

**MATRIX COMPOSITES & ENGINEERING LTD
AND CONTROLLED ENTITIES
ABN: 54 009 435 250**

HALF YEAR REPORT

31 DECEMBER 2011

**MATRIX COMPOSITES & ENGINEERING LTD
AND CONTROLLED ENTITIES
ABN: 54 009 435 250**

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**MATRIX COMPOSITES & ENGINEERING LTD
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DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd submit herewith the financial report of Matrix Composites & Engineering Ltd and its subsidiaries (the Group) for the half-year ended 31 December 2011. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

DIRECTORS

The names of the directors in office at any time during or since the end of the half-year are:

Peter J Hood	(Non-Executive Chairman, appointed 15 September 2011)
Aaron P Begley	(Chief Executive Officer)
Maxwell G Begley	(Non-Executive Director)
Paul R Wright	(Non-Executive Director)
Craig N Duncan	(Non-Executive Director)
Nigel L Johnson	(Non-Executive Director)

Unless otherwise noted, all directors have been in office since the start of the financial year to the date of this report. Between 22 September 2011 and 17 December 2011 Mr Paul R Wright acted in an executive capacity as the acting Chief Financial Officer of the Group.

PRINCIPAL ACTIVITIES

During the period the principal activities of the consolidated Group consisted of:

- manufacture and sale of syntactic foam buoyancy, injection moulded composite plastic and polyurethane products; and
- manufacture and sale of fabricated metal products and provision of offshore labour and specialised maintenance services.

REVIEW OF OPERATIONS

During the period the Group consolidated its manufacturing operations at Henderson, Western Australia and continued its focus on providing manufactured subsea products and engineering services primarily to the oil and gas sector.

The Group has recorded a net loss after tax of \$2,413,775 (2010 Restated profit of: \$17,505,313) for the six month period ended 31 December 2011.

Sales revenue of \$83.5 million was 4.7 per cent below the corresponding period and has been adversely impacted by a combination of a 9.2 per cent appreciation of the Australian dollar compared with the US dollar, lower than projected output arising from the closure of the Malaga operations and a delay in commissioning of the Henderson facility. Matrix has successfully developed new well construction and SURF products which has diversified the Group's earnings stream. It is anticipated that marketing of these new products will accelerate in the second half of the year resulting in strong sales revenue growth in 2013.

As previously announced, Matrix has been awarded a three-year cooperation agreement by a leading European oil services company to be the primary supplier of riser buoyancy modules worth an estimated US\$35 to US\$50 million per annum. Matrix has already received orders to the value of US\$20 million under this agreement with an expectation of further orders before the end of the financial year.

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DIRECTORS' REPORT

The Group has successfully completed the construction of a purpose built, state of the art manufacturing facility at the Australian Marine Complex based at Henderson, Western Australia. Commissioning of operations has been undertaken progressively during the period and as at 31 December 2011 the facility was operating at approximately 50 per cent of nameplate capacity. It is anticipated that the Henderson facility will reach its nameplate capacity during the last quarter of the current financial year.

Earnings for the period were adversely impacted by a combination of non-recurring items including:

- i) reduced sales revenue, as set out above;
- ii) duplicate plant operating costs, arising from operating plants at both Malaga and Henderson during the period;
- iii) write off of plant and equipment from the Malaga operations; and
- iv) commissioning costs at Henderson.

During the period the Company also purchased and installed injection moulding and polyurethane equipment providing additional manufacturing capability, particularly for well construction and SURF products. This equipment is being commissioned and is expected to be operational by 31 March 2012.

During the period, the Group enhanced its operations in the USA by establishing a warehouse and office facility in Houston, Texas. The Group is also well advanced in establishing an office in Rio de Janeiro in Brazil.

Matrix Offshore Services & Engineering ("MOSE") continues to provide specialised engineered products to both the oil and gas and mining sectors in Western Australia. During the period MOSE established itself as a provider of specialised maintenance and labour services to the offshore oil and gas sector.

