



FINANCIAL STATEMENTS

30 JUNE 2012

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CORPORATE DIRECTORY

DIRECTORS

Mr P J Hood (Chairman)
Mr A P Begley (CEO)
Mr C N Duncan
Mr N L Johnson
Mr P R Wright

COMPANY SECRETARY

Mr P Tazewell

HEAD OFFICE

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BANKERS

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LAWYERS

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AUDITOR

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PERTH WA 6000

SHARE REGISTRY

Link Market Services Ltd
Ground Floor
178 St Georges Terrace
PERTH WA 6000

DIRECTORS' REPORT

The directors of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") submit herewith the annual report of the Company for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

Directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

Peter J Hood *Independent Non-Executive Chairman*

Qualifications & Experience Peter Hood is a qualified Chemical Engineer with over 40 years' experience in senior management and project development in the mining, oil and gas, and chemical industries.

Mr Hood was previously the CEO of Coogee Resources Ltd, a company involved in the exploration and production of oil and gas in the Timor Sea. Prior to this he was the CEO of Coogee Chemicals Pty Ltd where he oversaw a period of significant growth in the company's enterprise value.

Mr Hood is currently the Deputy President of the Australian Chamber of Commerce and Industry (ACCI), a Non-Executive Director of the Chamber of Commerce and Industry of WA (CCIWA), GR Engineering Ltd and Swan Oil & Gas Ltd, and Chairman of MAK Industrial Water Systems Pty Ltd. He was also previously Chairman of Apollo Gas Ltd (merged with Dart Energy Ltd in 2010) and Vice-Chairman of APPEA.

Mr Hood is a member of both the Audit and Risk Management and Remuneration Committees.

Education Bachelor of Engineering (Chemical), Melbourne University, 1970

Advanced Management Program, Harvard Business School, 1997

Graduate Diploma of Administration, Western Australian Institute of Technology (now Curtin University), 1974

Memberships/ Committees Fellow-Australian Institute of Company Directors

Fellow of The Institute of Chemical Engineers

Member-Australian Institute of Mining and Metallurgy

Aaron P Begley *Managing Director & Chief Executive Officer*

Qualifications & Experience Aaron Begley has 18 years' experience in manufacturing and marketing products in the field of industrial ceramics and composite materials for the offshore energy industry.

Prior to his current role as Managing Director and Chief Executive Officer, Mr Begley held various positions within Matrix Composites & Engineering Ltd since starting with the company in 1993. Throughout his tenure, Mr Begley has overseen the company's growth from a local engineering firm to an ASX300 listed company and global market leader in the manufacture and development of composite materials technologies and engineered products for the oil & gas sector.

DIRECTORS' REPORT

Education

AIMS Leadership Certificate Course, 2006

Post Graduate Diploma of Management (Curtin), 2002

Bachelor of Economics (University of Western Australia), 1993

Memberships

Australian Institute of Company Directors

Society of Underwater Technology (SUT)

Craig N Duncan *Independent Non-Executive Director*

Qualifications & Experience

Craig Duncan has 35 years' experience in the petroleum and mining industries in Australia, Asia, the Middle East and Africa. He was previously a Drilling Superintendent at Apache Energy for 12 years and was responsible for managing well construction operations. Prior to this role, Mr Duncan was involved in manufacturing specialised equipment for the gold mining industry.

Mr Duncan is Chairman of the Audit and Risk Management and a member of the Remuneration Committee.

Education

Graduate Diploma in Petroleum Engineering, University of New South Wales, 2005

Nigel L Johnson *Independent Non-Executive Director*

Qualifications & Experience

Nigel Johnson is a Chartered Accountant with 40 years' experience in corporate finance, treasury, accounting and risk management. Mr Johnson has specific expertise in accounting and financial management, capital raisings, debt financing, treasury and financial risk management, change and relationship management, and strategic planning.

