

Matrix Composites & Engineering Ltd

ACN 009 435 250

Annual report for the financial year ended 30 June 2011

2011 IN SUMMARY

Our Strategies

- Expand our customer base and global geographical presence
- Diversify and expand our product offering using innovative, advanced material products and technology processes
- Expand the scope and location of specialty services offered by Matrix Offshore Services & Engineering (MOSE)
- Strengthen our position as the global leader in the manufacture, supply and service of subsea buoyancy systems through continuous improvement in quality and manufacturing processes

Financial Highlights 2011

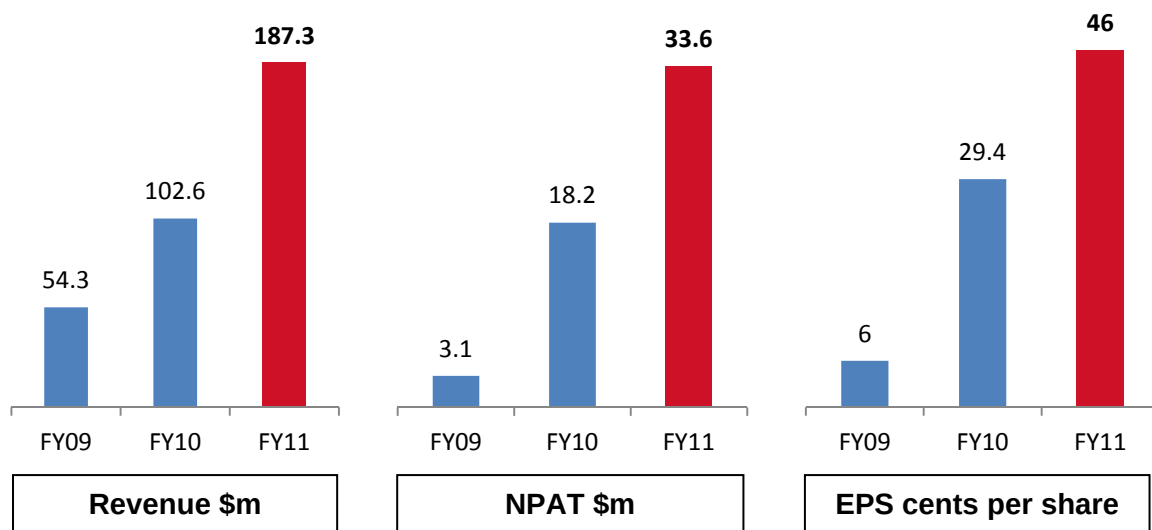
Sales revenue	↑ 82% to \$187.3 m
EBITDA	↑ 87% to \$52.6 m
NPAT	↑ 85% to \$33.6 m
EPS	↑ 56%, year on year (YOY)
Total fully franked dividends	8 cents per ordinary share for FY 2011
Final fully franked dividends	5 cents per ordinary share
Balance Sheet	Successfully completed a \$33.8 million capital raising in April 2011 to strengthen the balance sheet for growth

Operational Achievements 2011

Opening of new world class plant	• Opened the world's largest composites syntactic plant in Henderson (Western Australia) • Doubles production capacity and significantly enhances operational efficiency • Opened in June 2011 at a total investment of \$68 million
Record production	• Record production of riser buoyancy modules

New products	• Several new well construction products including composite drilling and completions developed and launched • New subsea products due for launch in the first half of FY 2012
Global expansion	• Opened an office in Houston (USA) • A presence in Brazil is being established • Plans for a presence in West Africa and Norway
Growing customer base & record quotation book	• New contracts won in FY 2011 • Record quotation book exceeding \$500 million at 30 June 2011 • Outlook for key market sectors including global deepwater drilling and production, subsea completions and well construction remain strong
Independent recognition of Matrix	• 2010 WA Industry & Export Awards: 'Large Advanced Manufacturer' and 'Premiers Award for Excellence' • 2010 Australian Export Awards: 'Large Advanced Manufacturer' • 2011 Subsea Energy Australian Awards: 'Global Exports'

Three Year Summary



		2011	2010	2009
Profitability				
Total revenue	\$'000	187,271	102,622	54,326
EBITDA	\$'000	52,556	28,060	5,520
EBITDA margin	%	28.1	27.3	10.2
Profit after tax from continuing operations	\$'000	33,608	18,155	3,095
Earnings per share (undiluted)	cents	46.0	29.4	6.0
Dividends paid & proposed	cents/share	8.0	4.0	2.0
Cash Flow				
Cash flow from operations	\$'000	1,477	26,355	8,850
Balance Sheet				
Net current assets	\$'000	52,030	1,219	(379)
Total equity	\$'000	126,760	9,893	20,581
Net asset backing per share	\$	1.51	0.73	0.26
Ratios				
Current ratio	%	2.27	1.02	0.99
Return on total equity	%	26.5	30.3	15.0
Return on total assets	%	16.7	13.5	4.8
Net debt/(net debt + equity)	%	6.7	(9.2)	16.7
Market Capitalisation				
Share price at 30 June	\$	7.22	2.68	N/A
Ordinary shares on issue	million	77.082	69.964	49.964
Market capitalisation	\$m	556.5	187.5	N/A

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CHAIRMAN'S REPORT

On behalf of the Board, I am pleased to present the 2011 Annual Report for Matrix Composites & Engineering Ltd (Matrix).

As the only world class oil and gas equipment manufacturer in Australia and the global leader in the manufacture and supply of subsea buoyancy systems, Matrix holds an enviable position in the domestic and international marketplace. The 2011 financial year (FY) has seen significant growth and development at Matrix in terms of physical assets, product diversification, human resources and financial performance.

The new manufacturing facility at Henderson in Western Australia was completed, commissioned and officially opened in June 2011. The facility is the largest and most technically advanced of its kind in the world, doubling the Company's production capacity. The new facility allows Matrix to manufacture riser buoyancy modules more efficiently, develop and manufacture other composite products and reduce manufacturing costs, providing a significant competitive advantage to Matrix over our global competitors. Full production capacity is expected to be achieved by December 2011.

In 2011, one of the Company's strategic objectives was to diversify its business and product lines. In this regard, Matrix has made good progress. The heavy engineering business was rebranded and amalgamated into Matrix Composites & Engineering Ltd, allowing it to expand its service offering to the offshore oil and gas sector in Australia and abroad. Matrix is a market leader in innovative advanced material products and technology, making steady progress on its product development during FY 2011. Matrix is now in a position to offer a product range that includes subsea, umbilicals, riser and flowline (SURF) applications, buoyancy systems for remotely operated vehicles (ROV's) and composite drilling centralisers.

Matrix has continued to invest in human resources to support and manage its growth and development. This includes growing its global business development team to increase geographical coverage in North America, South America, Asia and Australia. A business development manager has been appointed for the Houston office of the Company's newly established US subsidiary, and we are in the process of hiring an individual who will be focused on services and repairs in Brazil. We are also looking at potentially establishing a presence in West African and Norway. Matrix has also recruited specialist engineers for product development, undergone a successful recruitment and manning up program for the Henderson manufacturing facility and appointed several individuals in key operations roles. Subsequent to 30 June 2011, Matrix has appointed Mr Peter Hood as a Non-Executive Independent Director. Peter brings considerable leadership and operations experience to Matrix and will be a valuable contributor to the continuing development of the Company. The intention is for Peter to take over the role as Chairman of Matrix at the conclusion of the Matrix annual general meeting (AGM) on 25 October 2011.

Matrix generated record revenue of \$187.3 million for the 2011 financial year, an increase of 82 percent on the previous corresponding year. It also reported a record net profit after tax (NPAT) of \$33.6 million, up 85 percent on the previous corresponding year. Earnings per share (EPS) increased from 29.4 cents to 46 cents per share, a rise of 56 percent. This strong financial result has allowed Matrix to increase its full year dividend to 8 cents per share, fully franked, up 100 percent on last year (4 cents per share).

From an innovation and export perspective there were a number of highlights over the year. Matrix was a winner in the 2010 WA Industry and Export Awards: 'Large Advanced Manufacturer' and 'Premiers Award for Excellence'; 2010 Australian Export Awards: 'Large Advanced Manufacturer', and the 2011 Subsea Energy Australian Awards: 'Global Exports'.

In March 2011, Matrix was added to the S&P/ASX 300 Index. In April, Matrix successfully completed a placement of its ordinary shares to a number of Australian and Asian institutions and raised further equity funds through a share purchase plan in May 2011. Total net proceeds from the two equity raisings amounted to \$33.8 million (net of capital raising costs). These funds are being used for the second stage of the Henderson property development project, the development of new products, the expansion of overseas operations and facilities and for general working capital purposes. The year has also seen a significant increase in our shareholder numbers from 784 to over 6,000 shareholders.

The outlook for Matrix is extremely positive. The new Gulf of Mexico regulations and a continuing strong oil price are driving a new construction cycle for drill ships and semi-submersible rigs, boosting demand for our marine riser products. Also, diversification into new products is opening up new markets and opportunities for Matrix, supported by a large and growing project pipeline for subsea products. The efficiencies and cost benefits arising from the new manufacturing facility at Henderson should start to flow through in FY 2012. The forecast for a strong AUD and pricing competition from our competitors is, however, likely to impact on the Company's revenue and profit growth in FY 2012, compared to the rate of growth achieved in the last three years.

On behalf of the Matrix Board, I would like to thank Matrix management and all employees for their terrific commitment, effort and contribution during what has been a very successful and rewarding year.

We look forward to achieving further growth in 2012 and continuing to deliver strong returns to our shareholders.

A handwritten signature in black ink, appearing to read 'Nigel Johnson', with a horizontal line extending from the end of the signature.

Nigel Johnson
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

Matrix had another highly successful year in 2011. As Australia's only world class oil and gas equipment manufacturer, its achievements for the year further established its principal position in the global arena, including global market leader in the manufacture and supply of subsea buoyancy products and services. The Company achieved a record net profit, up 85 percent from the previous year. We opened our new plant in Henderson, the largest and most technically advanced of its kind in the world. The new facility doubles our production capacity, enhances operational efficiency and provides Matrix with a significant competitive advantage in terms of scope of innovation and lower production costs. Matrix also continued its strong focus on research and development (R & D) throughout the year, developing and launching several new well construction products. Further product launches are scheduled for FY 2012.

Matrix Composites & Engineering Ltd reported a record net profit of \$33.6 million for the year ending June 30th 2011, an increase of 85 percent from the previous year. Sales revenue also rose significantly over the same period, increasing by 82 percent to \$187 million. Profit performance was slightly lower in the second half of the FY compared to the first half due to commissioning costs and delays associated with the Henderson plant. The duplication of overhead costs associated with running both the Malaga plant at seven days a week, twenty four hours a day and Henderson, which contributed only a small output in the second half, added approximately \$4 million in higher operating overheads in the second half of the FY. This duplication is likely to continue at a diminishing rate until the beginning of the second quarter FY 2012 when the Malaga plant will be reassigned.

The majority of revenues were generated from export sales of deepwater buoyancy modules from the composite materials division. Sales from the Offshore Services & Engineering Division also contributed significantly throughout the year. An upswing in committed, global capital drilling equipment projects, subsea completions, offshore and onshore wells, and local resource projects continues to underpin the positive outlook for the Company's global markets. This outlook is reflected in the company's record quotation book of \$500 million. With the opening of our new world leading production facility and the doubling of production capacity, Matrix is well positioned to take advantage of the strength in the Company's global markets.

Business Overview

Production facilities

The Company's composites production facilities operated at full capacity throughout FY 2011, with the Malaga plant producing over 90 percent of the division's production.

The Company's new state of the art facility in Henderson was officially opened in June 2011. When the plant reaches full production which is expected late in the first half of FY 2012, it will have doubled the production capacity of the existing facilities in Malaga. The new plant dramatically decreases direct labour costs via increased automation, reduces wastage and improves quality which will result in significant cost savings for the Company going forward.

From the beginning of the second half of the FY, several ancillary production facilities and locations were progressively relocated and consolidated in Henderson. The Malaga plant will continue to operate during Q1 of FY 2012 until plant is re-assigned to the Offshore Services Division or relocated to Henderson.

Research & Development (R&D)

The first half of FY 2012 will see the commercial launch of several new product lines and services including:

- Two revolutionary product technologies designed for use with flexible risers and subsea umbilicals
- An expanded range of composite drilling and completions centralisers with the demand for this product driven by offshore lateral well developments and the rapidly growing coal bed methane and shale gas markets. Significant orders for these products will be delivered in Q1 FY 2012 for North American and Asian based projects, with strong growth expected for these product lines throughout FY 2012
- A family of new syntactic insulation materials for downstream liquefied nitrogen gas (LNG) applications
- An expansion of the scope and location of onsite, remote and offshore specialty services offered by MOSE.

These products will diversify the application of our core materials technologies whilst strengthening our position in existing markets. To date, interest from our international client base has been extremely positive.

Contracts

Over the course of the year Matrix continued to expand its international client base. It won several major contracts with international drilling contractors for export orders destined for North Asia, South East Asia and the US. The fundamental macro drivers of the business continue to strengthen as reflected in an unprecedented \$500 million in open quotations at June 30th 2011. The order intake was lower in the second half of the financial year resulting in a closing backlog of \$110 million, down from \$180 million in the previous year. This reduced order backlog was largely due to timing associated with international rig build projects and international and domestic subsea development schedules. Order intake is expected to increase during FY 2012 as open quotations are converted to new orders.

Markets

The rig new-build market is exhibiting strong signs of recovery with a resurgence of new-build commitments by drilling contractors over the last half of FY 2011. In addition, a large number of domestic and global subsea developments have been announced. This is expected to culminate in increased demand for the Company's subsea umbilical, riser and flowline (SURF) product lines, as new projects and those reactivated following the global financial crisis enter the construction phase in 2012.

The Offshore Services & Engineering Division continued to successfully service the domestic oil and gas and iron ore sectors, completing several major projects for various operators and original equipment manufacturers (OEM's). The division also continued its successful strategy of repositioning the business as a service based company with record offshore, site service and OEM oil and gas equipment service revenues in FY 2011. This repositioning will continue throughout FY 2012. Additionally, a significant volume of intra-company capital equipment projects were completed including a large hydrostatic test chamber and several highly specialised pieces of syntactic foam processing equipment for the Composites Division. This business continued to generate significant demand for iron ore rail car dumpers and high precision tooling work for the riser buoyancy and ROV buoyancy product lines.

Although we anticipate that the division's growth will be generated primarily from services, the business's traditional lines in the areas of oilfield connectors and caissons, iron ore car dumpers, manufacturing and service support will continue to be an integral part of the divisions operations for the foreseeable future.

Our People/Certification

The number of personnel at Matrix grew to 485 in FY 2011. This was a result of recruitment for the Henderson operation, and reaching record production levels at the Malaga facility. Matrix continues to source high calibre, key personnel both domestically and globally from specialised fields such as subsea engineering, composite engineering, industrial chemistry and chemical engineering.