DIVIDENDS PAID OR RECOMMENDED

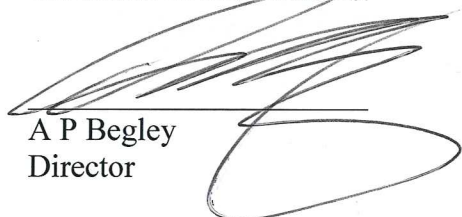
During the period the company paid a fully franked final dividend of 5 cents per share totalling \$3,854,075 (2010: \$1,459,282) out of the profits earned to 30 June 2011. The directors have declared an interim dividend of 2 cents per share, fully franked, for the year ending 30 June 2012 which will be due to shareholders registered on 11 April 2012 and payable on 30 April 2012.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 3 of the half year report.

Signed in accordance with a resolution of directors made pursuant to section 306(3) of the *Corporations Act 2001*.

On behalf of the directors:


A P Begley
Director

Perth, 23 February 2012

The Board of Directors
Matrix Composites & Engineering Ltd
150 Quill Way
Henderson WA 6166

23 February 2012

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 review of the financial statements of Matrix Composites & Engineering Ltd for the half-year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



Kathleen Bozanic
Partner
Chartered Accountants

**MATRIX COMPOSITES & ENGINEERING LTD
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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	Note	31 Dec 2011	31 Dec 2010 Restated
		\$	\$
Continuing operations			
Revenue	3	83,541,331	87,630,984
Cost of Sales		<u>(77,072,172)</u>	<u>(59,281,222)</u>
Gross Profit		6,469,159	28,349,762
Other income	3	361,064	100,090
Other (losses)/gains	3	(6,964,815)	2,105,701
Administration expenses		(2,088,277)	(2,246,774)
Corporate expenses		(1,274,879)	(1,098,607)
Finance costs	3	(1,357,857)	(424,320)
Marketing expenses		(1,585,430)	(1,113,083)
Research costs		(1,060,039)	(430,890)
Impairment charges		<u>-</u>	<u>(604,302)</u>
(Loss)/profit before tax		(7,501,074)	24,637,577
Income tax expense	10	<u>5,087,299</u>	<u>(7,132,264)</u>
(Loss)/profit for the period from continuing operations		<u>(2,413,775)</u>	<u>17,505,313</u>
(Loss)/profit attributable to:			
Owners of the parent		(2,413,801)	17,501,255
Non-controlling interest		<u>26</u>	<u>4,058</u>
		<u>(2,413,775)</u>	<u>17,505,313</u>
Earnings per share			
Basic (cents per share)		(3.1 cents)	26.4 cents
Diluted (cents per share)		(3.1 cents)	26.9 cents

Notes to the condensed consolidated financial statements are included on pages 9 to 14.

**MATRIX COMPOSITES & ENGINEERING LTD
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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	31 Dec 2011	31 Dec 2010
	\$	Restated \$
(Loss)/profit for the period	<u>(2,413,775)</u>	<u>17,505,313</u>
Other comprehensive income		
Net foreign currency translation differences	<u>292,693</u>	<u>(4,495)</u>
Net effective portion of changes in fair value of cash flow hedges	(1,697,053)	7,188,835
Income tax benefit	<u>509,119</u>	<u>(2,120,044)</u>
	<u>(1,187,934)</u>	<u>5,068,791</u>
Revaluation of freehold property	(2,949)	-
Income tax benefit	<u>-</u>	<u>-</u>
	<u>(2,949)</u>	<u>-</u>
Total comprehensive (loss)/income for the period	<u>(3,311,965)</u>	<u>22,569,609</u>
Total comprehensive (loss)/income attributable to:		
Owners of the parent entity	(3,311,991)	22,565,551
Non-controlling interest	<u>26</u>	<u>4,058</u>
Total comprehensive (loss)/income for the period	<u>(3,311,965)</u>	<u>22,569,609</u>

Notes to the condensed consolidated financial statements are included on pages 9 to 14.