Mr Johnson has worked for a number of public and private organisations across a range of industries including Straits Resources Ltd as the company's CFO and Heytesbury Pty Ltd in the role of Group Treasurer. Mr Johnson has also been a director for various public and private companies and has provided consultancy services to such companies in Australia and overseas.

Mr Johnson resigned as Chairman of the Board on 25 October 2011 and is a member of the Remuneration Committee.

Education

Diploma in Accountancy Studies, University of Rhodesia, 1975

Memberships & Committees

The Institute of Chartered Accountants in Australia

Australian Institute of Company Directors

Finance and Treasury Association (Australia)

DIRECTORS' REPORT

Paul R Wright *Non-Executive Director*

Qualifications & Experience Paul Wright has an accounting degree and has worked in public accounting and managerial roles for a number of engineering and manufacturing businesses.

Mr Wright has worked at Matrix since 1995 and was instrumental in securing capital for the establishment of the composites business. Prior to the company's listing on the ASX in 2009, Mr Wright was the CFO for 11 years and CEO for two years. Preceding the listing, he resumed the role of CFO for a further year before retiring in October 2010. Between 22 September 2011 and 18 December 2011 Mr Wright acted in an executive capacity as the acting Chief Financial Officer of the Group.

Prior to his involvement with Matrix, Mr Wright was the Managing Director of Centurion Industries Ltd, a national heavy engineering firm, for nine years. In this role he was responsible for an employee buy-out of Tomlinson Steel Ltd and the subsequent ASX listing of the company (now RCR Tomlinson).

Mr Wright is a member of the Audit and Risk Committee.

Education Bachelor of Business, Curtin University, 1978

Maxwell G Begley *Non-Executive Director*

Qualifications & Experience Mr Begley has over thirty years' experience in metal fabrication and machining, as well as machinery and equipment design, and 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. Mr Begley resigned during the year.

The above named directors held office during the whole of the financial year and since the end of the financial year except for:

- Mr Peter Hood Appointed 15 September 2011
- Mr Maxwell Begley Resigned 2 May 2012

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 are as follows:

Name	Company	Period of directorship
NL Johnson	Catalpa Resources Ltd	2008 – 2009
PJ Hood	Apollo Gas Ltd	2009 – 2010
	GR Engineering Ltd	2010 - Current

DIRECTORS' REPORT

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	Fully paid shares Number	Share options Number
PJ Hood	130,000	-
AP Begley	3,517,763	-
NL Johnson	116,176	-
PR Wright	1,343,641	-
CN Duncan	590,429	-

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 key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report of this director's report, on pages 13 to 15. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Company Secretary

Mr Peter Tazewell joined Matrix on 19 December 2011 as Chief Financial Officer and Company Secretary. He has 25 years' experience in chemical, manufacturing and financial industries. He previously held the position of CFO of CSBP Limited, the chemical manufacturing division of Wesfarmers. Mr Tazewell is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Services Institute of Australasia.

Principal Activities for FY 2012

The consolidated entity's principal activities during the course of the financial year were the:

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

DIRECTORS' REPORT

Review of Operations

Matrix operates two distinct business; Matrix Composite Materials ("MCM") and Matrix Offshore Services and Engineering ("MOSE"), which service the global oil and gas industry and the domestic resources sector respectively. The manufacture of composite foam buoyancy systems was the company's principal activity throughout the year.

Safety

Matrix recorded a significant improvement in safety performance across all of its operating sites during the year. The Henderson plant has been constructed and configured to eliminate a range of potential hazards associated with materials and chemicals handling which are typically found in MCM's industry sector. This improvement in plant design and a drive for continuous improvement in safety culture and occupational health and safety systems across the Group is aimed at attaining best practice in this critical operational area. The outcome of these improvements has been manifested in a significant decrease in the company's Group wide lost time injury frequency rate ("LTIFR") and medical treatment injury ("MTI") rates which have steadily declined throughout the year.

