 |

## **Note 9:** Cash and cash equivalents

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Cash at bank and in hand | 15,748 | 37,416 |
| | **15,748** | **37,416** |

## **Note 10:** Trade receivables

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Trade receivables | 50,687 | 30,048 |
| Provision for impairment of receivables | - | (63) |
| | **50,687** | **29,985** |

| | **2012 $000** | 2011 $000 |
|---|---|---|
| The carrying amounts of the consolidated entity's trade receivables are denominated in the following currencies: | | |
| Australian dollars | 29,359 | 22,317 |
| US dollars (Australian dollar equivalent) | 9,559 | 5,934 |
| Chilean pesos (Australian dollar equivalent) | 8,640 | 1,673 |
| Indonesian rupiah (Australian dollar equivalent) | 2,646 | 61 |
| Colombian pesos (Australian dollar equivalent) | 20 | - |
| Peruvian nuevo soles (Australian dollar equivalent) | 463 | - |
| | 50,687 | 29,985 |

As at 30 June 2012 trade receivables with a nominal value of $Nil (2011: $63,000) were impaired. The age of the impaired receivables were 61-90 days in 2011.

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Movements in the provision for impairment of receivables are as follows: | | |
| Balance at beginning of the year | 63 | - |
| Provision for impairment during the year | - | 63 |
| Receivables written off during the year as uncollectible | (63) | - |
| Unused amount reversed | - | - |
| Balance at end of the year | - | 63 |

| | **2012 $000** | 2011 $000 |
|---|---|---|
| The age of trade receivables that were past due but not impaired was as follows: | | |
| 30 days | 10,781 | 3,996 |
| 31-60 days | 1,176 | 845 |
| 61-90 days | (451) | 521 |
| 91+days | - | (9) |
| | 11,506 | 5,353 |

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

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **At Cost:** | | |
| Raw materials and consumables | 15,824 | 12,470 |
| Work-in-progress | 14,689 | 8,470 |
| Finished goods | 329 | - |
| | **30,842** | **20,940** |

## **Note 12:** Other receivables and other assets

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Prepayments | 2,082 | 1,862 |
| Other receivables | 1,076 | - |
| Other assets | 1,186 | 918 |
| | **4,344** | **2,780** |

## **Note 13:** Property, plant and equipment

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Freehold land:** | | |
| Cost | 15,561 | 8,574 |
| **Buildings:** | | |
| Cost | 38,066 | 26,651 |
| Accumulated depreciation | (989) | (470) |
| Total buildings | 37,077 | 26,181 |
| Total land and buildings | 52,638 | 34,755 |
| **Capital work in progress:** | | |
| Cost | 665 | 3,181 |
| **Plant and equipment:** | | |
| Cost | 56,661 | 27,744 |
| Accumulated depreciation | (17,112) | (12,010) |
| | 39,549 | 15,734 |
| **Total property, plant and equipment** | **92,852** | **53,670** |

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



| **Note 13:** Property, plant and equipment *(cont'd)* | Freehold Land | Buildings | Capital Work in Progress | Plant and Equipment | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| **Movements in carrying amounts:** | | | | | |
| Balance at 1 July 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** |
| Additions | - | 12,811 | 633 | 5,741 | 19,185 |
| Additions through acquisitions of entities | 5,620 | 168 | - | 20,466 | 26,254 |
| Reallocation of capital work in progress | 1,680 | (1,436) | (3,112) | 2,868 | - |
| Disposals | - | - | - | (387) | (387) |
| Foreign currency exchange movements | (313) | (128) | (37) | 229 | (249) |
| Depreciation expense | - | (519) | - | (5,102) | (5,621) |
| **Balance at 30 June 2012** | **15,561** | **37,077** | **665** | **39,549** | **92,852** |

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

| | Plant and Equipment | Total |
|---|---|---|
| | $000 | $000 |
| Balance at 1 July 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 |
| Additions | 8,900 | 8,900 |
| Additions through acquisitions of entities | 1,282 | 1,282 |
| Assets no longer under finance lease arrangements | (507) | (507) |
| Disposals | (164) | (164) |
| Depreciation expense | (817) | (817) |
| **Balance at 30 June 2012** | **11,697** | **11,697** |

**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

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Investments accounted for using the equity method:** | | |
| Joint venture entity: | | |
| Majan Aluminium Services Company LLC | **1,645** | **1,554** |
| **Available-for-sale financial assets at fair value:** | | |
| Listed equity securities | - | - |
| **Movements during the year in investments accounted for using the equity method:** | | |
| *Joint venture entity:* | | |
| Balance at beginning of the year | 1,554 | 1,859 |
| Share of profits of joint venture entity | 844 | 750 |
| Distribution from joint venture entity | (753) | (1,055) |
| Balance at end of the year | 1,645 | 1,554 |
| *Listed equity securities:* | | |
| Balance at beginning of the year | - | 3,683 |
| Revaluation increase | - | 2,955 |
| Sale of investments | - | (6,638) |
| Balance at end of the year | - | - |

**Joint venture entity:**

Austin Engineering Limited has a 50% (2011: 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.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Share of joint venture entity assets and liabilities** | | |
| Current assets | 2,138 | 1,754 |
| Non-current assets | 247 | 431 |
| **Total assets** | 2,385 | 2,185 |
| Current liabilities | 740 | 631 |
| **Total liabilities** | 740 | 631 |
| **Net assets** | 1,645 | 1,554 |
| **Share of joint venture entity revenue, expenses and results** | | |
| Revenues | 2,393 | 2,113 |
| Expenses | (1,434) | (1,260) |
| **Profit before income tax** | 959 | 853 |