**MATRIX COMPOSITES & ENGINEERING LTD
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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	Note	31 Dec 2011	30 June 2011
		\$	Restated \$
CURRENT ASSETS			
Cash and cash equivalents		17,939,897	26,658,014
Trade and other receivables		29,586,596	33,907,119
Inventory		34,033,282	30,040,025
Financial assets		4,523,002	8,478,122
Other current assets		928,370	1,049,783
TOTAL CURRENT ASSETS		<u>87,011,147</u>	<u>100,133,063</u>
NON CURRENT ASSETS			
Property, plant and equipment		101,754,425	97,980,710
Intangible assets		6,415,215	6,415,215
Deferred tax asset		4,972,471	1,817,298
TOTAL NON CURRENT ASSETS		<u>113,142,111</u>	<u>106,213,223</u>
TOTAL ASSETS		<u>200,153,258</u>	<u>206,346,286</u>
CURRENT LIABILITIES			
Trade and other payables		23,394,254	24,542,349
Progress claims and deposits		19,106,451	11,579,192
Financial liabilities		9,428,294	4,645,190
Current tax liabilities		664,582	8,707,017
Short-term provisions		1,503,275	1,725,873
TOTAL CURRENT LIABILITIES		<u>54,096,856</u>	<u>51,199,621</u>
NON CURRENT LIABILITIES			
Financial liabilities		28,644,762	30,562,501
Deferred tax liability		2,240,626	2,309,025
Long-term provision		426,175	364,260
TOTAL NON CURRENT LIABILITIES		<u>31,311,563</u>	<u>33,235,787</u>
TOTAL LIABILITIES		<u>85,408,419</u>	<u>84,435,408</u>
NET ASSETS		<u>114,744,839</u>	<u>121,910,879</u>
EQUITY			
Issued capital	4	76,388,203	76,388,203
Reserves		1,017,059	1,915,249
Retained earnings		37,349,780	43,617,656
Parent equity interest		114,755,042	121,921,108
Non-controlling interest		(10,203)	(10,229)
TOTAL EQUITY		<u>114,744,839</u>	<u>121,910,879</u>

Notes to the condensed consolidated financial statements are included on pages 9 to 14.

**MATRIX COMPOSITES & ENGINEERING LTD
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	Issued Capital	Retained Earnings	Assets Revaluation Reserve	Option Premium Reserve	Hedge Reserve	Foreign Currency Translation Reserve	Attributable to owners of the parent	Non-controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2010 as reported	40,446,325	18,618,142	842,762	273,000	(122,020)	(150,667)	59,907,542	(14,295)	59,893,247
Prior period correction	-	(1,466,237)	-	-	-	-	(1,466,237)	-	(1,466,237)
Balance at 1 July 2010 (Restated)	40,446,325	17,151,905	842,762	273,000	(122,020)	(150,667)	58,441,305	(14,295)	58,427,010
Total comprehensive income for the period	-	-	-	-	-	-	-	-	-
- Profit for period	-	17,501,255	-	-	-	-	17,501,255	4,058	17,505,313
- Foreign currency translation	-	-	-	-	-	(4,495)	(4,495)	-	(4,495)
- Change in fair value of cash flow hedges net of tax	-	-	-	-	5,068,791	-	5,068,791	-	5,068,791
Issue of fully paid ordinary shares	1,800,000	-	-	-	5,068,791	(4,495)	22,565,551	4,058	22,569,609
Dividend paid	-	(1,459,282)	-	-	-	-	1,800,000	-	1,800,000
Balance at 31 December 2010 (Restated)	42,246,325	33,193,878	842,762	273,000	4,946,771	(155,162)	81,347,574	(10,237)	81,337,337
Balance at 1 July 2011 as reported	76,388,203	48,466,944	842,762	273,000	1,032,631	(233,144)	126,770,395	(10,229)	126,760,166
Prior period correction	-	(4,849,288)	-	-	-	-	(4,849,288)	-	(4,849,288)
Balance at 1 July 2011 (Restated)	76,388,203	43,617,656	842,762	273,000	1,032,631	(233,144)	121,921,108	(10,229)	121,910,879
Total comprehensive income for the period	-	(2,413,801)	-	-	-	-	(2,413,801)	26	(2,413,775)
- Losses for period	-	(2,413,801)	-	-	-	-	(2,413,801)	26	(2,413,775)
- Foreign currency translation	-	-	-	-	-	292,693	292,693	-	292,693
- Change in fair value of cash flow hedges net of tax	-	-	-	-	(1,187,934)	-	(1,187,934)	-	(1,187,934)
- Revaluation of freehold property	-	-	(2,949)	-	-	-	(2,949)	-	(2,949)
Dividend paid	-	(2,413,801)	(2,949)	-	(1,187,934)	292,693	(3,311,991)	26	(3,311,965)
Balance at 31 December 2011	76,388,203	37,349,780	839,813	273,000	(155,303)	59,549	114,755,042	(10,203)	114,744,839