Matrix operates an operational health and safety ("OHS") system that complies with the measurements of AS4801, and is a member of IFAP. Matrix recorded a Group LTIFR of 1.1 at 30 June 2012 compared with 22.6 at 30 June 2011.

Matrix Composite Materials

From its state-of-the-art, purpose built facility at Henderson, Western Australia MCM manufactures and distributes a range of specialised engineered products for the global oil and gas exploration and production ("E&P") sector using syntactic foam and thermoplastic technologies.

Matrix manufactures and distributes a range of specialised engineered products including:

- i) drilling riser buoyancy modules;
- ii) subsea umbilical riser and flow line ("SURF") ancillary products;
- iii) standard or stock size composite syntactic foam products; and
- iv) well construction products, including thermoplastic centralisers.

Manufacturing Operations

During the financial year MCM progressively commissioned its Henderson manufacturing facility which, at year end, was operating at 72 per cent of its target output of syntactic foam products. Total production for the year was approximately 47.7 per cent of nameplate capacity which significantly adversely impacted the financial performance of the business. In addition, MCM suffered unusually high labour costs during the transition from the former Malaga manufacturing facility to the current facilities at Henderson.

In September 2011, MCM ceased manufacturing syntactic foam products at Malaga and moved all manufacturing to Henderson. The closure of the Malaga plant resulted in a non-cash write-off of \$4.1 million

In the six weeks since 30 June 2012, the Henderson plant has achieved 90 per cent of its target capacity and daily production rates continue to improve. The final construction cost of the Henderson facility is \$76 million.

MCM commenced production of its patented centraliser products at Henderson, installing two injection moulding machines to support its manufacturing capacity.

DIRECTORS' REPORT

Commercial

During the financial year MCM expanded its presence in the USA, employing additional staff and expanding its warehouse facilities to support anticipated growth in the sales of well construction products, and opened an office in Brazil. MCM reorganised its sales and marketing function during the year to provide technical product support and geographic coverage across the principal geographic regions that the business operates in.

While sales of syntactic foam products were constrained by production from the Henderson facility, MCM fulfilled all of its obligations to its customers during the year.

MCM continues its strategy to diversify its revenue streams across different products and sectors in the oil and gas industry. The outlook for MCM products continues to be strong, underwritten by continued high energy prices and committed capital projects in the oil and gas sector.

Matrix Offshore Services & Engineering

From its Malaga base, MOSE supplies specialised engineering services to the domestic resources sector (particularly iron ore mining), well construction equipment to the oil and gas sector, manufactures engineered products for MCM and provides maintenance support services.

Operations

MOSE consolidated its operational facilities into adjoining facilities in Malaga following the transfer of MCM's composite manufacturing operations to Henderson. MOSE maintained its ISO 9001:2008 accreditation throughout the year.

Commercial

MOSE continued its strategy to generate increased revenue from the regional oil and gas service sector. Together with continued strong demand from the domestic resources sector, MOSE recorded a strong earnings result.

The outlook for MOSE operations is mixed with a likely softening in the domestic resources sector balanced by continued strong demand for offshore and onshore maintenance services.

Support functions

During the financial year Matrix initiated a number of projects to support the growth and development of its organisational capacity including:

- i) commencement of a cultural development programme;
- ii) strengthening its occupational health, safety and environment capabilities and development of increased safety initiatives;
- iii) mapping commercial and operational business processes; and
- iv) identification of a replacement enterprise resource planning ("ERP") system.

During the financial year Matrix completed construction of its new corporate office facilities at Henderson, Western Australia.

DIRECTORS' REPORT

Financial Results for the Year

Group Financial Metrics

- Sales revenue of \$144.8 million, 17.1 per cent lower than FY2011 (\$174.6 million).
- EBITDA of \$(13.2) million compared with FY2011 EBITDA of \$47.8 million.
- Net loss after tax of \$14.4 million compared with FY2011 Net profit after tax of \$30.2 million.