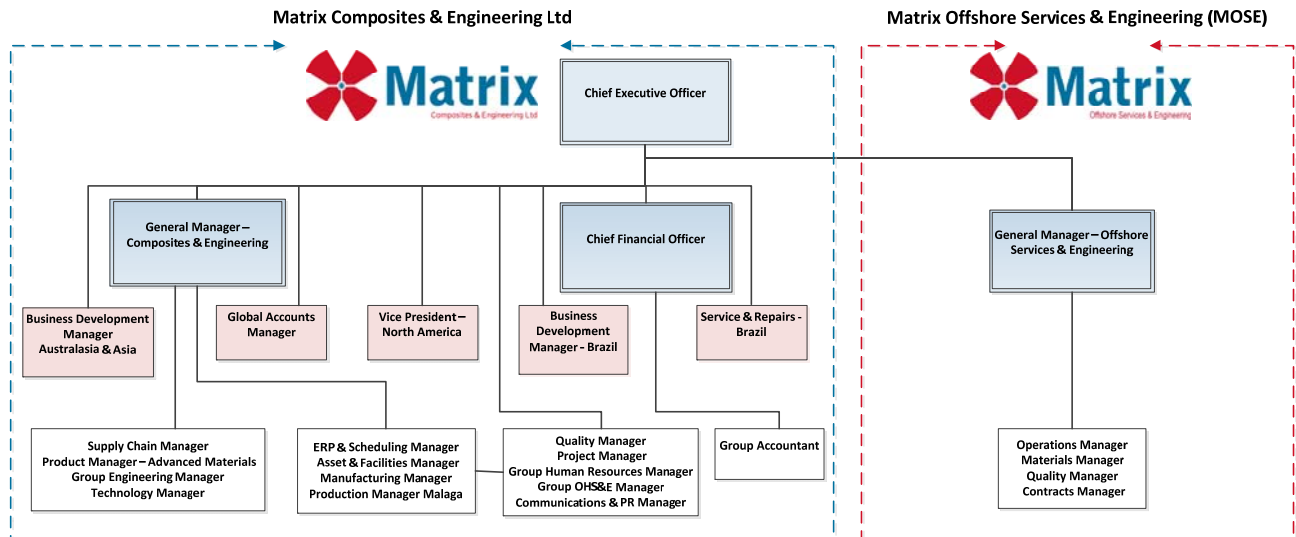
Recruitment for the Company's US operations started in early 2011. We filled the position of Vice President, North America in June 2011, and are currently recruiting additional staff for this office. Recruitment for operations in Brazil is underway, and we are looking at establishing a presence in West Africa and Norway. Our geographical expansion will broaden our service and sales reach into new and existing markets.

Matrix maintained its ISO 9001 status for both Matrix Offshore Services & Engineering and Matrix Composites & Engineering Ltd. The Company's Henderson facility is currently undergoing an accreditation process which is expected to be completed early in the second quarter of FY 2012. At the time of writing, the Henderson facility had been recommended for accreditation by SAI Global, with certification expected in October 2011.

Matrix continues to be a safety centric organisation driven towards best practice across all operations. Since FY 2010, lost time incident frequency rates (LTIFR) rates have been benchmarked against best practice in the plastics and metal trades industry. Our goal is to continually outperform these benchmark rates, with the objective of moving towards a zero LTI, zero harm status.

Figure 1 below shows the Matrix Group organisation chart.

Figure 1 Matrix Group - Organisation Chart



Strategy & Outlook

Matrix is the global leader in the manufacture and supply of subsea buoyancy system, and Australia's only world class oil and gas equipment manufacturer. Matrix continues to focus on developing engineering products and materials for the oil and gas sector based on its core competencies in the fields of syntactic foam, composite materials, elastomers and thermoplastics.

Matrix is continuing to take advantage of the growth opportunities in the global energy market by expanding its distribution and service base on a domestic and global basis. Having recently opened its Houston office, Matrix plans to continue its staged geographical expansion into other regions including Brazil, West Africa and Norway. A broader geographical presence will allow Matrix to more effectively service existing and new clients in these markets which are forecast to grow significantly over the coming decade. In FY 2011, Matrix experienced a record quotation book exceeding \$500 million. With significant growth forecast in the Company's existing and target markets, our order book and number and scale of new contracts should reflect this predicted growth.

As a result of the Company's commitment to R&D, several new products will be launched in FY 2012. These products are targeted at the production, LNG, well construction and completions market and will diversify our revenue base within the oil and gas sector.

Henderson's production capabilities include the manufacturing of drilling riser buoyancy, production and installation buoyancy and other syntactic foam products such as subsea and cryogenic insulation materials. In addition to syntactic foam production, Henderson will also house polyurethane and composite thermoplastic production facilities required to manufacture the Company's growing range of engineered products for subsea, well construction and insulation applications.

The Henderson plant is the largest and most technically advanced of its kind in the world. The new facility doubles our production capacity, enhances operational efficiency and provides Matrix with a significant competitive advantage in terms of scope of innovation and lower production costs. It also allows the Company to meet the challenges of a higher AUD and increasing competitive pressures.

Once the Malaga plant is fully reassigned to Henderson which is expected to occur at the beginning of Q2, FY 2012, duplication of overhead costs will cease, thus having a positive impact on the Company's financials in FY 2012.

Summary

The Henderson plant gives Matrix a significant technical edge over global competition. The Company is focused on expanding its customer base, product range and aftermarket services to its customers. Recent developments in SURF products, drilling and completions products and a growing international service and sales network are expected to significantly contribute to the Company's revenue and profitability in the coming FY and beyond.

A handwritten signature in black ink, appearing to read 'Aaron Begley', with a stylized, flowing script.

Aaron Begley

Chief Executive Officer

DIRECTORS' REPORT

The Directors of Matrix Composites & Engineering Ltd submit herewith the annual report of the Company for the financial year ended 30 June 2011, to comply with the provisions of the Corporations Act 2001.

Directors

The names and particulars of the Directors during or since the end of the financial year are as follows:

Nigel L Johnson

Qualifications & Experience

Chairman, Non-Executive Independent Director

Mr Johnson is a Chartered Accountant with 39 years experience in finance and management. He has worked for a number of publicly listed and private companies across a range of industries and in a number of countries. He formerly held senior executive positions with Straits Resources Limited and Heytesbury Pty Ltd, and has provided consulting services to listed and private companies.

Mr Johnson is also a member of the Finance & Treasurers Association of Australia and the Australian Institute of Company Directors. He is a member of the Audit and Risk Management Committee and Chairman of the Remuneration Committee.

Aaron P Begley

Qualifications & Experience

Chief Executive Officer

Mr Begley holds a Bachelor of Economics degree and a Post Graduate Diploma in Business. Mr Begley has 17 years experience in industrial product marketing, industrial ceramics and composite materials in the offshore oil and gas industry. Mr Begley is a member of the Australian Institute of Company Directors.

Paul R Wright

Qualifications & Experience

Non-Executive Director

Mr Wright is a qualified accountant with direct experience in the accountancy, as well as in a commercial context companies involved in heavy engineering. He was previously the Chief Financial Officer and Company Secretary of Matrix, succeeded by Mr Michael Kenyon on 14 October 2010, and Managing Director of Centurion Industries Limited which was formed as a result of an employee buyout of the Tomlinson Steel operations. Mr Wright is a member of the Audit and Risk Management and Remuneration Committees.

Maxwell G Begley

Qualifications & Experience

Non-Executive Director

Mr Begley has over 30 years experience in metal fabrication and machining, as well as machinery and equipment design, marketing and promotion. Prior to commencing his own heavy engineering company in 1980, Mr Begley worked for the Westralian Group of Companies and Vickers Hoskins in a variety of production and marketing roles.

Craig N Duncan

Qualifications & Experience

Non-Executive Independent Director

Mr Duncan holds a degree in Petroleum Engineering and has 30 years experience in the offshore oil and gas drilling industry. Mr Duncan was the Drilling Superintendent at Apache Energy for 12 years. Mr Duncan chairs the Audit and Risk Management Committee and is a member of the Remuneration Committee.

Mr Peter J Hood**Qualifications & Experience****Non-Executive Independent Director**

Mr Hood was appointed Non-Executive Independent Director on 15 September 2011. He is a chemical engineer with over 40 years experience in senior management and developing projects in the energy and resources sectors. He was previously CEO of both Coogee Chemicals Pty Ltd and Coogee Resources, an oil and gas operator.

Mr Hood is a graduate of the Harvard Business School Advanced Management Program and a Fellow of both the Institute of Chemical Engineers and the Australian Institute of Company Directors. Mr Hood is currently President of the Chamber of Commerce and Industry of Western Australia and a Director of a number of listed companies. He is a Non-Executive Director of GR Engineering Services Ltd.

The Directors named above have been in office since the start of the financial year to the date of this report, unless otherwise stated.

Directorships of Other Listed Companies

Directorships of other listed companies held by Directors in the three years immediately before the end of the financial year include:

Name	Company	Period of directorship
N L Johnson	Catalpa Resources Ltd	2008-2009
P J Hood	Apollo Gas Ltd	2009-2010

Directors' Shareholdings

The following table sets out each Director's relevant interest in shares, debentures and rights or options in shares or debentures of the Company or a related body corporate, as at the date of this report.

Directors	No. fully paid ordinary shares	No. share options	No convertible notes
A P Begley	3,422,763	-	-
N L Johnson	101,176	-	-
P R Wright	2,219,942	-	-
M G Begley	26,253,014	-	-
C N Duncan	553,528	-	-
P J Hood	50,000	-	-

No shares or options have been issued for compensation purposes during or since the end of the financial year to any Director of the Company.

Remuneration of Directors & Senior Management

Information about the remuneration of Directors and senior management is set out in the audited remuneration report found within the Director's report on 19.

Company Secretary

Mr M P Kenyon, Chartered Accountant, held the position of company secretary of Matrix at the end of the financial year. He joined Matrix in October 2010 as Chief Financial Officer, having previously been the Company Secretary at the publicly listed Forge Group Ltd. Mr Kenyon is a certificated member of the Chartered Institute of Company Secretaries in Australia and is a Graduate of the Australian Institute of Company Directors.

Principal Activities for FY 2011

- Manufacture and sale of syntactic foam buoyancy and polyurethane products
- Manufacture and sale of fabricated metal products
- Development of the Group's leasehold property in the Australian Marine Complex in Henderson, Western Australia.

Significant Changes in State of Affairs

The Company's Henderson buildings were completed in December 2010. The manufacturing operations were progressively commissioned during the second half of the FY ended 30 June 2011. The Company continues to operate both its Malaga and Henderson facilities whilst projects are completed. It anticipates closure of the Malaga facility by early October 2011.

During April and May 2011, the Company raised approximately \$33.8 million (after capital raising costs). This was achieved through the issue of 3,550,000 million shares to institutional investors, and 567,409 shares to other shareholders under a share purchase plan which subsequently gained quotation on the Australian Stock Exchange. Proceeds from the issue will primarily be used to assist the Company in developing its new corporate headquarters at Henderson (Western Australia), product development, expansion of overseas facilities and working capital augmentation.

Other than that stated above and as noted elsewhere in this annual report, there have been no significant changes in the state of affairs of the Company or Group for the year ended 30 June 2011.

Indemnification of Officers & Auditors

During or since the end of the financial year, the Company has paid premiums to insure all Directors and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Otherwise, the Company has not given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums on behalf of Directors and executives.

Neither the company nor any related entity has indemnified or agreed to indemnify, paid or agreed to pay any insurance premium which would be prohibited under the Corporations Act 2001 during or since the financial period ended 30 June 2011.

No indemnities have been given or agreed to be given or insurance premiums paid or agreed to be paid during or since the end of the FY to the auditor of the Company and its controlled entities.

Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held and attended by each Director (while they were a Director or committee member) during the financial year. During FY 2011, 15 Board meetings, four Remuneration Committee meetings and three Audit and Risk Management Committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Audit & Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended
A P Begley (CEO)	15	15	-	-	2	2 (by invitation)
N L Johnson	15	15	4	4	3	3
M G Begley ¹	15	15	1	1	1	1
C N Duncan	15	14	4	4	3	3
P R Wright ²	15	15	3	3	3	1 (by invitation)

¹ Mr M Begley retired from the Audit and Risk Management and Remuneration Committees on 28 October 2010.

² Mr P Wright was appointed to both the Audit and Risk Management and Remuneration Committees on 28 October 2010.

Review of Operations

During the year Matrix concentrated its operations on manufacturing, developing products and servicing the global oil and gas sector.

Matrix Composites & Engineering Ltd – composite materials

The manufacture of composite foam buoyancy systems was the division's principal activity throughout the year. The Company's primary Malaga facilities operated a standard seven day week.

Record production from our Malaga facilities contributed significantly to the Company's record revenue and profit performance. This was a direct function of the exceptional organisational skills and efforts of our manufacturing team.

In the second half of FY 2011, several ancillary plants closed including the sphere precursor plant, the project office in Malaga and the Welshpool paint operation. This was a result of the progressive move to the Henderson plant. The plant at Henderson began limited production in Q3 of FY 2011, reaching practical completion and commissioning by June 2011 at which stage the plant was handed across to production. Henderson is expected to continue ramping up throughout the first half of FY 2012.

The Company's hydrostatic pressure testing facility was also commissioned at Henderson during the year with a new 7500PSI deeper water simulation chamber coming on line in April 2011. This facility, the largest of its type in the world, will enable Matrix to qualify and test buoyancy systems to a service depth of 17,500 feet.

Matrix Offshore Services & Engineering (MOSE)

Begley International changed its name to Matrix Offshore Services & Engineering (MOSE) in December 2010 to leverage off the growing awareness of the Matrix brand. This also coincided with the beginning of an amalgamation of several departments including engineering to reduce the duplication of services across the Group and introduce standard information systems.

MOSE's product mix was relatively unchanged from the previous year, with the company producing a significant amount of intra-company work in relation to the Henderson plant and specialised production tooling for Matrix. In addition, the division continued to supply specialised engineering services to its traditional customer base which included OEM manufacturing services for the iron ore sector, and the supply of well construction equipment to the oil and gas sector. The division maintained its ISO 9001:2008 accreditation throughout the year.

In 2010, Matrix developed a new strategic objective for MOSE to grow business from the regional oil and gas service sector. Over the course of FY 2011 the strategy was implemented, resulting in revenue from oil and gas, offshore and site services increasing by 100 percent from the previous year. This market is expected to increase its contribution to the division's revenue and earnings in the second half of FY 2012.

The Henderson plant

The final cost of the plant and buildings was \$68 million. The new plant represents an unparalleled shift in composite syntactic foam production technology. It provides Matrix with a solid platform for growth in a strategically located, state of the art facility ensuring our products use the highest quality and best performing syntactic materials in the market.

Henderson plant construction works, fit-out and commissioning continued throughout the year, with several milestones reached:

- Completion of all stage one ground works
- Completion and fit-out of all stage one buildings
- Completion of tank farms and dangerous goods areas

- Fit-out out of the three adjoining production and testing facilities and the warehouses
- Mechanical completion of all plant process
- Start up of the commissioning process from January to June 2011
- Commissioning of the deep water hydro testing facility.

Financial Results for the Year

The Company's key financials increased significantly for FY 2011 from the corresponding year:

- Sales revenue up 82% to \$187.3 m
- EBITDA up 87% to \$52.6 m
- NPAT up 85% to \$33.6 m
- EPS growth of 56%, YOY
- Dividends of 8 cents per share, fully franked for the full year, up 100% on last year.

Profit performance was slightly lower in the second half of FY 2011 compared to the first half due to commissioning costs and delays associated with the Henderson plant, and the duplication of overhead costs associated with running both the Malaga and Henderson plant. This duplication is likely to continue at a diminishing rate until the Malaga plant is fully reassigned which is expected to occur at the beginning of Q2 FY 2012.