Notes to the condensed consolidated financial statements are included on pages 9 to 14.

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	31 Dec 2011	31 Dec 2010
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	92,112,622	70,577,134
Payments to suppliers and employees	(78,932,428)	(74,689,018)
Interest received	285,840	65,176
Interest and other costs of finance paid	(1,357,857)	(424,320)
Income tax paid	(7,303,100)	(1,729,904)
	<u>4,805,077</u>	<u>(6,200,932)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	24,000	6,001
Payments for property, plant and equipment	(11,916,941)	(26,481,152)
Payments for intangibles	-	(6,929)
	<u>(11,892,941)</u>	<u>(26,482,080)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital net of costs	-	1,800,000
Repayment of borrowings	(6,401,383)	(1,573,100)
Proceeds from borrowings	8,625,205	23,630,556
Dividend paid	(3,854,075)	(1,459,282)
	<u>(1,630,253)</u>	<u>22,398,174</u>
Net cash (used in)/ provided by investing activities	<u>(11,892,941)</u>	<u>(26,482,080)</u>
Net cash (used in)/ provided by financing activities	<u>(1,630,253)</u>	<u>22,398,174</u>
Net (decrease) in cash held	(8,718,117)	(10,284,838)
Cash and cash equivalents at beginning of the period	<u>26,658,014</u>	<u>13,555,077</u>
Cash and cash equivalents at end of the period	<u><u>17,939,897</u></u>	<u><u>3,270,239</u></u>

Notes to the condensed consolidated financial statements are included on pages 9 to 14.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Matrix Composites & Engineering Ltd is a company limited by shares, incorporated and domiciled in Australia, which shares are publicly traded on the Australian Securities Exchange.

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 'Interim Financial Reporting'. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report for the year ended 30 June 2011 and any public announcement made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below and the impact of prior period correction described in note 9. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current reporting period.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half-year financial statements.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

NOTE 2: SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resource to the segment and to assess its performance. The operating segments identified by the Group are described below:

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 casings, offshore structures, subsea skids and manifolds, offshore cranes and winches together with associated testing, refurbishment and maintenance to the oil and gas industry. This business unit also supplies heavy material handling equipment for iron ore, rollers and pulleys, screens and filters, winches and other processing equipment to the mining and mineral processing industries. Maintenance and labour services are also provided to the oil and gas sector.

Other and unallocated

This segment is the aggregation of the Group's other activities that are not separately reportable and include corporate costs.

No operating segments have been aggregated to form the above reportable operating segments.

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

NOTE 2: SEGMENT INFORMATION (CONT)

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Revenue		Profit/(Loss)	
	Half-year ended		Half-year ended	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
		Restated		Restated
	\$	\$	\$	\$
Composites materials	72,334,127	77,305,925	(6,677,198)	24,960,612
Offshore services & engineering	12,283,423	14,644,473	115,965	307,357
Other	667,186	1,857,316	132,176	333,054
Inter segment revenue	<u>(1,743,405)</u>	<u>(6,176,730)</u>	-	-
Total for continuing operations	<u>83,541,331</u>	<u>87,630,984</u>	<u>(6,429,057)</u>	<u>25,601,023</u>
Investment income			285,840	65,176
Finance costs			(1,357,857)	(424,320)
Impairment charges			-	<u>(604,302)</u>
Profit/(loss) before tax (continuing operations)			<u>(7,501,074)</u>	<u>24,637,577</u>