The table below sets out summary information about the consolidated entity's earnings and movement in shareholder wealth for the three years to 30 June 2012.

		30 June 2012	Restated 30 June 2011	Restated 30 June 2010
Revenue	\$	144,811,799	174,640,578	101,108,028
Net (loss)/profit before tax	\$	(25,675,142)	42,495,062	22,807,693
Net (loss)/profit after tax	\$	(14,445,748)	30,225,319	16,693,669
Share price at start of year	\$	7.22	2.68	1.36 ¹
Share price at end of year	\$	1.75	7.22	2.68
Interim dividend ²	cents per share	2.0	3.0	2.0
Final dividend ^{2,3}	cents per share	7.0	5.0	2.0
Basic (loss)/earnings per share	cents per share	(18.4)	41.4	28.5
Diluted (loss)/earnings per share	cents per share	(18.4)	41.4	27.0

¹ Closing price on listing date – 16 November 2009.

² Franked to 100 per cent at 30 per cent corporate income tax rate.

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

Margins

Operating margins recorded during the year were adversely impacted by:

- Production rates below what was anticipated from the Henderson facility, as a result of the commissioning process;
- Increased storage and logistics costs associated with delays in achieving targeted production rates;
- Increased wastage arising from the commissioning process;
- Significant appreciation in the AUD:USD exchange rate; and
- A cyclical fall in global unit pricing for syntactic foam products.

Cash flow

Net cash flow from operations was \$10.9 million, which is a significant improvement from the previous year. Cash flow for the Group was adversely impacted by:

- capital expenditure of \$27.1 million;
- increased borrowing costs associated with high debt levels; and
- reduced operating margins resulting from lower than anticipated production.

DIRECTORS' REPORT

As noted elsewhere in this Director's Report, Matrix raised approximately \$35.3 million (after capital raising costs) in May and June 2012 which has substantially strengthened the Group's working capital position.

The nature of the syntactic foam products manufactured by Matrix and the associated lead time between order, manufacture and billing, results in irregular cash flows. Matrix is seeking to reduce its exposure to these irregular cash flows by diversifying the revenue streams it can generate from its manufacturing facilities.

Changes in State of Affairs

During the financial year the consolidated entity closed its composite material manufacturing facilities at Malaga and completed the transition of its manufacturing and corporate operations to Henderson.

During May and June 2012, the company raised approximately \$35.3 million (after capital raising costs) through the issue of 15,605,348 shares to institutional investors and 1,868,573 shares to all other shareholders at \$2.10 each under a Retail Entitlement Offer which subsequently gained quotation on the Australian Stock Exchange.

Other than that stated above, there were no significant changes in the state of affairs of the consolidated entity for the year ended 30 June 2012.

Subsequent events

Subsequent to the end of the financial period the following significant events have occurred:

- i) On 17 July, the Company announced that it had secured new buoyancy contracts to the value of US\$45.2 million;
- ii) On 24 July 2012, the Company achieved its targeted production of buoyancy products at its Henderson manufacturing facility; and
- iii) On 15 August 2012, the Company successfully renegotiated the financial covenants applying to its debt facilities.

Other than the above, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those 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 consolidated entity's principal operating site at Henderson, Western Australia is subject to the operation of the Environmental Protection Act 1986 (WA) ("EP Act"). Compliance with the provisions of the EP Act, and reporting of any breaches, is overseen by the Group Occupational Health Safety and Environment department. When breaches occur, they are reported to the Department of Environment and Conservation as required and actions taken to prevent recurrences.

During the year there were no material breaches of the Act.

DIRECTORS' REPORT

Dividends

In respect of the financial year ended 30 June 2011, as detailed in the directors' report for that financial year, a final dividend of five cents per share, franked to 100 per cent at 30 per cent corporate income tax rate, was paid to the holders of fully paid ordinary shares on 31 October 2011.