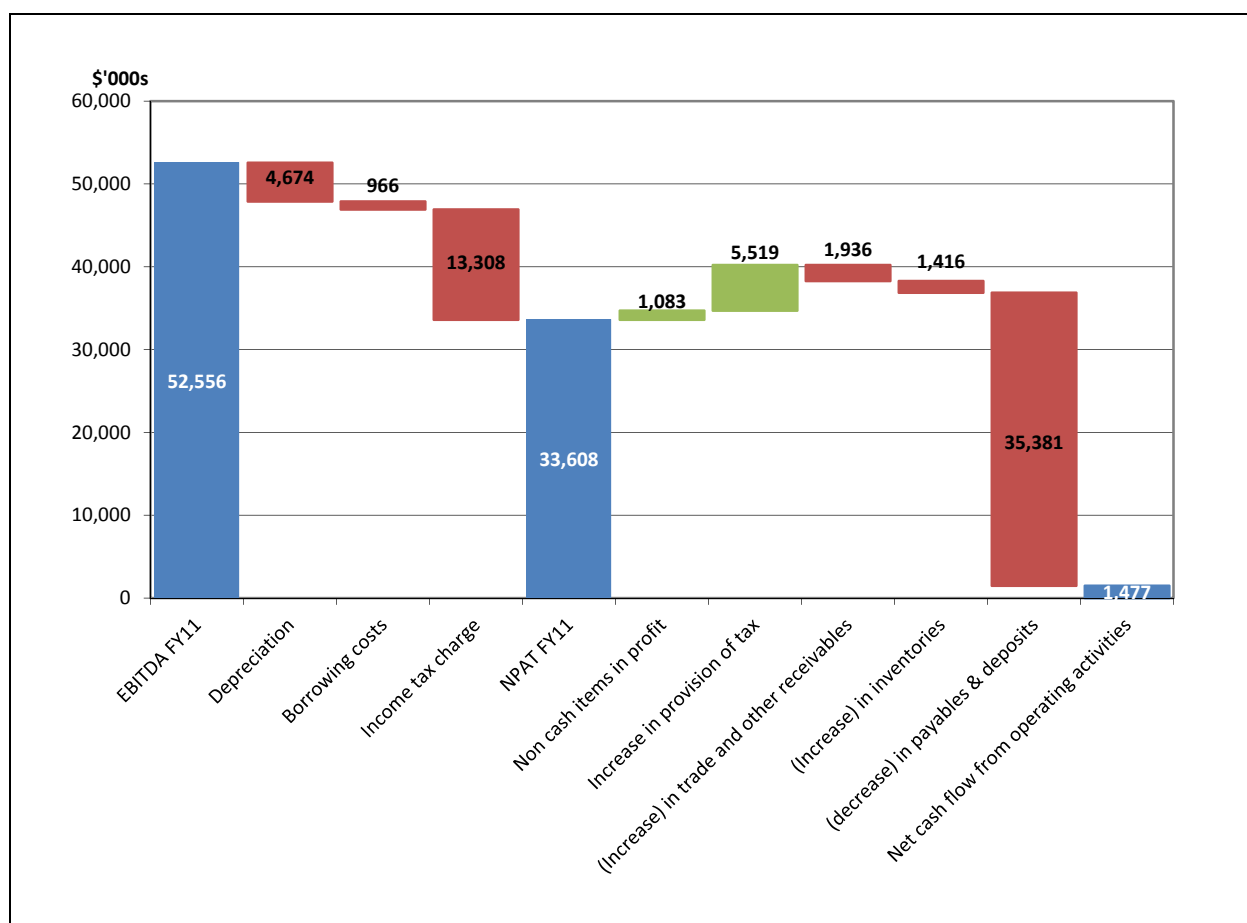
Margins

Operating margins were lower in the second half of FY2011 as a result of the duplication of overheads between Malaga and Henderson, and the associated delays with the Henderson commissioning. The duplicated costs are estimated to be running at \$1 million per month and will continue until the Malaga plant is shut down in early October 2011. USD revenue was hedged at an average 0.85c throughout the period. Normalised NPAT was approximately 6 percent lower than expected due to overhead duplication and associated commissioning delays. While the rise in the AUD in recent times has resulted in lower budgeted margins at the tender stage, operating efficiencies at the Henderson plant will at least partially offset these reductions.

Cash flow

Net cash flow from operations was \$1.5 m for FY 2011, compared with \$26.4 m for the previous year. The difference is primarily due to deposits and progress claims received in prior financial periods for contracts completed in FY 2011. Financial year 2011 also represented a near doubling of YOY revenues with several large contracts reaching practical completion in the beginning of Q1 FY 2012. The lumpy nature of the billing cycle, combined with significant growth in sales and a relatively low level of new order deposits and progress claims in the second half of FY 2011, all contributed to low levels of cash generation from operations for the full financial year. Assuming steady to increasing revenues in future years, it is expected that cash generation will more closely reflect reported profits. Refer to Figure 2 below for a graphical depiction.

Figure 2 EBITDA to Operating Cash Flow Bridge FY 2011



Dividends

In respect of the FY ended 30 June 2010 as detailed in the Directors' report, a final dividend of 2 cents per share, franked to 100 percent at 30 percent corporate income tax rate was paid to the holders of fully paid ordinary shares on 28 October 2010.

In respect of the FY ended 30 June 2011, an interim dividend of 3 cents per share franked to 100 percent at 30 percent corporate income tax rate was paid to the holders of fully paid ordinary shares on 29 April 2011.

For the FY ended 30 June 2011, the Directors have declared the payment of a final dividend of 5 cents per share franked to 100 percent at 30 percent corporate income tax rate to the holders of fully paid ordinary shares registered on 17 October 2011 and payable on 31 October 2011.

Occupational Health & Safety (OHS)

At Matrix our OHS policy is based on a belief that the well being of people employed at work, or people affected by our work is paramount. People are our most important asset and their health and safety is our greatest responsibility. The public, including contractors and visitors are given equal priority to that of our employees. Staff are aligned with our core values of safety and wellbeing, integrity, achievement, teamwork and loyalty.

Matrix operates an OHS system that complies with the measurements of AS4801, and is a member of IFAP.

We have recently implemented what is termed the '5S' process at our Henderson plant. The process is about organising the workplace for maximum efficiency and safety. All staff are actively involved with the process and we are reaping the benefits of an organised and efficient workplace.

Intellectual Property (IP) Protection

Throughout the year Matrix embarked on a patent process to protect the IP we had developed through our R&D and commercialisation processes. This included patents pending and provisional patents for the following products:

- Subsea clamping systems
- Impact protection systems
- Composite centralisers
- Composite stop collars

Where appropriate, these patents are registered under Australian and foreign jurisdictions.

Technology Advancements

Matrix is a world leader in syntactic materials technology. Syntactic foams are a unique family of engineering materials that are characterised by low density, low levels of water absorption and high compressive strengths. The Company has developed a wide variety of syntactic foam systems for applications ranging from insulation products to buoyancy systems designed to operate at water depths from surface to full ocean depth.

The Company's material development laboratory in Henderson utilises the latest mechanical testing equipment, enabling Matrix to quality monitor the production process and develop the next generation of syntactic materials.

The Company also specialises in the design, application and manufacture of the following material families:

- Thermoplastic composites – short fibre reinforced thermoplastics and thermoplastic directional fibres
- Thermoset composites utilising kevlar, glass and carbon fibre reinforcements
- Polyurethane elastomers

Events Subsequent to Balance Date

Apart from the matters disclosed in this report, no matter or circumstance has arisen subsequent to 30 June 2011 that has significantly affected, or may significantly affect the operations or the state of affairs of the consolidated entity in future financial years.

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental Regulations

The Company's operations are not restricted by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

AUDITED REMUNERATION REPORT

This remuneration report which forms part of the Directors' report sets out information about the remuneration of the Company's Directors and its senior management for the financial year ended 30 June 2011. The information provided in this remuneration report has been audited as required by Section 308(3c) of the Corporations Act 2001.

The key management personnel have authority and responsibility for planning, controlling and directing the activities of the Group. The prescribed details for each person covered by this report are detailed below under the following headings:

- Directors and senior management details
- Remuneration policy
- Summary of company performance
- Key terms of employment contracts
- Remuneration of Directors and senior management

Directors and Senior Management Details

The following persons have acted as Directors of the Company during or since the end of FY 2011:

Mr N L Johnson (Chairman)

Mr A P Begley (Chief Executive Officer)

Mr M G Begley

Mr P R Wright

Mr C N Duncan

Mr P J Hood (appointed 15 September 2011)

The term 'senior management' is used in this remuneration report to refer to the persons listed below. Except as noted, the named persons held their current position for the whole of FY 2011 and since the end of the FY 2011:

Mr M Kenyon (Chief Financial Officer/Company Secretary, appointed 14 October 2010)

Mr A Vincan (General Manager – Matrix Composites & Engineering Ltd)

Mr G Northway (General/Commercial Manager – Matrix Composites & Engineering Ltd, retired 12 November 2010)

Mr P Riordan (General Manager – Matrix Offshore Services & Engineering)

Remuneration Policy

Directors

The remuneration policy aims to attract, retain and motivate talented and highly skilled Non Executive Directors and to remunerate fairly and responsibly with regards to the following:

- Level of fees paid to Non Executive Directors are at market rate for comparable companies
- Size and complexity of the Company's operations
- Responsibilities and work requirements of the Board members.

The Remuneration Committee determines payments to the Non Executive Directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought where required. The maximum aggregate amount of fees that can be

paid to Non Executive Directors is subject to approval by shareholders (currently \$500,000 per annum).

Senior management

The Company's remuneration policy for executive Directors and key management personnel is fair, and responsibly rewards them having regard to the performance of the Group, the executive and prevailing remuneration expectations in the market. Directors and key management are not paid incentives resulting from increases in the Company's share price. The payment of any bonuses to executive Directors, key management personnel and other employees is based on the profitability of the Matrix Group and delivery of key group and individual outcomes. As detailed in the remuneration table, executive Directors and key management personnel were paid a bonus for FY 2010 based on the Group financial results and delivery of key outcomes. Any bonuses relating to FY 2011 will be based on similar parameters; however, at the date of this report no bonuses had been paid.

Overall, remuneration policies are subject to the discretion of the Board and can be changed to reflect the competitive market and business conditions when in the interest of the Company and shareholders.

The remuneration packages are reviewed annually by the Remuneration Committee and evaluation is based on specific criteria including business performance of the company and its subsidiaries, whether strategic objectives are being achieved and the development of management and personnel.

Past employee bonus payments have been discretionary, however, they have been linked to the financial performance of the Matrix Group, the performance of the individual employee and the achievement of material outcomes.

A comprehensive Performance Bonus Policy and Plan ('Bonus Plan') for executives and other employees has been established to take effect from 1 July 2011. The Bonus Plan is based on a number of key performance indicators (KPI's) including a subjective performance KPI, safety performance KPI and a net profit after tax KPI. The Bonus Plan allows executives and employees to benefit from achieving results that surpass their target KPI's. Conversely, they will only be proportionately rewarded should the KPI targets not be achieved.

The current Board policy is not to provide long-term incentives to key management personnel or other employees. This policy position is regularly reviewed.

Summary of Company Performance

The table below summarizes the consolidated entity's earnings and movement in shareholder wealth for the three years to 30 June 2011 (three years is believed to be most relevant given the company listed on the Australian Securities Exchange in November 2009).

	30 June 2011	30 June 2010	30 June 2009
Revenue (\$)	187,271,212	102,622,164	54,325,637
Net profit before tax (\$)	46,916,564	24,562,460	3,463,009
Net profit after tax (\$)	33,608,370	18,155,336	3,095,279
Share price at start of year¹	\$2.68	\$1.36	N/A
Share price at end of year	\$7.22	\$2.68	N/A
Interim dividend²	3.0cps	2.0cps	-
Final dividend^{2,3}	5.0cps	2.0cps	2.0cps
Basic earnings per share	46.0cps	31.0cps	6.3cps
Diluted earnings per share	46.0cps	29.4cps	6.0cps

¹Closing price on listing date - 16 November 2009.

² Franked to 100% at 30% corporate income tax rate.

³ Declared after the end of the reporting period and not reflected in the financial statements.

Key Terms of Employment Contracts

Executive service agreements

Name	Commencement	Term (months)	Notice period (months)
Mr A P Begley (CEO)	1 October 2009	36	3
Mr M P Kenyon (CFO)	14 October 2010	24	3

The amount of compensation for current and future periods for those named above is based on consideration of market factors, comparison to peers and reference to the individual's experience and performance. Any bonus payments made to date have been on a discretionary basis with reference to the Group's financial results and delivery of key group and individual performance outcomes. A Bonus Plan has been established for financial years ending on or after 30 June 2012, and is designed around achieving a number of key group and individual performance indicators.

Options awarded & vested during the year

No options were issued during the year to the Directors or key management personnel and no options were vested during the year (2010: nil). Furthermore, there were no other share-based payment arrangements in place at 30 June 2011.

During the year, the following Directors exercised options. Each option converted into one ordinary share of Matrix Composites & Engineering Ltd.

Name	No. options exercised	No. ordinary shares of MCE Ltd	Amount paid (\$)	Amount unpaid (\$)	Value of options exercised at exercise date (\$)	Exercised date
Mr A P Begley	1,000,000	1,000,000	600,000	nil	4,950,000	01/10/2010
Mr M G Begley	1,000,000	1,000,000	600,000	nil	4,950,000	01/10/2010
Mr P R Wright	1,000,000	1,000,000	600,000	nil	4,950,000	01/10/2010

Remuneration of Directors and Senior Management

	Year	Short-Term Benefits				Post Employment Benefits	Long-term Benefits		Total	Proportion Performance Related
		\$	\$	\$	\$	\$	Equity \$	Options \$	\$	%
Executive Director										
A P Begley (CEO)	2011	408,000	-	8,696	416,696	17,299	-	-	433,995	-
	2010	324,853	150,000	10,450	485,303	29,237	-	-	514,540	29.2
Non - Executive Directors										-
M G Begley ¹	2011	105,000	-	-	105,000	4,050	-	-	109,050	-
	2010	153,751	-	-	153,751	3,037	-	-	156,788	-
P R Wright (became non executive on 14 October 2010)	2011	116,103	-	-	116,103	18,225	-	-	134,328	-
	2010	244,999	100,000	-	344,999	22,050	-	-	367,049	27.2
N L Johnson	2011	29,000	-	-	29,000	47,300	-	-	76,300	-
	2010	57,500	-	-	57,500	5,175	-	-	62,675	-
CN Duncan	2011	45,000	-	-	45,000	4,050	-	-	49,050	-
	2010	42,916	-	-	42,916	3,862	-	-	46,778	-
Executive Officers										-
M P Kenyon (CFO/Company Secretary, appointed 14 October 2010)	2011	187,860	-	-	187,860	17,010	-	-	204,870	-
	2010	-	-	-	-	-	-	-	-	-
A Vincan (General Manager – MCE Ltd, appointed 14 September 2009)	2011	292,730	-	12,270	305,000	15,199	-	-	320,199	-
	2010	174,247	40,000	-	214,247	17,233	-	-	231,480	17.3
P Riordan (MOSE)	2011	189,369	-	7,598	196,967	16,003	-	-	212,970	-
	2010	178,705	20,000	-	198,705	17,674	-	-	216,379	9.2
G Northway (General Manager /Commercial Manager – MCE Ltd, retired 12 November 2010)	2011	48,548	-	-	48,548	24,593	-	-	73,141	-
	2010	171,807	20,000	-	191,807	16,992	-	-	208,799	9.6
Totals	2011	1,421,610	-	28,564	1,450,174	163,729	-	-	1,613,903	-
	2010	1,348,778	330,000	10,450	1,689,228	115,260	-	-	1,804,488	18.3

¹ M G Begley – fees totaling \$60,000 in FY 2011 and \$120,000 in FY 2010 were paid to BIMS Pty Ltd, a company of which M G Begley is a Director and a substantial shareholder.

² Provision of fully maintained company vehicle or novated lease.

Proceedings on behalf of company

No person has applied for leave of Court under the Corporations Act 2001 to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 5 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services disclosed in note 5 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Management Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure they do not impact the integrity and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's independence declaration

The auditor's independence declaration for the year ended 30 June 2011 has been received and is included on page 29 of the annual report.