NOTE 3: REVENUE AND EXPENSES

	31 Dec 2011	31 Dec 2010
		Restated
	\$	\$

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

Revenue

Manufacturing revenue	70,590,722	72,991,499
Contract revenue	12,950,609	14,639,485
	<u>83,541,331</u>	<u>87,630,984</u>

Other Revenue

Interest received	285,840	65,176
Sundry income	75,224	34,914
	<u>361,064</u>	<u>100,090</u>

Other gains/losses

Net realised foreign currency (loss)/gain	(1,640,492)	724,996
Net unrealised (loss)/gain on revaluation of financial instruments	(1,245,921)	1,381,221
(Loss) on sale of fixed assets	(4,078,402)	(516)
	<u>(6,964,815)</u>	<u>2,105,701</u>

Operating Expenses

Depreciation	5,141,870	1,488,971
Finance costs	1,357,857	424,320

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

	31 Dec 2011 \$	30 June 2011 \$
NOTE 4: CONTRIBUTED EQUITY		
(a) Issued and fully paid shares		
77,081,507 (2011: 77,081,507) fully paid ordinary shares	<u>76,388,203</u>	<u>76,388,203</u>
(b) Movements in issued and fully paid shares		
	Number of shares	\$
Balance at the beginning of the period	<u>77,081,507</u>	<u>76,388,203</u>
Shares issued	-	-
Less: capital issue costs	<u>-</u>	<u>-</u>
Balance at the end of the period	<u>77,081,507</u>	<u>76,388,203</u>

NOTE 5: DIVIDENDS

During the period, Matrix Composites & Engineering Ltd made the following dividend payments:

	Half-year ended 31 December 2011		Half-year ended 31 December 2010	
	Cents per share	Total \$	Cents per share	Total \$
Fully paid ordinary shares				
Final Dividend	5.0	3,854,075	2.0	1,459,282

The directors have declared a fully franked dividend of 2 cents per share in respect of the half-year ended 31 December 2011.

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**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

NOTE 6: KEY MANAGEMENT PERSONNEL

The Chief Financial Officer, Mr Michael Kenyon, resigned on 22 September 2011. Between 22 September 2011 and 17 December 2011 Mr Paul Wright (Non-executive director) performed the duties of Chief Financial Officer and received remuneration of \$15,000 per month.

Mr Peter Tazewell was appointed Chief Financial Officer on 19 December 2011 for an initial contract period of 24 months. Mr Tazewell is entitled to receive remuneration of \$325,000 per annum, exclusive of superannuation, plus a discretionary bonus of up to \$30,000 for the period to 30 June 2012. Mr Tazewell's contract may be terminated by either party on three months' notice.

During the period ended 31 December 2011 the Company paid the following discretionary bonuses in relation to the performance of the Company for the year ended 30 June 2011 which had not been accrued as at 30 June 2011:

Mr Aaron Begley Chief Executive Officer	\$75,000
Mr Michael Kenyon Chief Financial Officer	\$33,000
Mr Alex Vincan General Manager – Operations	\$45,000

NOTE 7: CONTINGENT LIABILITIES AND ASSETS

The Group had no contingent liabilities or assets requiring disclosure at 31 December 2011.

NOTE 8: EVENTS SUBSEQUENT TO REPORTING DATE

No matter or circumstance has arisen subsequent to 31 December 2011 that has significantly affected, or may significantly affect the operations or the state of affairs of the Group in future financial years.

NOTE 9: PRIOR PERIOD CORRECTION

During the period the Group has identified prior period corrections with respect to the following:

1. Recognition of revenue and the associated cost of sales with respect to the sale of drilling riser buoyancy modules. The revised accounting treatment is such that revenue and the associated cost of sales recognised in previous periods have been incorrectly recognised in accordance with AASB 118 Revenue. The significant risks and rewards with respect to the sale of composite materials had not transferred at reporting date and as a result revenue and the associated cost of sales should not have been recognised. The change is made retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. This change results in the financial report providing reliable and more relevant information with respect to the recognition of revenue and better representing the substance of the transaction. The accounting treatment has been amended by restating the affected line items as detailed below.