**Contingent liabilities relating to joint ventures**

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

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 14:** Other financial assets *(cont'd)*

| | Country of Incorporation | Percentage Owned 2012 | Percentage Owned 2011 |
|---|---|---|---|
| **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% | 100% |
| COR Cooling Pty Ltd | Australia | 100% | 100% |
| PHG Services Pty Ltd | Australia | 100% | 100% |
| Pilbara Hire Group Pty Ltd | Australia | 100% | 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% |
| Austin Engineering Peru S.A.C | Peru | 99% | - |
| **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% | 100% |
| Austin Engineering Batam Pte Ltd | Singapore | 100% | 100% |
| **Subsidiaries of COR Cooling Pty Ltd:** | | | |
| COR Engineered Cooling Pty Ltd | Australia | 100% | 100% |
| COR Radiator Services Pty Ltd | Australia | 100% | 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% | 100% |
| Austin Engineering Peru S.A.C | Peru | 1% | - |
| **Subsidiaries of Austin Ingenieros Colombia S.A.S** | | | |
| Austin Ingenieros Servicios S.A.S | Colombia | 100% | - |
| **Subsidiaries of Austin Engineering Offshore Pte Ltd:** | | | |
| PT Austin Engineering Indonesia | Indonesia | 0.01% | 0.01% |
| **Subsidiaries of Austin Engineering Batam Pte Ltd:** | | | |
| PT Austin Engineering Indonesia | Indonesia | 99.99% | 99.99% |
| **Subsidiaries of COR Radiator Services Pty Ltd:** | | | |
| COR Radiator Unit Trust | Australia | 100% | 100% |

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Parent entity information:** | | |
| **Assets** | | |
| Current assets | 94,939 | 52,820 |
| Non-current assets | 104,859 | 98,107 |
| **Total assets** | **199,798** | **150,927** |
| **Liabilities** | | |
| Current liabilities | 43,943 | 19,559 |
| Non-current liabilities | 58,592 | 45,311 |
| **Total liabilities** | **102,535** | **64,870** |
| **Net assets** | **97,263** | **86,057** |
| **Equity** | | |
| Contributed equity | 48,941 | 48,251 |
| Options reserve | 1,563 | 1,332 |
| Retained earnings | 46,759 | 36,474 |
| **Total equity** | **97,263** | **86,057** |
| **Financial performance** | | |
| Profit for the year | 18,969 | 12,422 |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **18,969** | **12,422** |

**Contractual commitments**

At 30 June 2012, contractual commitments entered into in respect of capital expenditure projects totalled $227,000 (2011: $299,000).

**Contingent liabilities**

The parent entity did not have any contingent liabilities at 30 June 2012 and 30 June 2011. For information about guarantees given by the parent entity, see below.

**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. As at 30 June 2012, $66,937,000 (2011: $53,419,000) was owing to National Australia Bank under this facility.

In addition, during the 2012 financial year, Austin Engineering Limited has entered into a deed of cross guarantee with its wholly-owned subsidiary COR Cooling Pty Ltd. By entering into the deed, COR Cooling Pty Ltd has been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. Austin Engineering Limited and COR Cooling Pty Ltd represent a 'closed group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Austin Engineering Limited, they also represent the 'extended close group'. No deficiencies of assets exist in any of these companies. Set out on page 44 is a consolidated statement of comprehensive income and summary of movements in consolidated retained earnings for the year ended 30 June 2012, and a consolidated statement of financial position at 30 June 2012 of the closed group consisting of Austin Engineering Limited and COR Cooling Pty Ltd:

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 14:** Other financial assets *(cont'd)*

| | 2012 $000 |
|---|---|
| **Consolidated statement of comprehensive income** | |
| Revenue | 174,658 |
| Raw materials and consumables used | (66,868) |
| Change in inventories and work in progress | 3,512 |
| Employment expenses | (56,165) |
| Subcontractor expenses | (4,763) |
| Occupancy and utility expenses | (5,515) |
| Depreciation expense | (2,256) |
| Other expenses from ordinary activities | (11,705) |
| Finance costs | (2,274) |
| Profit before income tax | 28,624 |
| Income tax expense | (6,684) |
| **Net profit for the year** | 21,940 |
| Other comprehensive income | - |
| Changes in fair value of available-for-sale financial assets | - |
| **Total comprehensive income for the year** | 21,940 |
| **Summary of movements in consolidated retained earnings** | |
| Retained earnings at the beginning of the financial year | 37,952 |
| Profit for the year | 21,940 |
| Dividends paid | (8,652) |
| Retained earnings at the end of the financial year | 51,240 |
| **Consolidated statement of financial position** | |
| **Current Assets** | |
| Cash and cash equivalents | 9,115 |
| Trade and other receivables | 76,456 |
| Inventories | 15,922 |
| Other assets | 996 |
| **Total Current Assets** | 102,489 |
| **Non-Current Assets** | |
| Property, plant and equipment | 17,355 |
| Other financial assets | 64,513 |
| Intangible assets | 24,066 |
| Deferred tax assets | 1,389 |
| **Total Non-Current Assets** | 107,323 |
| **Total Assets** | 209,812 |
| **Current Liabilities** | |
| Trade and other payables | 41,408 |
| Financial liabilities | 228 |
| Current tax liabilities | 2,829 |
| Provisions | 3,789 |
| **Total Current Liabilities** | 48,254 |
| **Non-Current Liabilities** | |
| Financial liabilities | 58,416 |
| Deferred tax liabilities | 1,398 |
| **Total Non-Current Liabilities** | 59,814 |
| **Total Liabilities** | 108,068 |
| **Net Assets** | **101,744** |
| **Equity** | |
| Contributed equity | 48,941 |
| Reserves | 1,563 |
| Retained earnings | 51,240 |
| **Total Equity** | **101,744** |

Comparative information has not been provided as the deed of cross guarantee was only entered into during the 2012 financial year.