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



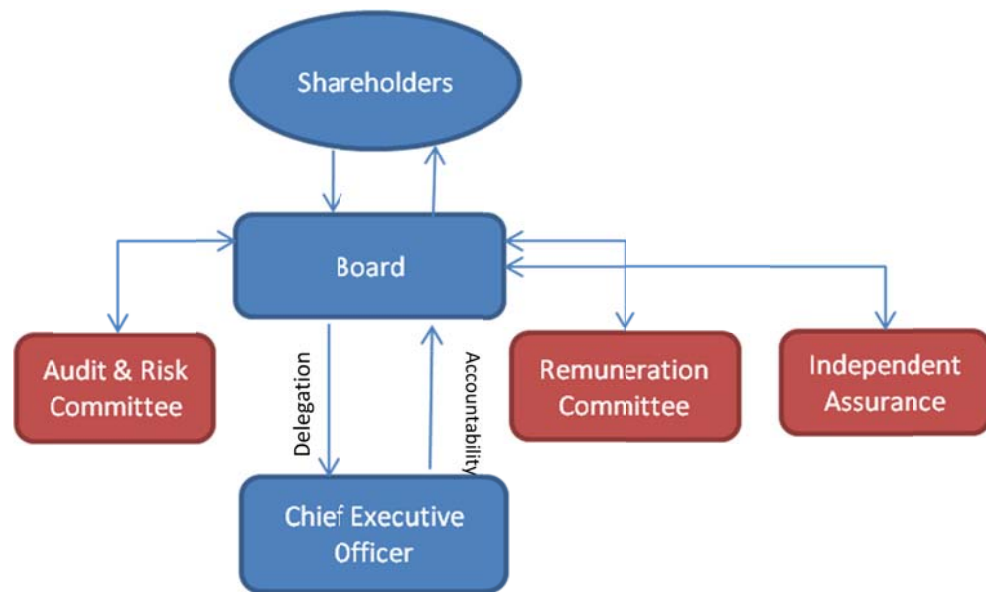
AP Begley

Director/Chief Executive Officer

Perth, 20 September 2011

CORPORATE GOVERNANCE STATEMENT

Figure 3 Matrix Corporate Governance Model



Matrix is committed to a high level of corporate governance and fostering a culture that values ethical behaviour, integrity and respect. The Company has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance.

The Company, as a listed entity must comply with the Corporations Act 2001, the Australian Securities Exchange (ASX) Listing Rules and other Australian and international laws. The ASX Listing Rules require the Company to report the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's (ASXCGC) second edition of its Corporate Governance Principles and Recommendations (with 2010 Amendments).

This statement reports on Matrix's key governance principles and practices which were in place throughout the reporting period and at the date of this report. The company seeks to comply with the majority of the ASXCGC recommendations. Where it does not, reasons for non-compliance are noted.

Lay Solid Foundations for Management & Oversight

The Board has approved a formal Board Charter which details the Board's role, powers, duties and functions.

The central role of the Board is to set and drive the Company's strategic direction, review risk management systems and internal compliance and control, ensure a high standard of corporate governance practice and regulatory compliance and to select and appoint a CEO to oversee the company management and business activities.

The specific responsibilities of the CEO and other executive Directors are set out in the Board Charter. The separation of responsibilities between the Board and management are clearly understood and respected.

The Board Charter and the delegation of Board authority to the CEO are reviewed regularly.

The Board has established the following committees to assist in discharging its responsibilities:

- Audit & Risk Committee
- Remuneration Committee.

Each committee operates according to its Board approved charter. The responsibilities of the committees are described in more detail elsewhere in this section.

Copies of the Board and committee charters are incorporated in the Company's corporate governance plan which can be found on the Company's website: www.matrixap.com.au

The process used in the reporting period for reviewing the performance of the CEO and other senior executives is disclosed in the Remuneration Report.

Structure the Board to Add Value

As at 30 June 2011, the Board comprised of four Non Executive Directors and a CEO. An additional Non Executive Independent Director, Mr Peter Hood, was appointed as a Director of the company on 15 September 2011. The details of the Directors, their experience, qualifications and independence status are set out in the Directors' Report.

The mix of skills and diversity for which the Board is looking to achieve in its membership includes a broad base of industry, business, technical, administrative, financial, and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the Company. In assessing the composition of the Board, the Board charter provides that Directors have regard to the following principles:

- The Chairman should be non executive and independent
- The role of the Chairman and CEO should not be filled by the same person
- Where practical, the majority of the Board should comprise Directors who are non executive and independent
- The Board should represent an appropriate mix of skills and expertise considered of benefit to the Company, having regard to the size and resources available to the Company.

The Company's constitution sets the Board size between three and 10 Directors. The Board considers that collectively, its current Board of six Directors have the range of skills, knowledge and experience necessary to direct the Company.

Independence of Directors

The Board assesses independence of Directors with reference to whether a Director is non executive, not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the independent exercise of their judgement. In making this assessment, the Board considers all relevant facts and circumstances. Relationships that the Board will take into account when assessing independence are whether a Director:

- Is a substantial shareholder of the company or an officer of, or otherwise associated directly with a substantial shareholder of the company
- Is employed, or has previously been employed in an executive capacity by the Company within the last three years
- Has within the past three years been a principal of a material professional adviser or a material consultant to a group company or been an employee materially associated with services provided by such an adviser or consultant
- Is a material supplier or customer of the company or an officer of, or otherwise associated directly or indirectly with a material supplier or customer
- Has a material contractual relationship with the company or another group member other than as a Director.

The test of the materiality of a relationship takes into consideration the nature and circumstances of the company, of the persons or organisations with which the Directors are associated and the circumstances and activities of the Directors. Without limiting the Board's discretion to determine a Director's independence, materiality thresholds prompting Board review include holdings of more than 5 percent of the Company's shares and affiliations with a business that represents more than 5 percent of a pre-determined base.

ASXCGC recommendation 2.1 is that a majority of the Board should be independent Directors. One of the non executive Directors, Mr Maxwell Begley, holds more than 5 percent of the voting shares of the Company and is therefore not considered to be independent. In addition, Mr Paul Wright, a non executive Director is not considered independent because up until October 2010 he was an executive of the Company. The other non executive Directors as at 30 June 2011, Mr Nigel Johnson and Mr Craig Duncan have been assessed by the Board as independent. Accordingly, during the reporting period a majority of the Board did not comprise of independent Directors.

During the reporting period, the Board considered that its then current Board had the appropriate range of skills, knowledge and experience necessary to direct the Company without the need to alter the proportion of independent and non-independent Directors. However as noted above, the Board considers that where practical, the majority of the Board should comprise Directors who are non executive and independent. Mr Peter Hood was appointed as a non executive independent Director on 15 September 2011 having been assessed by the Board as independent. Accordingly, as at the date of this report, the majority of the Board comprise of independent Directors.

Director retirement and re-election

Under the Company's constitution, one third of non executive Directors must retire at each annual general meeting and may seek re-election. Any Director appointed during the year to fill a casual vacancy must submit themselves to shareholders for election at the next AGM.

Independent professional advice

Under the Board charter, all Directors are entitled to obtain independent external professional advice at the Company's expense, subject to prior consultation with the Chairman.

Director remuneration

Details of remuneration paid to Directors are set out in the Remuneration Report.

Board meetings

During the financial year, the Board held 15 meetings. Details of Directors' attendance at these meetings are set out in the Directors' Report.

Company Secretaries

The appointment and removal of a Company Secretary is a matter for decision by the Board. The Company Secretary is responsible for ensuring that Board procedures are complied with and that governance matters are addressed. The current Company Secretary is Mr Michael Kenyon.

Nominations committee

ASXCGC recommendation 2.4 is that the Board should establish a nomination committee as a mechanism for examination of the selection and appointment practices of the company.

The Board does not currently have a separate nomination committee. The Board as a whole serves as a nomination committee and acts in accordance with the nomination committee charter in the Company's corporate governance plan. The Board does not believe any efficiency or other benefits would currently be gained by establishing a separate nomination committee. The Board will continue to assess the requirement for and benefits of establishing a separate committee as the Company's operations develop.

Board and Director performance evaluation

ASXCGC recommendation 2.5 is that the Company should disclose the process for evaluating the performance of the Board, its committees and individual Directors.

The Board undertakes ongoing self-assessment and review of performance of the Board, committees and individual Directors. The evaluation process during the year was predominately measured on the contribution made and performance of each individual Director. The Board intends to further develop a performance evaluation process applicable for the Board, its committees and individual Directors.

Promote Ethical & Responsible Decision Making

Codes of conduct

The Board considers it essential that Directors and staff of the Group employ sound corporate governance practices in carrying out their duties and responsibilities. In particular, the Board has responsibility for developing and monitoring:

- Expectations with regard to ethical conduct
- Periods during which Directors may deal in the securities of the Company and procedures for notification of any dealings
- Procedures to be adopted in respect of potential conflicts of interest
- Procedures for prior approval of contracts with Directors.

Accordingly, a corporate code of conduct and a Board code of conduct have been issued to detail the expected behaviour required to ensure the Company acts with integrity and objectivity. Guidelines for buying and selling securities of the Company have also been issued.

The Company has posted the codes of conduct and guidelines on its website.

Diversity policy

ASXCGC recommendation 3.2 is that the Directors should establish a policy concerning diversity and disclose the policy or a summary of the policy.

The Company encourages diversity in employment as a means of ensuring it has an appropriate mix of skills, experience and expertise. Specifically, the Company provides equal opportunities in respect to employment and employment conditions and does not discriminate on the basis of a candidate's gender, age, ethical or cultural background. The Company has during the year recruited a number of female employees, particularly amongst our professional staff including engineers and business professionals. The establishment of the new Henderson plant has provided an opportunity for recruitment of new skills and further development of our existing employees.

The Company has yet to establish a formal written policy on diversity. Diversity includes, but is not limited to gender, age, ethnicity and cultural background. The company has established policies supporting equal employment opportunity. During FY 2012, Matrix will review and consider the ASXCGC recommendation on diversity, in particular, on gender diversity in senior executive positions and on the Board. It intends to formulate a written diversity policy as soon as reasonably practicable.

Gender diversity

ASXCGC recommendation 3.3 is that the Company should disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

No measurable objectives have been set for a diversity policy as no policy has been formulated to date.

Proportion of women employees

The table below displays the proportion of women employees in the Group at 30 June 2011.

Role	Female (No.)	Female (%)	Male (No.)	Male (%)
Board Member	-	-	5	100
Executive	-	-	3	100
Management Team	1	5	18	95
Line Manager/ Supervisor	1	4	25	96
Professional	8	18	36	82
Administration	9	100	-	-
Technical/ Blue Collar Staff	42	11	337	89
TOTAL	61	13%	424	87%

Safeguard Integrity in Financial Reporting

The purpose of the Audit & Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance. Further details of the committee's role and responsibilities are set out in the committee charter which is available on the Company's website.

The committee must consist of the following:

- A majority of independent non executive Directors
- An independent Chairman, who is not Chairman of the Board
- A minimum of three members of the Board.

Its current membership comprises:

- Mr Craig Duncan, Chairman
- Mr Nigel Johnson
- Mr Paul Wright, appointed 28 October 2010
- Mr Peter Hood, appointed 15 September 2011.

Mr Maxwell Begley retired from the committee on 28 October 2010.

Mr Duncan, Mr Johnson and Mr Hood are assessed by the Board as independent.

The Company's external auditors, other Directors, CEO, CFO, Company Secretary and senior executives may be invited to committee meetings at the discretion of the committee.

The qualifications of the committee's members are set out in the Directors' Report. The committee met three times during the reporting period. Member attendance at these meetings is reported in the Directors' Report.

Key activities undertaken by the Audit & Risk Committee during the reporting period included:

- Approval of the scope, plan and fees for the audit of FY 2011
- Review of the independence and performance of the Company's external auditor
- Review of significant accounting policies and practices
- Review of the Group's key risks and revised risk management framework
- Review of the effectiveness of the Group's management of its material business risks

- Review and recommendation to the Board for adoption of the Group's half year and annual financial statements
- Recommendation of the change of the Company's external auditor and the appointment of Deloitte Touche Tohmatsu.

External auditor

The Audit & Risk Committee recommends procedures to the Board for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit & Risk Committee. Candidates for the position of external auditor must demonstrate complete independence from the Company throughout the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit & Risk Committee and recommendations are made to the Board.

Making Timely & Balanced Disclosure

To ensure compliance with the ASX Listing Rule, disclosure requirements and accountability at a senior management level for that compliance, the Board has established policies and procedures that are incorporated into the Company's corporate governance plan.

The current practice of the Board is to review and authorise any Company announcement to ensure the information is factual, timely, clearly expressed and contains all material information so that investors can make appropriate assessments for investment decisions. All Company announcements and related information such as financial statements and public presentations are placed on the Company's website.

When releasing financial information, the Company may include commentary to enhance clarity and include information needed by an investor to make an informed assessment of the Company's activities, performance and results.

Respect the Rights of Shareholders

The Company is committed to informing shareholders of all major developments affecting the operations of the Company and the state of its affairs. The Board has established written communication procedures that are incorporated into the Company's corporate governance plan.

With the assistance of the Company's share registrar, shareholders are encouraged to register for the electronic receipt of all shareholder communications, including the notice of annual general meeting. Shareholders can elect to receive Company notifications and reports by email. The annual report is available on the Company's website.

Recognise and Manage Risk

It is the responsibility of the Board to determine the Company's 'risk profile' and for overseeing and approving the risk management strategy and policies, internal compliance and control.

The Board has delegated responsibility to the Audit & Risk Committee to:

- Oversee the Company's risk management systems, practices and procedures to ensure effective risk identification and management and compliance with internal guidelines and external requirements
- Assist management to determine the key risks to the businesses and prioritise work to manage those risks
- Review reports by management on the efficiency and effectiveness of risk management and associated internal compliance and control procedures.

The Board's risk management policy is incorporated into the Company's corporate governance plan which is available on the Company's website.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- Compliance with applicable laws and regulations
- Preparation of reliable published financial information
- Implementation of risk transfer strategies where appropriate e.g. insurance.

Management is required to assess risk management and associated internal compliance and control procedures. The Board has received a report from management as to the effectiveness of the Company's management of its material business risks. The risk management and internal controls systems will require ongoing review and updating on a regular basis.

The CEO and the CFO have stated in writing to the Board that the Company's financial statements for each annual and half-yearly report present a true and fair view in all material respects, of the Company's financial position and operating results, and that the integrity of the financial statements has been founded on a sound system of internal compliance and control.

Remunerate Fairly & Responsibly

The primary purpose of the Remuneration Committee is to support and advise the Board in fulfilling its responsibilities to shareholders by:

- Reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders
- Ensuring the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration
- Recommending to the Board the remuneration of executive Directors
- Fairly and responsibly rewarding executives having regard to the performance of the Group, the executive and the prevailing remuneration expectations in the market
- Reviewing the Company's recruitment, retention, termination policies and procedures for senior management
- Reviewing and approving the remuneration of direct reports to the CEO, and as appropriate, other senior executives
- Reviewing and approving any equity based plans and other incentive schemes.

The committee has the right to seek any information it considers necessary to fulfil its duties, which includes the right to obtain appropriate external advice at the Company's expense.

Further details of the committee's role and responsibilities are set out in the committee charter which is available on the Company's website.

The committee must consist of the following:

- A majority of independent non executive Directors
- An independent Chairman
- A minimum of three members of the Board.

Its current membership comprises:

- Mr Nigel Johnson, Chairman
- Mr Craig Duncan
- Mr Paul Wright (appointed 28 October 2010)
- Mr Peter Hood (appointed 15 September 2011).

Mr Maxwell Begley retired from the committee on 28 October 2010.

Mr Johnson, Mr Duncan and Mr Hood are assessed by the Board as independent.

The committee met four times during the reporting period. Member attendance at these meetings is reported in the Directors' Report.

Key activities undertaken by the Remuneration Committee during the reporting period included:

- Approval of the appointment and remuneration packages of executives reporting directly to the CEO
- Reviewing and making recommendations to the Board on the following:
 - o The criteria for the evaluation of the performance of the CEO and CFO
 - o The remuneration of the CEO and CFO
 - o The Remuneration report
 - o Establishing a Performance Bonus Policy and Plan ('Plan') for executives and other employees to take effect from 1 July 2011.

The remuneration of key management personnel of the Company is disclosed in the Remuneration report. This disclosure includes salary, superannuation contributions, non-cash benefits and incentives.