In respect of the financial year ended 30 June 2012, an interim dividend of two cents per share, franked to 100 per cent at 30 per cent corporate income tax rate, was paid to the holders of fully paid ordinary shares on 30 April 2012.

In respect of the financial year ended 30 June 2012, the directors do not recommend the payment of a final dividend.

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above) and all executive officers of the Company and any related body corporate against a liability incurred as such director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

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.

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year 14 board meetings, three remuneration committee meetings and five audit and risk committee meetings were held.

Directors	Board of directors		Remuneration Committee		Audit & Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended
PJ Hood ¹	12	11	2	2	4	4
AP Begley (CEO)	14	14	-	-	-	-
CN Duncan	14	13	3	3	5	5
NL Johnson ²	14	13	3	3	5	5
PR Wright ³	14	14	1	1	5	4
MG Begley ⁴	8	8	-	-	-	-

DIRECTORS' REPORT

- ¹ Mr PJ Hood joined the board on 15 September 2011 and was appointed Chairman of the Board on 25 October 2011. Mr Hood was appointed Chairman of the Remuneration Committee and joined the Audit & Risk Committee on 25 October 2011.
- ² Mr Johnson resigned as Chairman of the Remuneration Committee on 25 October 2011 however he remains a member of the committee. Mr Johnson resigned from the Audit & Risk Committee on 9 May 2012.
- ³ Mr Wright resigned from the Remuneration Committee on 9 May 2012.
- ⁴ Mr MG Begley resigned from the Board of Directors on 2 May 2012.

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 as disclosed in note 5 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in 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 is included on page 27 of the annual report.

DIRECTORS' REPORT

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 2012. These 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:

- Director and senior management details
- Remuneration policy
- Relationship between the remuneration policy and company performance
- Remuneration of directors and senior management
- Key terms of employment contracts

Directors and Senior Management Details

The following persons acted as directors of the Company during or since the end of the financial year:

Mr PJ Hood (Chairman)

Mr AP Begley (Chief Executive Officer)

Mr CN Duncan

Mr NL Johnson

Mr PR Wright

Mr MG Begley

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

Mr M Kenyon (Chief Financial Officer/Company Secretary, resigned 22 September 2011)

Mr PR Wright (Acting Chief Financial Officer/Company Secretary from 22 September 2011 to 18 December 2011)

Mr P Tazewell (Chief Financial Officer/Company Secretary, appointed 19 December 2011)

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

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).

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

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 2011 based on the Group's financial results and delivery of key outcomes.

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.

A comprehensive Performance Bonus Policy and Plan ('Bonus Plan') for executives and other employees has been implemented with 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 fully achieved.

For the year ended 30 June 2012, Matrix did not achieve the net profit after tax KPI target and, as such, no bonuses attributable to this KPI are payable under the Bonus Plan. Notwithstanding this, several non-financial KPIs were achieved and the Board retains the discretion to award bonuses to certain individuals.

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. A comprehensive bonus structure was established on 1 July 2011, for financial years ended on or after 30 June 2012, incorporating a number of objective KPIs.

Key terms of Employment Contracts

Executive service agreements

Name	Commencement date	Term	Notice period
AP Begley – Managing Director & CEO	1 October 2009	36 months	3 months
PJ Tazewell – CFO & Company Secretary	19 December 2011	24 months	3 months

Options Awarded and Vested during the Year

No options were issued during the year to the directors or key management personnel and no options vested during the year (2011: nil). Furthermore, there were no other share-based payment arrangements in place at 30 June 2012.

During the year, there are no options exercised or granted to directors or key management personnel as part of their compensation.