## **Note 15:** Intangible assets

| | Goodwill | Customer relationships* | Brands** | Other intangibles | Total |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| **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** |
| **Year ended 30 June 2012** | | | | | |
| Opening net book amount | 61,995 | 9,758 | 2,749 | 406 | 74,908 |
| Additions | - | - | - | 119 | 119 |
| Additions - acquisitions | 7,369 | 3,593 | - | 70 | 11,032 |
| Release of deferred taxes | (207) | - | - | - | (207) |
| Exchange differences | 189 | - | - | - | 189 |
| Amortisation charge | - | (644) | - | (129) | (773) |
| Closing net book amount | **69,346** | **12,707** | **2,749** | **466** | **85,268** |
| **At 30 June 2012** | | | | | |
| Cost | 69,346 | 13,820 | 2,749 | 724 | 86,639 |
| Accumulated amortisation and impairment | - | (1,113) | - | (258) | (1,371) |
| **Net book amount** | **69,346** | **12,707** | **2,749** | **466** | **85,268** |

* Customer relationships have a remaining amortisation period of between 10 and 18 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).

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



## 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:

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Austin Mackay (formerly Kaldura Industries) | 2,706 | 2,706 |
| Austbore Pty Ltd | 8,310 | 8,310 |
| Austin Ingenieros Chile (formerly Conymet) | 24,099 | 24,090 |
| Western Technology Services Inc. | 5,846 | 5,576 |
| Pilbara Hire Group | 7,400 | 7,511 |
| Austin Engineering Hunter Valley (formerly Phillips Engineering) | 1,789 | 1,821 |
| COR Cooling | 13,027 | 11,981 |
| V & V | 2,197 | - |
| Petroaceros S.A.S | 3,971 | - |
| Net carrying value | 69,345 | 61,995 |

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 pre-tax average cost of capital of 12% (2011: 12%) which is a common benchmark used by management to assess investment proposals and operating performance.

The underlying operating assumptions are based on management's assessment of the group's market position, industry conditions in the past, likely business conditions in the future and forecast operating margins. Future cash flows for the Austin Mackay, Austbore, Western Technology Services, Pilbara Hire Group, Phillips Engineering and COR Cooling business units reflect average annual revenue growth rates of 3%. The revenue growth for Austin Ingenieros Chile in the first year of the budget reflects the normalisation of activities and more consistent workloads compared to 2012 whilst the V&V and Petroaceros business units reflect a full year of revenue contribution. Thereafter, average annual growth rates are 5%, reflecting the assessed business development potential of the mining markets in Chile and Peru. Significant changes in the underlying major assumptions would be required to generate an impairment charge.

Cash flows for the financial years from 30 June 2013 and on have been adjusted to reflect an estimated increase in energy, supply chain and other costs associated with the introduction of the Clean Energy Act 2011.

## Note 16: Trade and other payables

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Current unsecured liabilities:** | | |
| Trade payables | 40,411 | 28,800 |
| Sundry payables and accrued expenses | 13,469 | 7,762 |
| Progress payments in advance | 17,992 | 18,883 |
| | **71,872** | **55,445** |

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

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Australian dollars | 43,917 | 37,712 |
| US dollars (Australian dollar equivalent) | 7,959 | 5,872 |
| Chilean pesos (Australian dollar equivalent) | 12,221 | 10,341 |
| Indonesian rupiah (Australian dollar equivalent) | 5,542 | 1,519 |
| Colombian peso (Australian dollar equivalent) | 1,669 | 1 |
| Peruvian nuevo soles (Australian dollar equivalent) | 1,144 | - |
| | 72,452 | 55,445 |

## Note 17: Financial liabilities

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Current secured liabilities:** | | |
| Hire purchase and lease obligations | 2,237 | 1,222 |
| Bank loans | 1,214 | - |
| | **3,451** | **1,222** |
| **Non-current secured liabilities:** | | |
| Hire purchase and lease obligations | 4,325 | 1,208 |
| Bank loans | 62,710 | 48,740 |
| | **67,035** | **49,948** |
| **Total of current and non-secured liabilities:** | | |
| Hire purchase and lease obligations | 6,562 | 2,430 |
| Bank loans | 63,924 | 48,740 |
| | **70,486** | **51,170** |
| **Assets pledged as security – fixed/floating charge:** | | |
| **Current** | | |
| Cash and cash equivalents | 10,543 | 31,508 |
| Receivables | 38,918 | 28,251 |
| Inventories | 20,606 | 18,026 |
| | 70,067 | 77,785 |
| **Non-current** | | |
| Property, plant and equipment | 57,045 | 34,428 |
| | 57,045 | 34,428 |
| **Total** | **127,112** | **112,213** |

## Note 18: Current tax liabilities

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Income tax | 3,733 | 2,525 |
| | **3,733** | **2,525** |

## Note 19: Deferred tax

| | **2012 $000** | 2011 $000 |
|---|---|---|
| *Deferred tax assets - non-current:* | | |
| Non-current deferred tax assets comprise: | | |
| Employee leave entitlements | 1,268 | 1,037 |
| Warranty and other provisions | 318 | 199 |
| Transaction costs on equity issue | 137 | 216 |
| Prior period losses | 901 | 557 |
| Other | 1,631 | 519 |
| **Total deferred tax assets** | **4,255** | **2,528** |
| *Deferred tax liabilities - non-current:* | | |
| Non-current deferred tax liabilities comprise: | | |
| Revaluation of assets on acquisition | 111 | 155 |
| Intangibles | 8,022 | 5,799 |
| Other | 539 | 464 |
| **Total deferred tax liabilities** | **8,672** | **6,418** |