Non-executive Directors are remunerated at market rates (for comparable companies) for time, commitment and responsibilities. Remuneration is by way of annual Director's fees and a superannuation contribution. Remuneration for non executive Directors is not linked to the performance of the Company, and non executive Directors are ineligible to participate in any of the Company's incentive plans.

The Board of Directors
Matrix Composites & Engineering Ltd
42 Truganina Road
Malaga WA 6090

20 September 2011

Dear Board Members

Matrix Composites & Engineering Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Matrix Composites & Engineering Ltd.

As lead audit partner for the audit of the financial statements of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Kathleen Bozanic
Partner
Chartered Accountants

FINANCIAL REPORT

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CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
Continuing operations			
Revenue	3	187,271,212	102,622,164
Cost of sales		<u>(132,768,757)</u>	<u>(70,945,789)</u>
Gross profit		54,502,455	31,676,375
Other income	3	2,284,413	540,041
Corporate expenses		(1,702,733)	(1,278,427)
Administration expenses		(3,495,310)	(3,564,539)
Finance costs		(966,238)	(701,614)
Marketing expenses		(2,347,797)	(1,622,102)
Research expenses		(753,924)	(290,548)
Impairment of goodwill and development costs		<u>(604,302)</u>	<u>(196,726)</u>
Profit before tax	4	46,916,564	24,562,460
Income tax expense	6	<u>(13,308,194)</u>	<u>(6,407,124)</u>
Profit for the year from continuing operations		<u>33,608,370</u>	<u>18,155,336</u>
Profit attributable to :			
Owners of the Company		33,604,304	18,159,906
Non-controlling interest		<u>4,066</u>	<u>(4,570)</u>
		<u>33,608,370</u>	<u>18,155,336</u>
Earnings per share			
Basic earnings per share (cents)	30	46.0	31.0
Diluted earnings per share (cents)	30	46.0	29.4

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
Profit for the period		33,608,370	18,155,336
Other comprehensive income			
Net foreign currency translation differences		(82,478)	(139,498)
Income tax (expense) / benefit		-	-
		<u>(82,478)</u>	<u>(139,498)</u>
Change in fair value of cash flow hedges		1,649,501	(5,787,018)
Income tax (expense) / benefit		(494,850)	1,736,105
		<u>1,154,651</u>	<u>(4,050,913)</u>
Revaluation of freehold property		-	393,222
Income tax (expense)		-	(117,967)
		-	275,255
Other comprehensive income/(loss) for the period net of tax		<u>1,072,173</u>	<u>(3,915,156)</u>
Total comprehensive income for the period		<u>34,680,543</u>	<u>14,240,180</u>
Total comprehensive income attributable to:			
Owners of the parent entity		34,676,477	14,244,750
Non controlling interest		4,066	(4,570)
Total comprehensive income for the period		<u>34,680,543</u>	<u>14,240,180</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Note	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	7	26,658,014	13,555,077
Trade and other receivables	8	33,907,119	31,868,308
Inventory	9	20,318,524	18,902,850
Financial assets	12	8,478,122	2,699,580
Other current assets	10	3,615,360	1,492,243
TOTAL CURRENT ASSETS		92,977,139	68,518,058
NON CURRENT ASSETS			
Property, plant and equipment	11	99,733,710	57,156,816
Intangible assets	13	6,415,215	7,012,588
Deferred tax asset	6	1,817,298	1,614,952
TOTAL NON CURRENT ASSETS		107,966,223	65,784,356
TOTAL ASSETS		200,943,362	134,302,414
CURRENT LIABILITIES			
Trade and other payables	14	24,542,349	22,675,143
Progress claims and deposits	15	-	35,567,171
Financial liabilities	16	4,645,190	2,267,995
Current tax liabilities	17	10,033,998	5,463,739
Provisions	18	1,725,873	1,324,971
TOTAL CURRENT LIABILITIES		40,947,410	67,299,019
NON CURRENT LIABILITIES			
Financial liabilities	16	30,562,501	5,792,408
Deferred tax liability	6	2,309,025	1,097,687
Provisions	18	364,260	220,053
TOTAL NON CURRENT LIABILITIES		33,235,786	7,110,148
TOTAL LIABILITIES		74,183,196	74,409,167
NET ASSETS		126,760,166	59,893,247
EQUITY			
Issued capital	19	76,388,203	40,446,325
Reserves	20	1,915,248	843,075
Retained earnings		48,466,944	18,618,142
Equity attributable to owners of the Company		126,770,395	59,907,542
Non controlling interest		(10,229)	(14,295)
TOTAL EQUITY		126,760,166	59,893,247

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		149,054,620	79,226,446
Payments to suppliers and employees		(139,070,894)	(50,013,128)
Interest received		313,493	370,557
Finance costs paid		(966,238)	(452,638)
Payment of income tax		(7,854,165)	(1,161,390)
Payment of option premium		-	(1,615,249)
Net cash from operating activities	21 (b)	<u>1,476,816</u>	<u>26,354,598</u>
CASH FLOWS (USED IN) INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		6,837	49,227
Payments for property, plant and equipment		(30,769,685)	(41,337,959)
Payments for research and development costs		(6,930)	(13,866)
Net cash used in investing activities		<u>(30,769,778)</u>	<u>(41,302,598)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital and exercise of options (net of capital raising costs)		35,574,957	26,829,422
Repayment of borrowings		(6,523,435)	(720,000)
Proceeds from borrowings		17,099,878	3,406,679
Dividends paid		(3,755,501)	(2,258,564)
Net cash from financing activities		<u>42,395,899</u>	<u>27,257,537</u>
Net increase/(decrease) in cash and cash equivalents		<u>13,102,937</u>	<u>12,309,537</u>
Cash and cash equivalents at 1 July		<u>13,555,077</u>	<u>1,245,540</u>
Cash and cash equivalents at 30 June	21 (a)	<u><u>26,658,014</u></u>	<u><u>13,555,077</u></u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Retained Earnings	Option Premium Reserve	Revaluation Reserve	Cash Flow Hedging Reserve	Foreign Translation Reserve	Attributable to owners of the parent	Non Controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2010	40,446,325	18,618,142	273,000	842,762	(122,020)	(150,667)	59,907,542	(14,295)	59,893,247
Total comprehensive income for the period									
Profit/(loss) for year	-	33,604,304	-	-	-	-	33,604,304	4,066	33,608,370
Other comprehensive income	-								
– Foreign currency translation	-					(82,478)	(82,478)	-	(82,478)
– Change in fair value of cash flow hedges net of tax	-	-	-	-	1,154,651	-	1,154,651	-	1,154,651
– Revaluation of freehold property net of tax	-	-	-	-	-	-	-	-	-
	-	33,604,304	-	-	1,154,651	(82,478)	34,676,477	4,066	34,680,543
Transactions with owners, recorded directly in equity									
Issue of shares net of costs and tax	34,141,878	-	-	-	-	-	34,141,878	-	34,141,878
Exercise of options	1,800,000	-	-	-	-		1,800,000		1,800,000
Dividends paid to equity holders	-	(3,755,502)	-	-	-	-	(3,755,502)	-	(3,755,502)
	35,941,878	(3,755,502)	-	-	-	-	32,186,376	-	32,186,376
Balance at 30 June 2011	76,388,203	48,466,944	273,000	842,762	1,032,631	(233,145)	126,770,395	(10,229)	126,760,166

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Retained Earnings	Option Premium Reserve	Revaluation Reserve	Cash Flow Hedging Reserve	Foreign Translation Reserve	Attributable to owners of the parent	Non Controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	13,115,727	2,716,323	273,000	567,507	3,929,370	(11,169)	20,590,758	(9,725)	20,581,033
Total comprehensive income for the period									
Profit/(loss) for year	-	18,159,906	-	-	-	-	18,159,906	(4,570)	18,155,336
Other comprehensive income									
– Foreign currency translation	-	-	-	-	-	(139,498)	(139,498)	-	(139,498)
– Change in fair value of cash flow hedges net of tax	-	477	-	-	(4,051,390)	-	(4,050,913)	-	(4,050,913)
– Revaluation of freehold property net of tax	-	-	-	275,255	-	-	275,255	-	275,255
	-	18,160,383	-	275,255	(4,051,390)	(139,498)	14,244,750	(4,570)	14,240,180
Transactions with owners, recorded directly in equity									
Issue of shares net of costs	27,330,598	-	-	-	-	-	27,330,598	-	27,330,598
Dividends paid to equity holders	-	(2,258,564)	-	-	-	-	(2,258,564)	-	(2,258,564)
	27,330,598	(2,258,564)	-	-	-	-	25,072,034	-	25,072,034
Balance at 30 June 2010	40,446,325	18,618,142	273,000	842,762	(122,020)	(150,667)	59,907,542	(14,295)	59,893,247

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General information

Matrix Composites & Engineering Ltd (the Company) is a limited company incorporated in Australia. The address of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in Note 2.

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 20 September 2011.

Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Adoption of New and Revised Accounting Standards

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

No new or revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Standard or Interpretation	Nature of change
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 5 and AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.
AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-Settled Share based Payment Transactions'	The application of AASB 2009-8 makes amendments to AASB 2 'Share-based Payment' to clarify the scope of AASB 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'	The application of AASB 2009-10 makes amendments to AASB 132 'Financial Instruments: Presentation' to address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments.
AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	The application of AASB 2010-3 makes amendments to AASB 3(2008) 'Business Combinations' to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, the application of AASB 2010-3 makes amendments to AASB 3(2008) to give more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with AASB 2 'Share-based Payment' at the acquisition date ('market-based measure').
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 7 and AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after:	Expected to be initially applied in the financial year Ending:
AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
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)'	1 January 2013	30 June 2014
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011	30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013

At the date of authorisation of the financial statements, there were no IASB Standards or IFRIC Interpretations that were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Matrix Composites & Engineering Ltd ('company' or 'parent entity') as at 30 June 2011 and the results of all controlled entities for the year then ended. Matrix Composites & Engineering Ltd and its controlled entities together are referred to in this financial report as the consolidated group.

Subsidiaries are all those entities over which the consolidated group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the consolidated group. The group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Intercompany transactions, balances and unrealised income and expenses on transactions between group companies are eliminated in preparing the consolidated financial statements. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group. All controlled entities have a June financial year end.

(b) Operating Segments

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses (including those relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the chief operating decision makers (being the Board of Directors) for which discrete financial information is available.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year end adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the end of the reporting period.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax is 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 is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Current and deferred tax is recognised in the profit or loss except where it relates to items that may be recognised directly in equity or in other comprehensive income.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(c) Income Tax (cont)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and where they relate to income taxes levied by the same tax authority on the same or different tax entities that intend to settle current tax liabilities and assets on a net basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

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

(d) Inventories

Inventories include raw materials, work in progress and finished goods, and are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate share of manufacturing overheads. Costs are assigned on the basis of weighted average costs.

(e) Property, Plant and Equipment

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

Property

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

Upon revaluation of land and buildings, any revaluation increment is credited to the asset revaluation reserve recognised in other comprehensive income, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(e) Property, Plant and Equipment (cont) Plant and equipment

Plant and equipment are measured on the cost basis less accumulated depreciation and impairment losses.

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

The cost of self-constructed assets includes the cost of materials, direct labour, borrowing costs (where such assets are qualifying assets) 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 entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all non-current assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the entity 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	7.5 – 30
Motor vehicles	22.5
Office equipment	11.25 – 25
Computer equipment	37.5 – 50

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

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(e) Property, Plant and Equipment (cont) Depreciation (cont)

Software is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful life of three to five years.

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

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

(f) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the amount of goodwill attributable is included in the determination of the profit or loss on disposal.

(g) Leases

Leases of non-current assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to 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, if lower, 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 their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset, or over the term of the lease.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(h) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Held-to-maturity investments

These investments have fixed maturities, and it is the company's intention to hold these investments to maturity. Any held-to-maturity investments held by the company are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest rate method, less any impairment losses.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Non-derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Derivative financial instruments and hedging

The Group uses derivative financial instruments (including forward exchange contracts and currency options) to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently measured at fair value.

The hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Derivative financial instruments that do not qualify for hedge accounting are remeasured to fair value with changes in fair value recognised immediately in the income statement.

The group has entered into various put and call currency option transactions as part of its overall hedging strategy. Details of call options outstanding at 30 June 2011 are included in Note 22. There were no put option positions at 30 June 2011. Movements in the value of these derivative instruments are recognised immediately in profit or loss.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges, if expected to be highly effective in achieving offsetting changes in the fair value or cash flows, are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction and that could affect profit and loss. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income and accumulated in equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, amounts recognised in equity are transferred immediately to profit or loss.

The Group tests each of the designated cash flow hedges for effectiveness at the inception of the hedge and then at each reporting date both prospectively and retrospectively.

For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is taken immediately to profit or loss.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Fair value

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

(i) Impairment of financial assets

At each reporting date, the company assesses whether there is objective evidence that a financial asset not carried at fair value through profit or loss has been impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred, and where the decline in fair value is considered significant or prolonged. Impairment losses are recognised in profit or loss.

(j) Impairment of non-financial assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. The Group assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and service delivery performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Management do not consider that the triggers for impairment testing have been significant enough and as such these assets have not been tested for impairment in this financial period.

The carrying amounts of all assets, other than inventory, financial assets and deferred tax assets, are reviewed half-yearly to determine whether there is indication of an impairment loss. 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 company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(k) Foreign Currency Transactions and Balances

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the translation of monetary and non-monetary items are recognised in profit or loss, except where recognised in other comprehensive income as a qualifying cash flow or net investment hedge.

(l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Short-term employee benefits have been measured at nominal value, plus related on-costs. Long-term employee benefits have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to contributions.

(m) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(n) Cash and Cash Equivalents

Cash and cash equivalents includes 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 borrowings in current liabilities on the balance sheet.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(o) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customers.

Contract revenue

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be relied upon or estimated. Where it is probable that a loss will arise from a contract, the excess of total expected contract costs over total expected contract revenue is recognised as an expense immediately. Where the contract outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are likely to be recoverable.

Rendering of services

Revenue from consulting services is recognised when the services have been provided and where the amount can be reliably estimated and is considered recoverable.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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

(p) Cost of sales

The cost of manufactured products includes direct materials, direct labour and manufacturing overheads.

(q) Goods and Services Tax (GST)

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(r) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the company divided by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to members of the company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(s) Comparative Figures

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

(t) Significant accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements.

The following critical accounting policies were identified as requiring significant judgements, estimates and assumptions.

(i) Determination of percentage of completion of contracts

Contract revenue is recognised as revenue in profit or loss using the percentage of completion method in the reporting periods in which the work is performed. The percentage complete is calculated based on:

- actual costs over the sum of actual plus projected costs to complete the contract, or
- in the case where the Group participates in joint contracts and the Group's costs are not representative of overall contract costs, based on the percentage of the Group's costs to the total estimated cost for the Group associated with that project, or
- in the case where there is an independent assessment of the percentage complete, based on the independent assessment.

Contract costs are recognised as an expense in profit or loss in the reporting periods in which the work to which they relate is performed. Any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately.

(ii) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at 30 June 2011 was \$6,415,215 (2010: \$7,012,588) after an impairment loss of \$604,302 was recognised during 2011 (2010: \$196,726). Details of the impairment loss calculation are set out in note 13.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(i) Valuation of financial instruments

As described in note 22, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 22 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions.

The Directorss believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2. OPERATING SEGMENTS

The Group has identified its operating segments based on internal reports that are reviewed and used by the Chief Operating Decision Maker (CODM) in assessing performance and in determining the allocation of resources. The Board of Directors is considered to be the CODM of the Group.

Composite Materials Business Unit

The Composite Materials business unit designs, manufactures and supplies buoyancy systems, pipeline insulation, pipeline and riser protection, riser ancillaries and a range of down hole products to the offshore oil and gas industry. It also supplies product solutions for military and other commercial applications.