**MATRIX COMPOSITES & ENGINEERING LTD
AND CONTROLLED ENTITIES
ABN: 54 009 435 250**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011**

2. Costs incorrectly capitalised with respect to the construction of Property, Plant and Equipment. The revised accounting treatment is such that certain costs were incorrectly capitalised in accordance with AASB 116 Property, Plant and Equipment. The change is made retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. This change results in the financial report providing reliable and more relevant information with respect to the recognition of capitalised costs and better representing the substance of the transaction. The accounting treatment has been amended by restating the affected line items as detailed below.

	30 June 2011	31 Dec 2010
	\$	\$
Statement of Comprehensive Income		
Increase / (Decrease) in Revenue	N/A	(4,738,864)
(Increase) / Decrease in Cost of Sales	N/A	2,541,631
Increase / (Decrease) in Gross Profit	N/A	(2,197,233)
Increase / (Decrease) in basic and diluted earnings per share	N/A	(2.4) cents

Statement of financial position

Increase / (Decrease) in Inventory	9,721,501	N/A
Increase / (Decrease) in Other Current Assets	(2,565,577)	N/A
Increase / (Decrease) in Property, Plant & Equipment	(1,753,000)	N/A
(Increase) / Decrease in Progress Claims	(11,579,193)	N/A
(Increase) / Decrease in Current Tax Liabilities	1,326,981	N/A
Increase / (Decrease) in Retained Earnings	(4,849,287)	N/A
Increase / (Decrease) in Total Equity	(4,849,287)	N/A

There is no impact on cash flows for any of the periods presented.

NOTE 10: INCOME TAX EXPENSE

	31 Dec 2011	31 Dec 2010
	\$	\$
The components of tax expense comprise:		
Current tax	7,800,752	(6,590,820)
Deferred tax	(2,713,453)	(541,444)
	5,087,299	(7,132,264)

The prima facie tax payable on the operating profit is reconciled to the income tax provided in the accounts as follows:

Prima facie tax receivable/ (payable) on operating (loss)/profit before income tax at 30% (2010: 30%)	2,250,322	(6,899,562)
Non allowable Items	-	-
Other	309,501	2,855
Research & development tax concession	1,831,184	(79,900)
Deferred tax balances not previously recognised	696,292	-
Tax investment allowance	-	(155,657)
Income tax benefit /(expense)	5,087,299	(7,132,264)

**MATRIX COMPOSITES & ENGINEERING LTD
AND CONTROLLED ENTITIES
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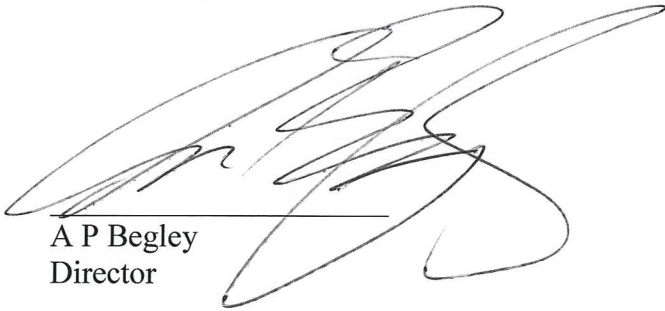
DIRECTORS' DECLARATION

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; and
- b) 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.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the directors



A P Begley
Director

Perth, 23 February 2012

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

We have reviewed the accompanying half-year financial report of Matrix Composites & Engineering Ltd, which comprises the condensed statement of financial position as at 31 December 2011, and the condensed income statement, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 4 to 15.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Matrix Composites & Engineering Ltd's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Matrix Composites & Engineering Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, 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 review report.

Deloitte

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Matrix Composites & Engineering Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Matrix Composites & Engineering Ltd's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Kathleen Bozanic

Kathleen Bozanic

Partner

Chartered Accountants

Perth, 23 February 2012