# **notes** to the consolidated financial statements

for the year ended 30 June 2012

| **Note 19:** Deferred tax *(cont'd)* | Opening balance | Recognised in profit or loss | Recognised in other comprehensive income | Foreign Exchange Differences | Acquisitions | Closing balance |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Movements:** | | | | | | |
| **2012:** | | | | | | |
| **Deferred tax assets** | | | | | | |
| Employee leave entitlements | 1,037 | 231 | - | - | - | 1,268 |
| Warranty and other provisions | 199 | 119 | - | - | - | 318 |
| Transaction costs on equity issue | 216 | (79) | - | - | - | 137 |
| Prior period losses | 557 | 344 | - | - | - | 901 |
| Other | 519 | 1,112 | - | - | - | 1,631 |
| **Deferred tax liabilities** | | | | | | |
| Revaluation of assets on acquisition | (155) | 44 | - | - | - | (111) |
| Intangibles | (5,799) | (2,174) | - | 44 | (93) | (8,022) |
| Other | (464) | (81) | - | 6 | - | (539) |
| | (3,890) | (484) | - | 50 | (93) | (4,417) |
| **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 | - | (1,788) | - | - | (4,011) | (5,799) |
| Other | (861) | 397 | - | - | - | (464) |
| | 1,208 | (1,038) | ( 231) | - | (3,829) | (3,890) |

## **Note 20:** Provisions

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Current** | | |
| Employee leave entitlements | 4,338 | 3,851 |
| Warranty provisions | 1,103 | 624 |
| Other | 152 | 6 |
| **Total current provisions** | **5,593** | **4,481** |
| **Warranty provisions:** | | |
| Balance at beginning of year | 624 | 973 |
| Provided during the year | 1,260 | 477 |
| Utilised during the year | (250) | (757) |
| Released during the year | (542) | - |
| Foreign currency exchange differences | 11 | (69) |
| Balance at end of year | 1,103 | 624 |

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.

## **Note 21:** Contributed equity

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **No. 000** | **$000** | No. 000 | $000 |
| **Ordinary shares (fully paid)** | | | | |
| Balance at beginning of year | 71,865 | 48,251 | 69,315 | 43,684 |
| Shares issued during the year: | | | | |
| Exercise of options | 450 | 675 | 2,500 | 4,635 |
| Issue of performance-related shares | - | - | 50 | - |
| Cost of share issues | - | (6) | - | (68) |
| Deferred tax adjustment to cost of share issues | - | 18 | - | - |
| **Balance at end of year** | **72,315** | **48,938** | **71,865** | **48,251** |

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 2012 comprised of the following:

(a) 8 September 2011: 150,000 shares at $1.50 each ($225,000) in relation to the exercise of employee options
(b) 13 December 2011: 150,000 shares at $1.50 each ($225,000) in relation to the exercise of employee options
(c) 14 December 2011: 150,000 shares at $1.50 each ($225,000) in relation to the exercise of employee options

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

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

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 21:** Contributed Equity *(cont'd)*

### 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 an optimal 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 $180,023,000 at 30 June 2012 (30 June 2011: $117,496,000). 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. The ratio was 1.09:1 at 30 June 2012. The group has a policy of maintaining a flexible financing structure within the aforementioned limit 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 2012 and 30 June 2011 are as follows:

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Total borrowings | 70,486 | 51,170 |
| Less cash and cash equivalents | (15,748) | (37,416) |
| Net debt | 54,738 | 13,754 |
| Total equity | 125,285 | 103,742 |
| Total capital | 180,023 | 117,496 |
| Net gearing ratio | 30% | 12% |

The net gearing ratio is approximately 33% including guarantees issued by the company's bank, which are taken into account for determining compliance with covenants for bank reporting purposes. Austin Engineering Limited has complied with the financial covenants of its borrowing facilities during the 2012 and 2011 reporting periods.

## **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

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Finance and hire purchase lease commitments:** | | |
| Not later than one year | 2,549 | 1,393 |
| Between one and five years | 4,514 | 1,366 |
| Minimum lease payments | 7,063 | 2,759 |
| Less: future finance charges | (501) | (329) |
| | 6,562 | 2,430 |
| Representing lease liabilities: | | |
| Current (note 17) | 2,237 | 1,222 |
| Non-current (note 17) | 4,325 | 1,208 |
| | 6,562 | 2,430 |

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.

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Operating lease commitments:** | | |
| Not later than one year | 4,499 | 3,713 |
| Between one and five years | 13,587 | 11,094 |
| Greater than 5 years | 12,197 | 11,911 |
| | 30,283 | 26,718 |

The group has various property leases under non-cancellable arrangements expiring between 1 and 10 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.

| | **2012 $000** | 2011 $000 |
|---|---|---|
| **Capital commitments:** | | |
| Property, plant and equipment purchases | 10,553 | 10,312 |
| | 10,553 | 10,312 |

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.

## **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 EBITDA. Segment information for the years ended 30 June 2012 and 30 June 2011 is as follows:

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 25:** Segment reporting *(cont'd)*

| | Australia | | Americas | | Middle East | | Asia | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2012 $000** | 2011 $000 | **2012 $000** | 2011 $000 | **2012 $000** | 2011 $000 | **2012 $000** | 2011 $000 | **2012 $000** | 2011 $000 |
| Total segment revenue | 213,455 | 162,573 | 70,369 | 48,424 | 2,393 | 2,114 | 15,148 | 115 | 301,365 | 213,226 |
| Inter-segment revenue | (11,268) | (9,512) | - | - | - | - | - | - | (11,268) | (9,512) |
| Revenue from external customers | 202,187 | 153,061 | 70,369 | 48,424 | 2,393 | 2,114 | 15,148 | 115 | 290,097 | 203,714 |
| EBITDA | 32,865 | 29,103 | 12,334 | 6,044 | 959 | 853 | 3,951 | (295) | 50,109 | 35,705 |
| Depreciation and amortisation | 3,485 | 3,436 | 1,718 | 681 | - | - | 418 | 47 | 5,621 | 4,164 |
| Share of net profit of joint ventures accounted for using the equity method | - | - | - | - | 844 | 750 | - | - | 844 | 750 |
| Segment assets | 132,246 | 139,092 | 134,960 | 77,549 | 1,645 | 1,554 | 17,370 | 5,586 | 286,221 | 223,781 |
| Total assets include: | | | | | | | | | | |
| Investments in joint ventures | - | - | - | - | 1,645 | 1,554 | - | - | 1,645 | 1,554 |
| Additions to non-current assets (other than financial assets and deferred tax) | 5,908 | 46,829 | 18,218 | 13,605 | - | - | 6,210 | 4,133 | 30,336 | 64,567 |

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 EBITDA to profit before income tax is as follows:

| | **2012 $000** | 2011 $000 |
|---|---|---|
| EBITDA | 50,109 | 35,705 |
| Depreciation | (5,621) | (3,566) |
| Amortisation | (773) | (598) |
| Interest revenue | 378 | 492 |
| Finance costs | (2,883) | (1,756) |
| Profit before income tax | 41,210 | 30,277 |

**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.

**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.

**Segment revenue and non-current assets**

Total revenue from external customers attributed to Australia (country of domicile) is $200,966,000 (2011 - $150,129,000), and total revenue from external customers attributed to all foreign countries is $89,131,000 (2011 - $53,585,000). Revenues from external customers attributed to the USA, as an individual foreign country, are material and amount to $29,310,000 (2011 - $29,493,000).

Revenues of approximately $78,620,000 are derived from two single customers:
Customer 1 - $43,251,000 (in relation to Australia)
Customer 2 - $35,369,000 (of which $24,181,000 is in relation to Australia, $8,728,000 for the USA, and $2,460,000 for Chile)

In 2011, $50,868,000 of revenues were derived from a single external customer. These revenues were attributable to the Australia segment.

Non-current assets located in Australia amounted to $73,268,000 (2011 - $71,481,000) and non-current assets located in foreign countries amounted to $104,852,000 (2011 - $58,651,000). These non-current assets exclude financial instruments, deferred tax assets and post-employment benefit assets. Non-current assets located in Chile are material as an individual foreign country and amounted to $65,812,000 (2011 - $36,891,000). In 2011, non-current assets of $13,507,000 in the USA were material but they are not material in 2012.

## **Note 26:** Cash flow information

| | | **2012 $000** | 2011 $000 |
|---|---|---|---|
| a) | **Reconciliation of cash flow from operations with profit after income tax** | | |
| | Profit after income tax | 29,580 | 21,468 |
| | Depreciation and amortisation | 6,394 | 4,164 |
| | Share of joint venture profits | (844) | (750) |
| | Gain on sale of available-for-sale financial assets | - | (2,183) |
| | Share options expense | 231 | 412 |
| | Changes in operating assets and liabilities, net of effects from purchase of controlled entities: | | |
| | (Increase)/decrease in receivables | (20,632) | (2,429) |
| | (Increase)/decrease in inventories | (9,066) | (8,525) |
| | (Increase)/decrease in other assets | (1,560) | (256) |
| | Increase/(decrease) in payables | 17,606 | 29,936 |
| | Increase/(decrease) in income taxes payable | 1,985 | 1,541 |
| | Increase/(decrease) in provisions | 930 | 391 |
| | **Net cash provided by operating activities** | **24,624** | **43,769** |

b) **Non-cash investing and financing activities**

The acquisition of businesses and the deferred settlement on the purchase of the Pilbara Hire Group is disclosed in note 31.

c) **Bank facilities**

The consolidated group had access to the following bank facilities at the balance date:

| | **2012 $000** | 2011 $000 |
|---|---|---|
| Business acquisition finance facilities | 80,552 | 51,822 |
| Utilised | (57,935) | (45,129) |
| Unused | 22,617 | 6,693 |
| Business development facility | - | 20,000 |
| Utilised | - | (2,323) |
| Unused | - | 17,677 |
| Asset finance facilities | 25,934 | 21,236 |
| Utilised | (13,027) | (6,146) |
| Unused | 12,907 | 15,090 |
| Working capital facilities | 13,251 | 7,976 |
| Utilised | (8,391) | (6,443) |
| Unused | 4,860 | 1,533 |
| Total facilities | 119,737 | 101,034 |
| Utilised | (79,353) | (60,041) |
| Unused | 40,384 | 40,993 |

# **notes** to the consolidated financial statements

for the year ended 30 June 2012

**Note 26:** Cash flow information *(cont'd)*



During the year the group maintained principal banking facilities with National Australia Bank Limited, First Interstate Bank (USA), Banco BCI and Banco Santander (Chile), Bancolombia (Colombia), Banco Credito Peru (Peru) and Mandiri Bank (Indonesia). The major facilities are summarised as follows:

*Business acquisition finance facilities:*

These facilities consist of a USD 19m facility (2011: USD 19m) which lasts until 31 July 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. The facilities also include a total of $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 have been partially drawn-down and are revolving and variable interest-only until the end of their term. The facilities also include $28m, which lasts until 31 July 2013, in relation to the acquisition of the business of V&V in Calama in Chile in January 2012. These facilities have also been partially drawn-down and are revolving and variable interest-only until the end of their term.

*Business development facility:*

This facility was eliminated in the year ended 30 June 2012.