Offshore Services and Engineering Business Unit

The Offshore Services and Engineering business unit manufactures and supplies connectors, conductors and casing, offshore structures, subsea skids and manifolds, offshore cranes and winches together with associated testing, refurbishment and maintenance to the oil and gas industry. This division also supplies heavy material handling equipment, winches and other processing equipment to the mining and mineral processing industries. Furthermore, it deploys qualified labour onto its customers' vessels and other offshore facilities to complete mostly short-term works. This business unit was previously known as the Heavy Engineering Business Unit, however was re-branded as Matrix Offshore Services & Engineering with effect from 1 January 2011 so as to capture its true focus.

Other and unallocated

This segment comprises the activities undertaken by all other Business Units and corporate costs. No operating segments have been aggregated to form the above reportable operating segments.

Performance monitoring and evaluation

The CODM monitors the operating results of the Business Units separately for the purposes of making decisions about resource allocation and performance assessment. The performance of operating segments is evaluated based on profit before tax and is measured in accordance with the Group's accounting policies.

Financing requirements, finance income, finance costs and taxes are managed at a Group level. Unallocated items comprise non-segmental items of revenue and expenses and associated assets and liabilities not allocated to operating segments as they are not considered part of the core operations of any segment.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment profit represents the profit earned by each segment without allocation of, investment income, gains and losses, finance costs and income tax expense. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2. OPERATING SEGMENTS (cont)

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment revenue		Segment profit	
	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$
Composite materials	164,527,260	91,792,914	46,786,175	22,971,048
Offshore services & engineering	31,440,227	18,910,035	1,144,511	1,872,566
Other	2,220,922	530,143	(361,376)*	(199,072)*
Inter segment revenue	(10,917,197)	(8,610,928)	-	-
Total for continuing operations	<u>187,271,212</u>	<u>102,622,164</u>	47,569,310	24,644,542
Investment income			313,492	370,558
Finance costs			(966,238)	(452,640)
Profit before tax (continuing operations)			<u>46,916,564</u>	<u>24,562,460</u>
Segment assets and liabilities			30 June 2011	30 June 2010
Segment assets			\$	\$
Composite materials			151,238,565	89,917,213
Offshore services & engineering			18,701,565	23,565,813
Other			14,076,025	689,897
Total segment assets			<u>184,016,155</u>	<u>114,172,923</u>
Unallocated			<u>16,927,207</u>	<u>20,129,491</u>
Consolidated total assets			<u>200,943,362</u>	<u>134,302,414</u>

**This includes impairment of development costs and goodwill amounts to \$604,302 (2010: \$196,726)*

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2. OPERATING SEGMENTS (cont)

	30 June 2011 \$	30 June 2010 \$
Segment liabilities		
Composite materials	51,235,335	56,986,983
Offshore services & engineering	8,896,031	16,561,265
Other	14,051,830	860,919
Total segment liabilities	74,183,196	74,409,167
Unallocated	-	-
Consolidated total liabilities	74,183,196	74,409,167

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$
Composite materials	3,640,329	2,332,997	38,430,593	12,678,533
Offshore services & engineering	785,325	618,033	686,070	1,668,588
Other	247,886	91,691	10,215,886	19,138,570
	4,673,540	3,042,721	49,332,549	33,485,690

In addition to the depreciation and amortisation reported above, impairment losses of \$604,302 (2010: \$196,726) were recognised in respect of development costs and goodwill. This impairment loss was attributable to the following reportable segment:

	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$
Offshore services and engineering		
Impairment losses recognised for the year in respect of development costs and goodwill	604,302	196,726

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

2. OPERATING SEGMENTS (cont)

Geographical information

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets ¹	
	Year ended 30/06/11 \$	Year ended 30/06/10 \$	30/06/11 \$	30/06/10 \$
Australia	22,864,436	13,264,677	107,966,223	65,784,356
Korea	19,280,530	56,450,535	-	-
USA	86,228,792	29,656,420	-	-
Other	58,897,454	3,250,532	-	-
	<u>187,271,212</u>	<u>102,622,164</u>	<u>107,966,223</u>	<u>65,784,356</u>

¹ Non-current assets excludes financial instruments and derivatives.

Information about major customers

Included in revenues arising from sales of composite material products of \$164,527,260 (2010: \$91,792,914) are revenues of approximately \$154,067,810 (2010:\$84,261,191) which arose from sales to the Group's largest customers. No other single customer contributed 10% or more to the Group's revenue for both 2011 and 2010.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
3. REVENUE		
Revenue		
Manufacturing revenue	164,527,260	91,792,914
Contract revenue	22,743,952	10,829,250
	<u>187,271,212</u>	<u>102,622,164</u>
Other Income		
Interest received	313,492	370,558
Commission received	15,779	125,518
Foreign exchange gains	1,860,540	-
Sundry income	94,602	43,965
	<u>2,284,413</u>	<u>540,041</u>
Total other income		

A portion of the Group's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. The amounts disclosed above for revenue from the sale of goods include the reclassification of the effective amount of the foreign currency derivatives that are used to hedge foreign currency revenue (2011: \$3,429,262; 2010: nil).

4. PROFIT BEFORE INCOME TAX

Profit from operations has been determined after the following Specific expenses:

Intercompany loan write off	-	(7,750)
Depreciation and amortisation	(4,673,540)	(3,042,721)
Research and development costs expensed as incurred	(753,924)	(290,548)
Employee benefits expense	34,300,869	21,353,098
Finance costs	(966,238)	(701,614)

5. AUDITORS REMUNERATION

Auditor of the parent entity (Deloitte Touch Tohmatsu)

Audit and review fees for the year	140,000	-
Taxation and advisory services (research and development)	61,100	-
	<u>201,100</u>	<u>-</u>

Previous auditor of the parent entity (Mack & Co)

Audit and review fees for the year	40,000	195,804
Taxation advisory services	11,000	9,500
Other advisory services	-	5,500
	<u>51,000</u>	<u>210,804</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
6. INCOME TAX EXPENSE		
The components of tax expense comprise:		
Current tax	14,006,897	6,446,029
Deferred tax	(698,703)	(38,905)
	<u>13,308,194</u>	<u>6,407,124</u>
 The prima facie tax payable on the operating profit is reconciled to the income tax provided in the accounts as follows:		
Prima facie tax payable on operating profit before income tax at 30% (2010: 30%)	14,074,969	7,368,738
 Non allowable Items	366	1,361
Other	30,000	12,972
Research & development tax concession	(572,662)	(159,801)
Differential income tax rate on MC&E Asia profit	(18,036)	(29,288)
Deferred tax balances not previously recognised	59,333	(102,401)
Tax investment allowance	(265,776)	(684,457)
 Income tax expense	<u>13,308,194</u>	<u>6,407,124</u>
 Average weighted tax rate	28.4%	26.1%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
6. INCOME TAX EXPENSE (cont)		
Reconciliations		
i. Gross movements		
The overall movement in the deferred tax account is as follows:		
Balance at 1 July	517,265	(1,760,016)
Recognised in other comprehensive income	(478,770)	1,574,378
Recognised in equity	168,481	474,692
Recognised in income statement	(698,703)	228,211
Balance at 30 June	<u>(491,727)</u>	<u>517,265</u>
ii. Deferred tax liability		
The movement in deferred tax liability for each temporary difference during the year is as follows:		
Reserves		
Balance as at 1 July	815,697	2,390,075
Recognised in other comprehensive income	478,770	(1,574,378)
Balance as at 30 June	<u>1,294,467</u>	<u>815,697</u>
Other		
Balance as at 1 July	281,990	81,759
Recognised in other comprehensive income	-	-
Recognised in income statement	732,568	200,231
Balance at 30 June	<u>1,014,558</u>	<u>281,990</u>
Total	<u>2,309,025</u>	<u>1,097,687</u>
iii. Deferred tax assets		
The movement in deferred tax assets for each temporary difference during the year is as follows:		
Balance at 1 July	1,614,952	711,818
Recognised in income statement	33,865	428,412
Recognised in equity	168,481	474,692
Balance at 30 June	<u>1,817,298</u>	<u>1,614,952</u>

The tax benefit of the above deferred tax assets will only be obtained if:

- (a) The company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised.
- (b) The company continues to comply with conditions for deductibility imposed by law; and
- (c) No changes in income tax legislation adversely affect the company in utilising the benefits.

Relevance of tax consolidation to the Group

The company and its wholly-owned Australian resident entities have not formed a tax-consolidated group as at 30 June 2011. A tax-consolidated entity will however take effect from 1 July 2011 whereby the Group will be taxed as a single entity from that date. The head entity within the tax-consolidated group will be Matrix Composites & Engineering Ltd. The decision to consolidate for tax purposes has not yet been formally notified to the Australian Taxation Office.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
7. CASH AND CASH EQUIVALENTS		
Cash on hand	3,409	1,945
Cash at bank		
Cash management accounts	7,229,629	371,435
Short-Term Bank Deposits	15,000,000	11,838,380
US Dollar Account	4,376,220	1,323,750
Other	48,756	19,567
	<u>26,658,014</u>	<u>13,555,077</u>

The above aggregation of cash management accounts includes an overdraft of \$178,371 which has been disclosed at note 16.

The effective interest rate on short-term bank deposits was 5.0% (2009: 2.05%); these deposits have been invested for periods up to 60 days, however can be accessed at any time.

	2011 \$	2010 \$
8. TRADE AND OTHER RECEIVABLES		
Trade receivables	30,810,475	28,352,900
Other receivables	2,064,686	893,946
GST refundable	1,031,958	2,621,462
	<u>33,907,119</u>	<u>31,868,308</u>

Terms and Conditions

The Company's standard terms and conditions requires customers to pay within 30 days from invoice date, although the average collectibility timeframe is ordinarily between 30 and 60 days. These amounts are non-interest bearing.

	2011 \$	2010 \$
9. INVENTORY		
Raw Materials at cost	8,465,789	12,899,081
Work in progress at cost	8,939,777	3,593,799
Finished goods at cost	2,912,958	2,409,970
	<u>20,318,524</u>	<u>18,902,850</u>

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$132,768,757 (2010: \$70,945,789).

There was no write-down of inventory at 30 June 2011 (2010: nil).

	2011 \$	2010 \$
10. OTHER CURRENT ASSETS		
Progress claims and deposits	2,226,048	-
Prepayments	1,389,312	1,492,243
	<u>3,615,360</u>	<u>1,492,243</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
11. PROPERTY, PLANT AND EQUIPMENT		
Land and Building/Leasehold improvements:		
Land at independent valuation ¹	3,406,700	3,406,700
Building at independent valuation ¹	1,226,385	1,218,299
Buildings ²	29,777,980	-
Other leasehold improvements ³	502,751	474,902
Less: accumulated depreciation	(300,384)	(103,114)
	<u>34,613,432</u>	<u>4,996,787</u>
Plant and Equipment:		
Plant and equipment at cost	74,884,000	31,018,586
Less: accumulated depreciation	(10,815,448)	(6,735,726)
	<u>64,068,552</u>	<u>24,282,860</u>
Motor Vehicles:		
Motor vehicles at cost	355,885	323,528
Less: accumulated depreciation	(139,371)	(86,663)
	<u>216,514</u>	<u>236,865</u>
Office Equipment:		
Office equipment at cost	309,454	254,009
Less: accumulated depreciation	(106,241)	(82,369)
	<u>203,212</u>	<u>171,640</u>
Computer Equipment		
Computer equipment at cost	1,601,360	1,310,042
Less: accumulated depreciation	(969,360)	(722,414)
	<u>632,000</u>	<u>587,628</u>
	<u>99,733,710</u>	<u>30,275,780</u>
Assets under construction		
Buildings in progress at cost	-	19,158,007
Plant and equipment in progress at cost	-	7,723,029
	<u>-</u>	<u>26,881,036</u>
	<u>99,733,710</u>	<u>57,156,816</u>

¹ The land and buildings located at 185 Camboon Road, Malaga were independently valued by Knight Frank in July 2011.

² Relates to the Group's recently completed Henderson manufacturing complex.

³ Leasehold improvements located at 42 Truganina Road, Malaga.

Assets pledged as security

Land and buildings with a carrying amount of approximately \$34,411,065 (2010: \$4,624,999) have been pledged to secure borrowings of the Group (see note 16). The land and buildings have been pledged as security for bank facilities under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

In addition, the Group's obligations under finance leases (see note 16) are secured by the lessors' title to the leased assets, which have a carrying amount of \$18,390,436 (2010: \$3,455,201).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

11. PROPERTY, PLANT AND EQUIPMENT (cont)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Land and Building/ Leasehold improvement	Plant and equipment	Motor vehicles	Office equipment	Computer equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Consolidated							
Carrying amount at 1 July 2010	4,996,787	24,282,860	236,865	171,640	587,628	26,881,036	57,156,816
Additions	10,655,908	36,300,854	53,446	55,444	292,890	-	47,358,542
Disposals / write offs	-	(100,307)	(7,153)	-	(648)	-	(108,108)
Reclassified	19,158,007	7,723,029	-	-	-	(26,881,036)	-
Depreciation / amortisation expenses	(197,270)	(4,137,884)	(66,644)	(23,872)	(247,870)	-	(4,673,540)
Carrying amount at 30 June 2011	34,613,432	64,068,552	216,514	203,212	632,000	-	99,733,710
Carrying amount at 1 July 2009	4,582,326	14,032,964	89,229	149,236	390,378	-	19,244,133
Additions	79,866	13,403,513	201,081	87,313	469,294	26,881,036	41,122,103
Revaluations	393,222	-	-	-	-	-	393,222
Disposals / write offs	-	(475,210)	(16,329)	(42,599)	(25,783)	-	(559,921)
Depreciation / amortisation expenses	(58,627)	(2,678,407)	(37,116)	(22,310)	(246,261)	-	(3,042,721)
Carrying amount at 30 June 2010	4,996,787	24,282,860	236,865	171,640	587,628	26,881,036	57,156,816

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
12. FINANCIAL ASSETS & OTHER FINANCIAL ASSETS		
CURRENT		
Forward exchange contracts (hedge-accounted)	4,904,450	(174,313)
Foreign currency options	3,573,672	2,873,893
	<u>8,478,122</u>	<u>2,699,580</u>

	2011 \$	2010 \$
13. INTANGIBLE ASSETS		
Development costs (i)	-	398,862
Goodwill on acquisition (i)	-	198,511
Goodwill on acquisition of Specialist Engineering Services (Aust) Pty Ltd (ii)	6,415,215	6,415,215
	<u>6,415,215</u>	<u>7,012,588</u>

- (i) Development costs incurred in the past in respect of the Raptor CBS tool include initial acquisition costs of the project, development of prototypes, patent applications and development and testing costs. During the year the company has impaired the full value of the development costs and associated goodwill based on a Board decision with advice and assessment from an independent consultant, which concluded that the reasonable value of the assets was nil.
- (ii) On 31 January 2008 Matrix acquired 100% of the issued share capital of Specialist Engineering Services (Aust) Pty Ltd. The resulting goodwill has been tested at the cash generating unit level for impairment. The recoverable value of this cash generating unit is determined on a value in use calculation which uses cash flow projections based on financial budgets approved by the Directors covering a three year period, and a post-tax discount rate of 14% per annum (2010: 14%).

Cash flows beyond the three year period have been extrapolated using a steady 3% per annum growth rate which is the projected long-term average growth rate. The Directors believe that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash generating unit.

	2011 \$	2010 \$
14. TRADE AND OTHER PAYABLES		
Trade payables	21,199,056	13,903,949
Other creditors and accruals	2,567,533	7,710,790
GST	775,760	1,060,404
	<u>24,542,349</u>	<u>22,675,143</u>

Terms and conditions

Trade and other payables are generally paid within 45 days. No security is provided for these liabilities and no interest has been charged.