DIRECTORS' REPORT

AUDITED REMUNERATION REPORT

Remuneration of Directors & Senior Management

	Year	Short-term Benefits				Post Employment Benefits	Long-term Benefits		Total	Proportion Performance related
		Salary & fees	Cash bonus ⁴	Non-monetary benefits ⁵	Total	Super-annuation benefits	Share-based Payments			
							Equity	Option		
		\$	\$	\$	\$	\$	\$	\$	%	
Executive Director										
AP Begley (MD & CEO)	2012	450,000	75,000	16,096	541,096	21,956	-	-	563,052	13%
	2011	408,000	-	8,696	416,696	17,299	-	-	433,995	-
Non - Executive Directors										
PJ Hood ¹	2012	71,654	-	-	71,654	6,448	-	-	78,102	-
	2011	-	-	-	-	-	-	-	-	-
CN Duncan	2012	52,500	-	-	52,500	4,725	-	-	57,225	-
	2011	45,000	-	-	45,000	4,050	-	-	49,050	-
NL Johnson	2012	22,735	-	-	22,735	46,736	-	-	69,471	-
	2011	29,000	-	-	29,000	47,300	-	-	76,300	-
PR Wright ²	2012	110,225	-	-	110,225	4,725	-	-	114,950	-
	2011	116,103	-	-	116,103	18,225	-	-	134,328	-
MG Begley ³	2012	43,731	-	-	43,731	3,900	-	-	47,631	-
	2011	105,000	-	-	105,000	4,050	-	-	109,050	-
Executive officers										
PJ Tazewell ⁸ (CFO/Company Secretary)	2012	175,000	-	-	175,000	7,888	-	-	182,888	-
	2011	-	-	-	-	-	-	-	-	-
A Vincan (General Manager)	2012	285,358	45,000	-	330,358	18,131	-	-	348,489	13%
	2011	292,730	-	12,270	305,000	15,199	-	-	320,199	-
P Riordan (Matrix Offshore Services & Engineering)	2012	196,546	-	5,181	201,727	17,059	-	-	218,786	-
	2011	189,369	-	7,598	196,967	16,003	-	-	212,970	-
MP Kenyon ⁶ (CFO/Company Secretary)	2012	68,041	33,000	-	101,041	9,525	-	-	110,566	30%
	2011	187,860	-	-	187,860	17,010	-	-	204,870	-
G Northway ⁷ (General Manager)	2012	-	-	-	-	-	-	-	-	-
	2011	48,548	-	-	48,548	24,593	-	-	73,141	-
Total	2012	1,475,790	153,000	21,277	1,650,067	141,093	-	-	1,791,160	-
Total	2011	1,421,610	-	28,564	1,450,174	163,729	-	-	1,613,903	-

¹ Mr PJ Hood was appointed a director on 15 September 2011.

² Mr PR Wright acted in an executive capacity from 22 September 2011 until 18 December 2011. Fees for these executive duties totaling \$57,725 were paid to Fortress Enterprises Pty Ltd, a company of which PR Wright is a director and a substantial shareholder.

³ Mr MG Begley resigned as a director on 2 May 2012. Fees totaling \$60,000 in FY2011 were paid to BIMS Pty Ltd, a company of which MG Begley is a director and a substantial shareholder.

⁴ No bonuses pertaining to FY2012 had been recommended or paid at the date of this report. The amounts shown above were paid in the year ending 30 June 2012 in relation to the strong Group financial results achieved in FY2011 and other key outcomes. The bonuses were at the discretion of the Board of Directors.

⁵ Provision of fully maintained Company vehicle.

⁶ Mr MP Kenyon resigned from the Company on 22 September 2011.

⁷ Mr G Northway resigned from the Company on 12 November 2010.

⁸ Mr P Tazewell was appointed to the position of CFO/Company Secretary of the Company on 19 December 2011.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Introduction

The Board of Matrix Composites & Engineering Ltd ("Matrix" or "the Company") is responsible for the corporate governance of Matrix and its subsidiary companies. The Board determines all matters relating to the strategic direction, corporate governance, policies, practices, management and operations of Matrix with the aim of protecting the interests of its Shareholders and other stakeholders, including employees, customers and suppliers.

The ASX Corporate Governance Council's (Council) "Corporate Governance Principles and Recommendations" (Principles and Recommendations) articulate eight core corporate governance Principles, with commentary about implementation of those Principles in the form of Recommendations.