*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 USD 8m loan for the construction of new workshop facilities in Indonesia (which was unutilised at 30 June 2012) and a USD 6.5m loan for the construction of the new workshop in La Negra, Chile (of which USD 5.9m was utilised at 30 June 2012 (2011: USD 3.6m). The USD 8m loan for the Indonesian workshop facilities lasts until 31 July 2013, attracts variable interest rates and is reviewable at the end of its term. The USD 6.5m loan for the La Negra workshop in Chile has fixed monthly repayments for its term to December 2016 and attracts a fixed interest rate.

*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 2012 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 2012. 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 2012:

*Performance-based shares:*

On 25 November 2011, the issue of 150,000 shares to Michael Buckland was approved by shareholders in general meeting, pursuant to the executive services agreement entered into with Michael Buckland on 4 April 2011. This executive services agreement includes an equity based 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 2011, 2012 and 2013. The issue of the shares, which is dependent upon the achievement of certain performance targets and requirements, is at no cost to Michael Buckland. The shares relating to the 2011 financial year (the '2011 shares') were not issued to Michael Buckland as the share price performance hurdle had not been met. The equity based remuneration component of the executive services agreement is a continuation of Michael Buckland's previous remuneration structure.

On 8 November 2010, 50,000 shares (the '2010 shares') were issued to Michael Buckland in recognition of the achievement of the performance targets pursuant to his previous executive services agreement. The weighted average fair value of the shares at the measurement date was $4.72 each.

Options:

- » 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. All options vested during the 2011 financial year and 600,000 options were exercised during that year. During the 2012 financial year, 450,000 options were exercised leaving none 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, (compared to a share price of $4.05 at 21 September 2012) 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 all of the options vested and 850,000 were 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 (compared to a share price of $4.05 each at 21 September 2012) 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.

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. Whilst there are no specific performance conditions attaching to these options, the basis for the issue of the options and the setting of the exercise price is explained in page 10 of the remuneration report. Share options outstanding and exercisable at the balance date are as follows:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price** | Number of Options | Weighted Average Exercise Price |
| | | **$** | | $ |
| Outstanding at beginning of year | 1,800,000 | 3.75 | 3,800,000 | 2.40 |
| Granted | - | - | 500,000 | 4.50 |
| Exercised | (450,000) | 1.50 | (2,500,000) | 1.85 |
| Outstanding at end of year | 1,350,000 | 4.50 | 1,800,000 | 3.75 |
| Total exercisable at end of year | 850,000 | 4.50 | 450,000 | 1.50 |

The options outstanding at 30 June 2012 had a weighted average remaining contractual life of 0.93 years (2011: 1.61 years). The exercise price for these options is $4.50 (2011: $1.50 to $4.50). The weighted average share price at the date of exercise of options during the year was $4.14 (2011: $3.92).

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

# **notes** to the consolidated financial statements
for the year ended 30 June 2012

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



There were no options issued during the 2012 financial year. The following inputs were used for the options issued in 2011:

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

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 $281,000 (2011: $412,000) and this relates, in full, to equity-settled share-based payment transactions.

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

On 6 July 2012 COR Cooling Pty Ltd, a 100% subsidiary company of Austin Engineering Ltd, acquired the business and assets of Beltrax Pty Ltd, (trading as Bells Radiator Services), a specialised manufacturer and repairer of cooling products based in Toronto, Hunter Valley, Australia. The purchase price, which was paid in cash, was $1.60m plus $0.08m for inventories. The fair value of tangible and intangible assets acquired is in the process of being determined and finalised.

## **Note 29:** Related party transactions

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

**Ultimate parent company:**
Austin Engineering Limited is the ultimate parent company.

**Controlled entities:**
Interests in controlled entities are disclosed in note 14.

**Transactions with director-related parties:**
Eugene Fung, a non-executive director of the company, is a partner with the law firm Thomsons Lawyers. The firm provided legal services to the company on normal commercial terms to the value of $78,806 during the year (2011: $123,568 with the law firm DLA Phillips Fox). Approximately $5,000 was outstanding to Thomsons Lawyers at 30 June 2012 for work performed in the year to 30 June 2012 (2011 - nil for DLA Phillips Fox).

## **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, Chilean Peso, Indonesian Rupiah, Colombian Peso and Peruvian Nuevo Soles as a result of its operations in the Americas and Indonesia.

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 2012, had the Australian dollar weakened or strengthened by 10% against the US dollar, Chilean Peso, Indonesian Rupiah, Colombian Peso and Peruvian Nuevo Soles with all other variables held constant, post-tax profit for the year would have been $945,000 higher or lower (2011: $386,000) 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 $3,348,000 higher or lower (2011: $2,484,000) 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 positions and facilities, alternative financing and hedging. Based on these interest rate shifts, the group calculates the impact on profit and loss. The interest rate shift scenario is run only for assets and liabilities that represent the major interest-bearing positions.

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

| | **30 June 2012** | | 30 June 2011 | |
|---|---|---|---|---|
| | **Weighted average interest rate** | **Balance** | Weighted average interest rate | Balance |
| | **%** | **$000** | % | $000 |
| Cash | 2.0% | 15,787 | 2.8 | 35,540 |
| Bank loans | 3.7% | (57,935) | 4.2 | (45,129) |
| Net exposure to cash flow interest rate risk | | (42,148) | | (9,589) |

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 $558,000 (2011: $414,000). The simulation is performed on a bi-annual basis to estimate the maximum loss potential.

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**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.

**Trade and other receivables:**

The group's exposure to credit risk for trade and other receivables is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The group enters into transactions with a number of high quality customers within the resources industry sector thereby minimising concentration of credit risk for trade and other receivables. The group has multiple contracts with its significant customers, across number of their subsidiaries, divisions within those subsidiaries and locations. The group's activities are largely focused on the mining and mining services industry sectors and as a result its credit risk for trade and other receivables is concentrated in this sector.