15. PROGRESS CLAIMS AND DEPOSITS

Progress claims and deposits are valued at cost plus profit recognised to date based on the value of work completed.

	2011 \$	2010 \$
Progress claims and deposits	-	35,567,171

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
16. FINANCIAL LIABILITIES		
CURRENT		
Bank overdraft – secured	-	-
Bank loan – secured	103,462	391,096
Bank bill – secured	720,000	720,000
Finance lease liability	3,821,728	1,156,899
	<u>4,645,190</u>	<u>2,267,995</u>
NON CURRENT		
Bank loan – secured	1,463,917	1,844,106
Bank bill – secured	14,529,876	1,650,000
Finance lease liability	14,568,708	2,298,302
	<u>30,562,501</u>	<u>5,792,408</u>
Total current and non-current secured liabilities:		
Bank loan	1,567,379	2,235,202
Bank bills	15,249,876	2,370,000
Finance lease liabilities	18,390,436	3,455,201
	<u>35,207,691</u>	<u>8,060,403</u>

Leasing arrangements

The Group leased certain of its manufacturing equipment under finance leases. The average lease term is 4.5 years (2010: 5 years). The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 6.5% to 8.03% (2010: 6.5% to 7.75%) per annum. The fair value of the finance lease liabilities is approximately equal to their carrying amount.

Finance lease liabilities	Minimum lease payments		Present value of minimum lease payments	
	2011 \$	2010 \$	2011 \$	2010 \$
Not later than one year	4,986,034	1,367,345	3,821,728	1,156,899
Later than one year and not later than five years	16,566,348	2,471,975	14,568,708	2,298,302
Later than five years	-	-	-	-
	<u>21,552,382</u>	<u>3,839,320</u>	<u>18,390,436</u>	<u>3,455,201</u>
Less future finance charges	<u>(3,161,946)</u>	<u>(384,119)</u>	-	-
Present value of minimum lease payments	<u>18,390,436</u>	<u>3,455,201</u>	<u>18,390,436</u>	<u>3,455,201</u>

Included in the consolidated financial statements as:

- current borrowings	3,821,728	1,156,899
- non-current borrowings	14,568,708	2,298,302
	<u>18,390,436</u>	<u>3,455,201</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Approved Facilities	Amount Drawn	Available Facilities
NAB Business Market Facility	AUD	7.36%	4,000,000	-	4,000,000
Business Card facility	AUD	15.75%	50,000	-	50,000
		6.05% to			
Multi Option Facility	AUD	8.45%	17,000,000	16,681,158	318,842
NAB Business O/D	AUD	13.41%	300,000	-	300,000
Bank guarantee facility	AUD	-	1,506,000	580,644	925,356
Bill Acceptance/discount facility	AUD	4.53%	750,000	600,000	150,000
Bill Acceptance/discount facility	AUD	7.01%	13,750,000	13,599,878	150,122
Overseas currency loan	USD	4.59%	111,108	103,462	7,646
		6.05% to			
Assets finance leasing facility	AUD	8.45%	1,659,522	1,659,522	-
Bank guarantees facility	AUD	-	240,000	-	240,000
Business Lending-Bill facility	AUD	7.41%	1,140,000	1,050,000	90,000
			40,506,630	34,274,664	6,231,966

The company has total credit facilities available from its bankers of \$40,506,630 (2010: \$39,156,990).

The credit facilities are secured on the following:

- (i) A registered first mortgage over the freehold properties of the consolidated entity,
- (ii) Mortgage of sub-lease over Henderson property,
- (iii) Fixed and floating charge over the whole of the assets of the consolidated entity,
- (iv) Guarantee and Indemnity; and
- (v) Lease documentation.

	2011 \$	2010 \$
17. CURRENT TAX LIABILITIES		
CURRENT		
Income tax payable	10,033,998	5,463,739
18. PROVISIONS		
CURRENT		
Employee Bonus	-	330,000
Employee Social Club	138	784
Employee Entitlements	1,725,735	994,187
	1,725,873	1,324,971
NON CURRENT		
Employee Entitlements	364,260	220,053

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

19. ISSUED CAPITAL

	2011 \$	2010 \$
Issued and paid up capital		
77,081,507 (2010: 69,964,098) fully paid ordinary shares	78,703,341	41,905,312
Less: capital issue costs net of tax	(2,315,138)	(1,458,987)
	<u>76,388,203</u>	<u>40,446,325</u>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Movements in ordinary share capital

Date	Details	Number of shares	\$
Balance 1 July 2009	Opening balance	48,964,098	13,405,312
9 November 2009	Shares issued – initial public offering	15,000,000	15,000,000
19 April 2010	Share issued	6,000,000	13,500,000
Less: capital issue costs net of tax			(1,458,987)
Balance 30 June 2010		<u>69,964,098</u>	<u>40,446,325</u>
1 October 2010	Options exercise	3,000,000	1,800,000
11 April 2011	Shares issued	3,550,000	30,175,000
12 May 2011	Shares issued	567,409	4,822,977
Less: capital issue costs net of tax			(856,151)
Balance 30 June 2011		<u>77,081,507</u>	<u>76,388,203</u>

On 11 April 2011 the company issued 3,550,000 shares at an issue price of \$8.50 each to institutional investors.

On 12 May 2011, the company finalised a Share Purchase Plan whereby 567,409 shares were issued at a price of \$8.50 to retail shareholders.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. Ordinary shares carry one vote per share.

Capital Management

The Directors' main objective is to ensure that the Group continues as a going concern and generates a return for shareholders better than the industry average benchmark. Management also seeks to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The Directors' are constantly reviewing the capital structure to ensure they can minimise the cost of capital. As the market is constantly changing, the Directors may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is subject to financial covenants, including a capital requirement, as prescribed by its bankers, National Australia Bank. It requires the Group's Capital Adequacy Ratio ("CAR" - defined as the Group's net tangible assets divided by the Group's total tangible assets) to be greater than 35%. The Group's CAR was 63%, well in excess of this requirement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

The Group also has a target gearing ratio of 15% - 25% determined as a proportion of net debt to equity. The gearing ratio at 30 June 2011 of 6.7% (see below) was well below the lower end of the target range, however is affected by the amount of cash on hand as a result of the Company's recent capital raising activities.

19. ISSUED CAPITAL (cont'd)

	2011 \$	2010 \$
Debt ¹	35,207,691	8,060,403
Cash and cash equivalents	(26,658,014)	(13,555,077)
Net debt/(cash and cash equivalents)	8,549,677	(5,494,674)
Equity ²	126,760,166	59,893,247
Net debt to equity ratio at 30 June	6.7%	(9.2%)

¹ Debt is defined as long-term and short-term borrowings (excluding derivatives and financial guarantee contracts) as described in note 16.

² Equity includes all capital and reserves of the Group that are managed as capital.

20. RESERVES

	Option premium reserve \$	Revaluation reserve \$	Cash flow hedge reserve \$	Foreign translation reserve \$	Total \$
Balance at 1 July 2009	273,000	567,507	3,929,370	(11,169)	4,758,708
Foreign currency translation difference	-	-	-	(139,498)	(139,498)
Changes in fair value of cash flow hedges	-	-	(4,051,390)	-	(4,051,390)
Revaluation of free hold property	-	275,255	-	-	275,255
Balance at 30 June 2010	273,000	842,762	(122,020)	(150,667)	843,075
Foreign currency translation difference	-	-	-	(82,478)	(82,478)
Changes in fair value of cash flow hedges	-	-	1,154,651	-	1,154,651
Revaluation of free hold property	-	-	-	-	-
Balance at 30 June 2011	273,000	842,762	1,032,631	(233,145)	1,915,248

Option Premium Reserve

The options premium reserve comprises option premium received on issue of shares.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Revaluation Reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Cash flow Hedge Reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred.

Foreign Translation Reserve

The revaluation reserve relates to the revaluation of property plant and equipment.

	2011 \$	2010 \$
21. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:-		
Cash at bank	26,658,014	13,555,077
Bank overdraft	-	-
	<u>26,658,014</u>	<u>13,555,077</u>
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit after income tax	33,608,370	18,155,336
Adjustment for non cash items		
- Net movement in derivative instruments	(4,266,820)	1,201,432
- Depreciation	4,673,540	3,042,721
- Loss on disposal/ write off of fixed assets	10,630	480,139
- Impairment of goodwill	198,511	196,726
- Write off development costs	405,791	385,046
Changes in assets & liabilities		
- (Increase)/decrease in receivables	(2,038,811)	(22,435,117)
- (Increase)/decrease in other assets	(2,123,116)	(960,601)
- (Increase)/decrease in inventories	(1,415,674)	(936,858)
- Increase/(decrease) in payables & accruals and progress claims	(33,699,965)	23,513,661
- Increase/(decrease) in employee provisions	545,109	585,898
- Increase/(decrease) provision for tax	4,570,259	5,403,496
- (Increase)/decrease in deferred tax asset	(202,346)	(903,134)
- Increase/(decrease) in deferred tax liability	1,211,338	(1,374,147)
Net cashflow from operating activities	<u>1,476,816</u>	<u>26,354,598</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, trade and other receivables, trade and other payables, finance leases, bank borrowings, other borrowings and derivatives. The main purpose of non-derivative financial instruments is to raise finance for Group operations. Derivatives are used by the Group for hedging purposes. The Group does not speculate in the trading of derivative instruments. Senior executives meet regularly to analyse and monitor the financial risk associated with the financial instruments used by the Group.

Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Hedging activities are evaluated on a regular basis to align with interest rate views and defined risk appetite, ensuring the most cost-effective measures are put in place.

Interest Rate Sensitivity Analysis

The following sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At 30 June 2011, the after tax effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant at balance date would be as follows:

	2011 \$	2010 \$
<i>Change in profit</i>		
increase in interest rate by 2% (200 basis points)	226,025	215,840
decrease in interest rate by 2% (200 basis points)	(226,025)	(215,840)
<i>Change in other comprehensive income</i>		
increase in interest rate by 2% (200 basis points)	-	-
decrease in interest rate by 2% (200 basis points)	-	-

The sensitivity to a 200 basis point increase or decrease in interest rates is considered reasonable given the market forecasts available at the reporting date and under the current economic environment in which the Group operates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL INSTRUMENTS (Cont)

The Group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities is as follows:-

	Weighted Average Effective interest rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non Interest Bearing	
					Within 1 year		Over 1 year			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
FINANCIAL ASSETS	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents	4	2	26,654,605	13,553,132	-	-	-	-	3,409	1,945
Trade and other Receivables	-	-	-	-	-	-	-	-	32,875,161	29,246,846
Other Financial Assets	-	-	-	-	-	-	-	-	8,478,122	2,699,580
Total Financial Assets			26,654,605	13,553,132	-	-	-	-	41,356,692	31,948,371

	Weighted Average Effective interest rate		Floating Interest Rate		Fixed Interest Rate Maturing				Non Interest Bearing	
					Within 1 year		Over 1 year			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
FINANCIAL LIABILITIES	%	%	\$	\$	\$	\$	\$	\$	\$	\$
Trade and other Payables	-	-	-	-	-	-	-	-	23,766,589	21,614,739
Loans	7.5	7.5	103,462	391,096	-	-	1,463,917	1,844,106	-	-
Hire purchase agreements	7.5	7.5	-	-	3,821,728	1,156,899	14,568,708	2,298,302	-	-
Bank bills	5.0	4.5	15,249,876	2,370,000	-	-	-	-	-	-
Total Financial Liabilities			15,353,338	2,761,096	3,821,728	1,156,899	16,032,625	4,142,408	23,766,589	21,614,739

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL INSTRUMENTS (cont)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no material amount of collateral held as security at 30 June 2011.

Credit risk is managed on a Group basis and reviewed regularly by senior executives. It arises from exposures to customers and deposits with financial institutions. The following criteria are applied by senior executives in the assessment of counter party risk:

- Deposits and borrowings are with Australian based banks;
- All potential customers are rated for credit worthiness.

Exposure to credit risk

The consolidated entity's maximum exposure to credit risk at the reporting date was:

	2011 \$	2010 \$
Trade receivables	30,810,475	28,352,900
	2011 \$	2010 \$
At balance date, the aging analysis of trade receivables is as follows:		
Days		
0-30	29,736,409	24,605,102
31-60	221,842	902,423
61-90	75,051	724,213
90+	777,173	2,121,162
	30,810,475	28,352,900

Trade receivables of \$852,223 (2010: \$6,359,783) were past due at 30 June, of which \$251,586 has been collected up to the date of this report. There were no impairment provisions in respect of trade receivables that were past due as at 30 June 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL INSTRUMENTS (cont)

Foreign Currency Risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts and currency option contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Liabilities		Assets	
	30/06/11	30/06/10	30/06/11	30/06/10
US dollar	2,226,381	1,348,017	25,388,243	21,112,226
Euro	14,763	66,951	-	-
British pound	2,076	-	-	-
Singapore dollar	5,547	11,169	-	-

Foreign currency sensitivity analysis

The Group is mainly exposed to the currencies of US Dollar and Euro.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit or equity where the Australian dollar strengthens 10% against the relevant currency. For a 10% weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit or equity, and the balances below would be negative.

		Profit after tax		Other comprehensive income	
		Increase / (decrease)		Increase / (decrease)	
		2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000
US dollar	+10%	1,573	1,291	1,845	3,779
US dollar	-10%	(1,466)	(204)	(2,030)	(4,157)
Euro	+10%	(2)	(9)	-	-
Euro	-10%	2	11	-	-

The movement in other comprehensive income is due to an increase/decrease in the fair value of forward foreign exchange contracts designated as cash flow hedges.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 50% to 100% of the net exposure generated. The Group also enters into forward foreign exchange contracts to manage the risk associated with contracted sales transactions for the period of contracts within 50% to 100% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

The following table details the forward foreign currency (FC) contract outstanding at the end of the reporting period:

Outstanding contracts	Average exchange rate		Foreign currency		Notional value		Fair value	
	30/06/11	30/06/10	30/06/11 US\$'000	30/06/10 US\$'000	30/06/11 \$'000	30/06/10 \$'000	30/06/11 \$'000	30/06/10 \$'000
Cash flow hedges								
<i>Sell US Dollar</i>								
Less than 3 months	0.8106	0.8169	3,800	3,400	4,688	4,162	1,104	109
3 to 6 months	0.8625	0.8091	15,000	6,160	17,391	7,614	3,170	203
6 months to 1 year	0.8577	0.8488	3,000	20,870	3,498	24,587	630	(901)
More than 1 year	-	0.8106	-	5,000	-	6,168	-	(61)
							4,904	(650)

The Group has entered into forward foreign exchange contracts (for terms not exceeding 1 year) to hedge the exchange rate risk arising from these anticipated future transactions, which are designated as cash flow hedges.

At 30 June 2011, the aggregate amount of gains under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to the exposure on these anticipated future transactions is \$ 1,032,631 (2010: losses of \$122,020). It is anticipated that the sales will take place during the first 7 months of the next financial year, at which time the amount deferred in equity will be reclassified to profit or loss.

The Group is exposed to fluctuations in foreign currencies arising from the sale of goods denoted in U.S. Dollars and Euro. Currently the Group uses derivatives to hedge against movements in foreign currency.

Foreign Currency Options

The consolidated Group previously entered into a European type foreign exchange option to sell USD\$36,420,000 at an exchange rate of US\$0.88 =AU\$1.00. The expiration date of the option was 15 December 2011. A premium of \$2,000,000 was paid for the option. In October 2010, the option was converted into forward exchange contracts which were allocated against current projects.

The consolidated Group also entered into a second European type foreign exchange option on 28 May 2010 to sell USD\$25,000,000 at an exchange rate of US\$0.85 =AU\$1.00. The expiration date of the option is 30 November 2015. A premium of US\$1,572,000 is payable for the second option on 28 November 2012 and at 30 June 2011 the option was valued at fair value for A\$3,573,672.

The objective in entering the foreign currency option contracts is to protect a portion of the consolidated Group's future revenue against unfavourable exchange rate movements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The Group manages liquidity risk by monitoring forecast cash flows, maintaining cash reserves and managing trade payables.

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
30 June 2011							
Cash and cash equivalents	4	11,658,014	15,168,750	-	-	-	26,826,764
Trade and other receivables	-	31,489,192	798,778	587,191	-	-	32,875,161
Trade and other payables	-	(21,729,239)	(1,924,704)	(112,646)	-	-	(23,766,589)
Borrowings and finance leases	7.5	(462,687)	(902,840)	(3,963,703)	(36,504,988)	-	(41,834,218)
		20,955,280	13,139,984	(3,489,158)	(36,504,988)	-	(5,898,882)
30 June 2010							
Cash and cash equivalents	2	13,555,077	-	-	-	-	13,555,077
Trade and other receivables	-	22,169,537	1,440,739	5,636,570	-	-	29,246,846
Trade and other payables	-	(20,775,866)	(674,980)	(163,893)	-	-	(21,614,739)
Borrowings and finance leases	7.5	(176,405)	(331,886)	(1,724,729)	(6,301,721)	-	(8,534,742)
		14,772,343	433,873	3,747,948	(6,301,721)	-	12,652,442

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

22. FINANCIAL INSTRUMENTS (cont)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Fair Value of Financial Instruments

The Directors consider that the carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair value.

Fair Value Hierarchy

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2011	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	8,478,122	-	8,478,122
Total	-	8,478,122		8,478,122

30 June 2010	Level 1	Level 2	Level 3	Total
Derivative financial assets	-	2,699,580	-	2,699,580
Total	-	2,699,580		2,699,580

There were no transfers between Level 1 and 2 in the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2010 \$
23. OPERATING LEASE COMMITMENTS		
Not later than 1 year	1,501,829	3,621,071
Later than 1 year but not later than 5 years	4,759,979	5,582,067
Later than 5 years	25,703,885	27,600,000
The lease commitment is for rental of land and buildings.		
24. FRANKING ACCOUNT		
Franking account balance at 1 July	7,921,988	1,775,720
Income paid	2,926,370	1,716,616
Franking debits that will arise from the payment of dividends	(625,407)	(548,264)
Franking account balance at 30 June	10,222,951	2,924,072
Franking credits that will arise from the payment of income tax payable as at the reporting date	10,006,944	5,367,144
Franking debits that will arise from the payment of dividends as at the end of the financial year	(1,651,746)	(983,753)
Net franking credits available	18,578,149	7,921,988

25. SHARE-BASED PAYMENTS

Movement in shares options during the year

The following table reconciles the share options outstanding at the beginning and end of the year:

	Number of options 2011	Weighted average exercise price 2011 \$	Number of options 2010	Weighted average exercise price 2010 \$
Balance at beginning of year	3,000,000	0.60	3,000,000	0.60
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	(3,000,000)	0.60	-	-
Expired during the year	-	-	-	-
Balance at the end of the year	-	-	3,000,000	0.60
Exercisable at the end of the year	-	-	3,000,000	0.60

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

25. SHARE-BASED PAYMENTS (cont'd)

Share options exercised during the year

The following share options were exercised during the year:

2011 Options series	Number exercised	Exercise date	Share price at exercise date \$
Granted 1 February 2008	<u>3,000,000</u>	01/10/10	4.95
2010 Options series	Number exercised	Exercise date	Share price at exercise date \$
-	-	-	-

26. RELATED PARTY DISCLOSURES

(a) Key management personnel compensation

	2011 \$	2010 \$
Short term employment benefits	1,450,174	1,742,228
Other long term benefits	-	-
Post employment benefits	163,729	115,183
Termination benefits	-	-
Share based payments	-	-
	<u>1,613,903</u>	<u>1,857,411</u>

(b) Individual Directors' and executives' compensation disclosure

Information regarding individual Directors' and executives' compensation and some equity instruments disclosures as required by Corporation Regulation 2M.3 is provided in the remuneration report section of the Directors' report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interest existing at year end.

(c) Parent entity

The ultimate parent entity within the Group is Matrix Composites & Engineering Limited.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

25. RELATED PARTY DISCLOSURES (cont)

	2011 \$	2010 \$
(d) Related Party Transactions		
Transactions between related parties are on normal commercial terms.		
The premises at 42 Truganina Road are leased from Kanu Pty Ltd, a company of which Maxwell Begley is a substantial shareholder. Rent for the period was:	404,489	373,464

Shareholdings of Directors and key management personnel

The movement during the reporting period in the number of shares in Matrix Composites & Engineering Limited held, directly, indirectly or beneficially, by each key management person, including related parties, is as follows:

2011	Balance at 1 July	Granted as Remuneration	On Exercise of Options	Purchases (Sold)	Balance at 30 June 2011
Directors					
AP Begley	3,472,763	-	1,000,000	(1,050,000)	3,422,763
PR Wright	1,819,942	-	1,000,000	(600,000)	2,219,942
NL Johnson	150,000	-	-	(48,824)	101,176
MG Begley	29,237,138	-	1,000,000	(3,984,124)	26,253,014
CN Duncan	550,000	-	-	3,528	553,528
Executives					
G Northway	988,483	-	-	(988,483) ¹	-
M Kenyon	-	-	-	8,588 ²	8,588
A Vincan	-	-	-	24,000	24,000
P Riordan	119,604	-	-	(98,802)	20,802
2010	Balance at 1 July	Granted as Remuneration	On Exercise of Options	Purchases (Sold)	Balance at 30 June
Directors					
AP Begley	3,422,763	-	-	50,000	3,472,763
PR Wright	1,819,942	-	-	-	1,819,942
NL Johnson	100,000	-	-	50,000	150,000
MG Begley	28,707,138	-	-	530,000	29,237,138
CN Duncan	550,000	-	-	-	550,000
Executives					
G Northway	1,388,483	-	-	(400,000)	988,483
A Vincan	-	-	-	-	-
P Riordan	119,604	-	-	-	119,604

1. Mr G Northway, General Manager retired on 26 July 2010

2. Mr M Kenyon appointed as Company Secretary/ Chief Financial Officer on 14 October 2010

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

26. RELATED PARTY DISCLOSURES (cont)

Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in Matrix Composites & Engineering Limited held, directly, indirectly or beneficially, by each key management person, including related parties, is as follows:

2011	Balance at 1 July	Granted as Remuneration	Exercised	Expired	Balance at 30 June 2011	Total Vested at 30 June 2011	Total Exercisable at 30 June 2011
AP Begley	1,000,00	-	1,000,000	-	-	-	-
PR Wright	1,000,00	-	1,000,000	-	-	-	-
MG Begley	1,000,00	-	1,000,000	-	-	-	-
2010	Balance at 1 July	Granted as Remuneration	Exercised	Expired	Balance at 30 June 2009	Total Vested at 30 June 2009	Total Exercisable at 30 June 2010
AP Begley	1,000,000	-	-	-	1,000,000	-	-
PR Wright	1,000,000	-	-	-	1,000,000	-	-
MG Begley	1,000,000	-	-	-	1,000,000	-	-

Key management personnel

- There were no loans to key management personnel during the year or outstanding at the end of the year.
- No options have been issued to key management personnel.

Other transactions and balances with key management personnel **Services**

There were no other transactions with key management personnel at the end of the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

27. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Name	Country of Incorporation	Class of shares	Equity 2011	Holding % 2010
Specialist Engineering Services (Aust) Pty Ltd	Australia	Ordinary	100	100
Torque Engineering Australia Pty Ltd	Australia	Ordinary	100	100
MC&E (Asia) Pte Ltd	Singapore	Ordinary	100	100
Matrix Henderson Property Pty Ltd	Australia	Ordinary	100	100
MC&E (Europe) Ltd	United Kingdom	Ordinary	100	-
Wale Marine Aust Pty Ltd	Australia	Ordinary	50	50
Drilling Solutions Pty Ltd ¹	Australia	Ordinary	99	99
MCE USA Inc	USA	Ordinary	100	-

¹ This entity owned by Specialist Engineering Services (Aust) Pty Ltd

28. EVENTS AFTER THE REPORTING DATE

There are no events of a material nature that have occurred subsequent to the reporting date other than the matters discussed in note 31.

29. PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 1 for a summary of the significant accounting policies relating to the Group.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Financial position

	30 June 2011 \$	30 June 2010 \$
Assets		
Current assets	115,905,572	59,786,549
Non-current assets	61,089,585	62,229,522
Total assets	176,995,157	122,016,071
Liabilities		
Current liabilities	36,343,254	59,733,918
Non-current liabilities	16,273,788	4,605,954
Total liabilities	52,617,042	64,339,872
Equity		
Issued capital	76,388,202	40,446,325
Retained earnings	46,684,282	17,078,894
Option premium reserve	273,000	273,000
Cash flow hedge	1,032,631	(122,020)
Total equity	124,378,115	57,676,199

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

29. PARENT ENTITY INFORMATION (cont'd)

Financial performance	Year ended 30 June 2011 \$	Year ended 30 June 2010 \$
Profit for the year	33,360,092	16,925,825
Other comprehensive income	1,154,651	(4,051,390)
Total comprehensive income	34,514,743	12,874,435
	\$	\$
Contingent liabilities of the parent entity	-	-
Commitments for the acquisition of property, plant and equipment by the parent entity		
Plant and equipment		
Not longer than 1 year	4,920,340	34,000,000
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	4,920,340	34,000,000

30. EARNINGS PER SHARE

	2011 \$	2010 \$
Profit attributable to members of parent entity (\$)	33,604,304	18,159,906
Weighted average number of shares on issue (number)	73,083,147	58,580,342
Weighted average number of shares adjusted for dilution (number)	73,083,147	61,768,388
Basic earnings per share	46.0 cents	31.0 cents
Diluted earnings per share	46.0 cents	29.4 cents

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

31. DIVIDENDS PAID AND PROPOSED

	2011 \$	2010 \$
Dividends paid and proposed		
(a) Dividends paid during the year		
Fully franked final dividend		
2 cents, paid 28 October 2010 (2010: 2 cents, paid 9 October 2009)	1,459,282	979,282
Fully franked interim dividend		
3 cents, paid 29 April 2011 (2010: 2 cents, paid 28 April 2010)	2,296,220	1,279,282
	<u>3,755,502</u>	<u>2,258,564</u>
 (b) Dividends declared (not recorded as a liability)		
Fully franked final dividend		
5 cents to be paid 31 October 2011 (2010: 2 cents, paid 28 October 2010)	3,854,075	1,459,282
Dividend per share in respect of financial year	8.0 cents	4.0 cents

32. CAPITAL AND OTHER COMMITMENTS

The Group has commitments totalling \$4,920,340 (2010: \$34,000,000) for the development of its office complex at Henderson, Western Australia. At balance date, nothing had yet been incurred leaving the full amount to be expended in the next 8 months to 28 February 2012.

33. COMPANY DETAILS

The registered office and principal place of business of the company is 150 Quill Way, Henderson, Western Australia.

34. CONTINGENT LIABILITIES AND ASSETS

There were no contingent liabilities or assets at 30 June 2011.

DIRECTORS' DECLARATION

The Directors declare that:

- (a) 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
- (b) In the Directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements
- (c) In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity
- (d) The Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

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



AP Begley
Director/Chief Executive Officer

Dated this 20th day of September 2011.

Independent Auditor's Report to the Members of Matrix Composites & Engineering Ltd

Report on the Financial Report

We have audited the accompanying financial report of Matrix Composites & Engineering Ltd, which comprises the statement of financial position as at 30 June 2011, the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, 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 as set out on pages 31 to 82.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 19 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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



DELOITTE TOUCHE TOHMATSU



Kathleen Bozanic

Partner

Chartered Accountants

Perth, 20 September 2011

ASX ADDITIONAL SHAREHOLDER INFORMATION

The shareholder information set out below was current as at 13 September 2011.

1. Range of Shares Analysis by Size of Holding

Range	Total holders	Units	% of issued capital
1 to 1,000	2,295	1,305,490	1.69
1,001 to 5,000	2,885	7,367,413	9.56
5,001 to 10,000	653	4,811,628	6.24
10,001 to 100,000	428	10,688,883	13.87
100,001 and Over	47	52,908,093	68.64
Total	6,308	77,081,507	100.00
Unmarketable Parcels	210	14,999	0.02

2. Twenty (20) Largest Holders of Ordinary Shares as at 13 September 2011

Name	Units	% age of units
MILTO PTY LTD	16,729,702	21.70%
MILTO PTY LTD	7,081,377	9.19%
NATIONAL NOMINEES LIMITED	5,599,379	7.26%
MR AARON PAUL BEGLEY	3,062,763	3.97%
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,867,567	3.72%
MR MAXWELL GRAHAM BEGLEY	1,610,308	2.09%
MR TODD JUSTIN BEGLEY	1,356,500	1.76%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,268,951	1.65%
VECTOR NOMINEES PTY LIMITED	1,150,000	1.49%
MR PAUL RICHARD WRIGHT & MRS KAREN BRONWYN WRIGHT	959,634	1.24%
MS LINDA JUNE SAMPEY & MR BRUCE RONALD SAMPEY	726,165	0.94%
MR PAUL RICHARD WRIGHT	700,000	0.91%
UBS NOMINEES PTY LTD	671,968	0.87%
CITICORP NOMINEES PTY LIMITED	593,817	0.77%
MR PETER LINDSAY WRIGHT	584,359	0.76%
SINEDIE PTY LTD	507,241	0.66%
MR CRAIG NEIL DUNCAN	501,764	0.65%
BOND STREET CUSTODIANS LTD	501,187	0.65%
MR PAUL RICHARD WRIGHT	500,000	0.65%
MR BRUCE RONALD SAMPEY	393,835	0.51%
Total	47,366,517	61.45%

3. Unquoted Equity Securities

There are no unquoted equity securities.

4. Substantial Shareholders

Name	No. shares	% age of shares
M.G. Begley & Associates	26,253,014	34.1%

5. Company Secretary

Michael P Kenyon

6. Address of Principal Office in Australia

Matrix Composites & Engineering Ltd

150 Quill Way

Henderson WA 6166

Telephone: +61 8 9412 100

Email: matrix@matrixap.com.au

7. Register of Securities

Link Market Services Ltd

Ground Floor

178 St Georges Terrace

PERTH WA 6000

8. Voting Rights

Ordinary Shares

Provided that all calls and other sums due and payable have been paid to the Company:

Each member of Matrix Composites & Engineering Ltd is entitled to vote and may vote in person, or by proxy, or in the case of a corporation, by representative; on a show of hands every person present who is a member, a proxy of a member, or a representative of a member, has one vote; and on a poll, every person who is a member, a proxy of a member, or a representative of a member, has one vote for each fully paid share he/ she holds.

Options have no voting rights.

9. On-Market Share Buy Back

The Company has no current on-market buy-back scheme.

10. Restricted Securities

As at the date of the annual report, there are no securities subject to any voluntary escrow or any transfer restrictions.

11. Application of Cash and Liquid Assets since Listing on the ASX on 16 November 2009

In accordance with ASX Listing Rule 4:10:19, Matrix Composites & Engineering Ltd advises that it has used cash raised from the IPO, the subsequent placements in April 2010 and April 2011, and profits earned during the periods since listing on the ASX to develop the Company's Henderson facilities, develop new products, expand geographical presence overseas, and for working capital. The application of these funds is in accordance with the Company's business objectives and also as outlined in the prospectus dated 20 October 2009

CORPORATE DIRECTORY

Directors

Mr N L Johnson (Chairman)
Mr A P Begley (Chief Executive Officer)
Mr C N Duncan
Mr M G Begley
Mr P R Wright
Mr P J Hood (appointed 15 September 2011)

Company Secretary

Mr M P Kenyon

Head Office

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Lawyers

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PERTH WA 6000

Auditor

Deloitte Touche Tohmatsu
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PERTH WA 6000

Share Registry

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PERTH WA 6000