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.

Concentrations of credit risk in relation to customers are detailed in note 25. 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.

**Cash and cash equivalents:**

The credit risk on cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit ratings assigned by international credit rating agencies.

**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 $40,384,000 were undrawn at 30 June 2012 (2011: $40,993,000). The principal terms of repayment are detailed in note 26.

The following table analyses the group's financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date. 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 | 1 to 5 Years | Total |
|---|---|---|---|
| | $000 | $000 | $000 |
| **2012** | | | |
| Payables | 71,872 | - | 71,872 |
| Bank loan | 3,135 | 64,087 | 67,222 |
| Lease liabilities | 2,549 | 4,513 | 7,062 |
| Total | 77,556 | 68,600 | 146,156 |
| **2011** | | | |
| Payables | 55,445 | - | 55,445 |
| Bank loan | 1,971 | 54,369 | 56,340 |
| Lease liabilities | 1,392 | 1,366 | 2,758 |
| Total | 58,808 | 55,735 | 114,543 |

**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:

» quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
» 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
» inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's assets and liabilities measured and recognised at fair value at 30 June 2012 and 30 June 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| **At 30 June 2012** | | | | |
| Contingent consideration | - | - | 30 | 30 |
| **At 30 June 2011** | | | | |
| Contingent consideration | - | - | 813 | 813 |

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:

» Contingent consideration - discounted cash flow analysis

The contingent consideration of $30,000 represents the fair value of the earn-out at the date of acquisition of businesses by COR Cooling Pty Ltd during the year (2011: $813,000 in relation to the Pilbara Hire Group). Refer to note 31.

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

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



## **Note 31:** Business combinations

### 2012

a) Acquisition of business of V&V in Calama, northern Chile:

On 3 January 2012, Austin Ingenieros Chile Limitada, a 100% subsidiary of Austin Engineering Ltd, completed the acquisition of the business of V&V, based in Calama in northern Chile, for a cash consideration of $24.38m. V&V is a site-based equipment hire and repair and maintenance business located next to the majority of mines in northern Chile. The acquisition was a strategic development to expand business activities and gain more exposure to repair and maintenance operations in this important mining region. The acquisition was funded by existing bank loan facilities.

b) Acquisition of business of Petroaceros S.A.C in Lima, Peru:

On 20 April 2012, Austin Engineering South America No. 1 Pty Ltd, a 100% subsidiary of Austin Engineering Ltd, completed the acquisition of two of the mining services divisions of Petroaceros S.A.C, based in Lima in Peru, for a cash consideration of $5.48m plus $0.83m for inventories and work-in-progress. The fabrication, repair and maintenance ('FRM') division manufactures and repairs dump truck bodies, buckets and other mining equipment. The second division undertakes the on-site maintenance and repair of equipment for large miners in the region. The acquisition was a strategic development to expand business activities and gain more exposure to repair and maintenance operations in an important and growing mining region. The acquisition was funded by available existing cash resources.

c) Acquisition of various businesses in Queensland, New South Wales and South Australia:

During the year, COR Cooling Pty Ltd, a 100% subsidiary of Austin Engineering Ltd, acquired the following businesses as part of a strategic development to expand business activities into important mining regions in Australia:

29 July 2011: the business and assets of Noceid Pty Ltd trading as Diecon Engineering, with operations based in Brisbane, for a cash consideration of $0.77m. Diecon Engineering is a specialised manufacturer and repairer of industrial and marine cooling products. The acquisition was funded by way of available existing cash resources.

30 September 2011: the business and assets of Southstate Industrial Services Pty and Motrad Pty Ltd (together the "Southstate Industrial Radiators" Group), with operations based in Adelaide, for a cash consideration of $0.14m. Southstate Industrial Radiators is a specialised industrial radiator repair business. The acquisition was funded by way of available existing cash resources.

31 October 2011: the business and assets of Tonkins Radiators Mansfield Park Pty Ltd ("Tonkins Radiators"), with operations based in Adelaide, for a cash consideration of $0.78m. Tonkins Radiators is a specialised industrial radiator repair business. The acquisition was funded by way of existing available cash resources.

5 March 2012: the business and assets of Radiator Express Pty Ltd, with operations based in Singleton in the Hunter Valley region of New South Wales, for a cash consideration of $1.15m. Radiator Express is a specialised industrial radiator repair business. The acquisition was funded by way of available existing cash resources.

Due to the relative immateriality of these acquired businesses, the net assets acquired, intangible assets, goodwill and purchase consideration have been combined for disclosure purposes.

Acquisition-related costs of $150,000, 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:

| | V&V | Divisions of Petroaceros S.A.C | Businesses acquired by COR Cooling | Total |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Purchase consideration | 24,384 | 6,316 | 2,847 | 33,547 |
| Fair value of net tangible assets acquired | (20,093) | (1,754) | (966) | (22,813) |
| Intangible assets and goodwill | 4,291 | 4,562 | 1,881 | 10,734 |
| The fair value of net tangible assets from the acquisitions is as follows: | | | | |
| Property, plant and equipment | 23,911 | 1,939 | 404 | 26,254 |
| Inventories and work-in-progress | - | 834 | 755 | 1,589 |
| Receivables | - | - | 72 | 72 |
| Payables | - | - | (44) | (44) |
| Employee leave entitlements | - | (363) | (221) | (584) |
| Financial liabilities | (3,818) | (656) | - | (4,474) |
| Net identifiable tangible assets acquired | 20,093 | 1,754 | 966 | 22,813 |
| The intangible assets and goodwill acquired, net of deferred tax, arising from the acquisitions are as follows: | | | | |
| Customer relationships and service agreements | 2,093 | 500 | 1,000 | 3,593 |
| Non-compete agreement | - | - | 70 | 70 |
| Goodwill | 2,198 | 4,062 | 1,111 | 7,371 |
| Deferred tax liability | - | - | (300) | (300) |
| Total intangible assets and goodwill acquired | 4,291 | 4,562 | 1,881 | 10,734 |
| Purchase consideration – cash outflow: | | | | |
| Outflow of cash to acquire subsidiaries, net of cash acquired: | | | | |
| Total purchase consideration | 24,384 | 6,316 | 2,847 | 33,547 |
| Less: deferred consideration | - | (244) | - | (244) |
| Less: contingent consideration | - | - | (30) | (30) |
| Outflow of cash – investing activities | 24,384 | 6,072 | 2,817 | 33,273 |

Due to the relative immateriality of the businesses acquired by COR Cooling Pty Ltd, the net assets acquired, goodwill and purchase consideration of the acquired businesses have been combined for disclosure purposes. The acquired businesses have been absorbed into the existing business and operations of COR Cooling Pty Ltd.

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 inventories, work-in-progress and 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.

From the dates of their respective acquisitions to 30 June 2012, the acquired businesses contributed $9,037,000 of revenue and $1,286,000 of net profit after tax to the group. If the acquisitions had occurred on 1 July 2011, the revenue of the group on a pro-forma, pro-rata basis would have been $301,000,000 and net profit after tax would have been $31,642,000. The relative contribution of these new businesses is expected to increase in the future as business expansion plans are implemented and investments are made in new facilities.

# **notes** to the consolidated financial statements

for the year ended 30 June 2012



**Note 31:** Business combinations *(cont'd)*

## 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 was 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, were recognised in the period and were included within other expenses from ordinary activities in the consolidated statement of comprehensive income.

Details of net assets and intangibles acquired were as follows:

| | Pilbara Hire Group | Phillips Engineering | COR Cooling | Total |
|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$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 |
| The fair value of net tangible assets from the acquisitions is as follows: | | | | |
| 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: | | | | |
| 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: | | | | |
| Outflow of cash to acquire subsidiaries, net of cash acquired: | | | | |
| 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.

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.

# **directors'** declaration



The directors of the company declare:

1. The financial statements and notes, as set out in pages 22 to 63 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 2012 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.

4. At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee. In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 14 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

25 September 2012

BDO

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**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 2012, 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 gives a true and fair view and 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 company'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 company'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 2012 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 8 to 13 of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit Pty Ltd**

**P A Gallagher**
Director

Brisbane, 25 September 2012

# **additional information** for public listed companies

at 14 September 2012



## 1. Substantial Shareholders

| | Number of Ordinary Fully Paid Shares Held | % Held of Ordinary Shares |
|---|---|---|
| Bradken Resources Pty Ltd | 14,489,808 | 20.04 |
| Thorney Investment Group Australia Pty Ltd | 5,263,299 | 7.28 |

## 2. Distribution of Shareholdings

| Range of Holding | Number of Shareholders | Number of Shares |
|---|---|---|
| 1 - 1,000 | 1,114 | 497,337 |
| 1,001 - 5,000 | 1,244 | 3,388,026 |
| 5,001 - 10,000 | 484 | 3,760,221 |
| 10,001 - 100,000 | 493 | 12,200,512 |
| 100,001 and over | 42 | 52,468,307 |
| | 3,377 | 72,314,403 |
| Holding less than a marketable parcel | 314 | |

## 3. Voting Rights

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

## 4. Twenty Largest Shareholders

| Name | Number of Ordinary Fully Paid Shares Held | % Held of Ordinary Capital |
|---|---|---|
| Merrill Lynch (Australia) Nominees Pty Limited | 14,511,148 | 20.07 |
| HSBC Custody Nominees (Australia) Limited | 7,914,887 | 10.95 |
| National Nominees Limited | 7,056,380 | 9.76 |
| J P Morgan Nominees Australia Limited | 3,555,938 | 4.92 |
| BNP Paribas Noms Pty Ltd | 3,515,667 | 4.86 |
| S J Quinlivan Pty Ltd | 3,028,568 | 4.19 |
| Mr Michael Douglas Buckland | 2,561,552 | 3.54 |
| Citicorp Nominees Pty Limited | 1,942,390 | 2.69 |
| Redcentre Pty Ltd | 1,002,448 | 1.39 |
| Mr Peter Louis Pursey and Mrs Helen Elizabeth Pursey <The Pursey Super Fund A/C> | 1,001,448 | 1.39 |
| Mr Eugene Fung and Ms Cindy Dean | 778,048 | 1.08 |
| Achim Decker Holdings Pty Ltd <Decker 27 Super Fund A/C> | 455,000 | 0.63 |
| Depofo Pty Ltd | 403,448 | 0.56 |
| Mr Livio Pietro Divitini <L P Divitini Family A/C> | 400,000 | 0.55 |
| Mr Iain Macgregor Hepburn & Mrs Rachael Frances Hepburn <The Hepburn Super Fund A/C> | 399,999 | 0.55 |
| WRG Investments Pty Ltd | 363,458 | 0.50 |
| Vasbyt Pty Ltd <Vasbyt Super Fund A/C> | 300,000 | 0.42 |
| UBS Nominees Pty Ltd | 274,868 | 0.38 |
| Mr Peter Howells | 256,170 | 0.35 |
| HSBC Custody Nominees (Australia) Limited | 229,265 | 0.32 |
| | 49,950,682 | 69.10 |

## 5. Additional Information

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

# **company** information

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**Principal Bankers:**

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*Westpac Banking Corporation*
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**Secretary:**

Colin Anderson

**Stock Exchange:**

Australian Securities Exchange
Home Exchange: Sydney

**ASX Code:**

ANG

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## notes

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