Under ASX Listing Rule 4.10.3, Matrix is required to provide a statement in its annual report disclosing the extent to which it has followed the Recommendations in the reporting period. Where a Recommendation has not been followed, the fact must be disclosed, together with reasons for departure from the Recommendation. In addition, a number of the Recommendations require the disclosure of specific information in the corporate governance statement of the annual report.

Matrix's corporate governance statement is structured with reference to the Council's Principles and Recommendations, which Principles are as follows:

- | | |
|-------------|--|
| Principle 1 | Lay solid foundations for management and oversight |
| Principle 2 | Structure the Board to add value |
| Principle 3 | Promote ethical and responsible decision-making |
| Principle 4 | Safeguard integrity in financial reporting |
| Principle 5 | Make timely and balanced disclosure |
| Principle 6 | Respect the rights of Shareholders |
| Principle 7 | Recognise and manage risk |
| Principle 8 | Remunerate fairly and responsibly |

Details of Matrix's compliance with the Recommendations for the year ended 30 June 2012 are disclosed in this statement. Unless disclosed below, all Recommendations have applied for the entire financial year ended 30 June 2012.

Statement of Non-Compliance

The Company uses alternative methods of good corporate governance to those included in the Council's Principles and Recommendations and considers that it has complied with all of the Recommendations other than as set out below:

Recommendation 2.4: The board should establish a Nomination Committee

As at the date of this report, the Board has not established a separate Nomination Committee. The directors consider that the functions of such a committee be reserved for the entire Board at this stage of its public company development.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Recommendation 2.5: The board should disclose the process for evaluating the performance of the board, its committees and individual directors

The process for evaluating the performance of the board, its committees and individual directors involves an internal review of the performance of the board, committees or individual director against its objectives and responsibilities as set out in the relevant committee charter. During the reporting period a formal performance evaluation of each committee has not been conducted.

Recommendation 3.2: Companies should establish a policy concerning diversity

While Matrix promotes diversity in the workplace, it has not yet developed a formal diversity strategy. It is anticipated that a diversity policy will be established and implemented over the next 12 months.

Recommendation 3.3: Companies should disclose measurable objectives for achieving gender diversity

Matrix has not yet established measurable objectives for achieving gender diversity. It is anticipated that a diversity policy will be established and implemented over the next 12 months.

For further information on the corporate governance policies adopted by Matrix, please refer to the Company's website: www.matrixengineered.com/en/#/investors/corporate-governance/

This statement reports on Matrix's key governance principles and practices which were in place throughout the reporting period and as at the date of this report.

Lay solid foundations for Management and Oversight

The Company has established the functions reserved to the Board pursuant to the Board Charter which details the Board's role, powers, duties and functions.

Under the Board Charter, the Board is responsible for, and has the authority to determine, all matters relating to the strategic direction, policies, practices, establishing goals for management and the operation of the Company.

Certain functions have been delegated to the Executive Directors (currently the CEO is the only Executive Director) under the Board Charter. The Executive Director's general responsibility is to manage the Company in accordance with the strategy, policies and programs approved by the Board.

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

- i) Audit & Risk Committee
- ii) Remuneration Committee

Each committee operates according to its Board approved charter. The responsibilities of each committee are described in more detail elsewhere in this section. Copies of the Board Charter, Code of Conduct, Committee Charters and Corporate Governance Statement are all publicly available on the Company's website:

<http://www.matrixengineered.com/en/#/investors/corporate-governance/>

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

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Structure of the Board to add value

The Board is comprised of three independent, non-executive directors, one non-executive director and one executive director (CEO). The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of this report are included in the Directors' Report on pages 3 to 5.

The mix of skills, qualifications, experience and expertise which the Board seeks 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 the Directors have regard to the following principles:

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

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

Independence of Directors

A Director is considered to be independent where he or she is a non-executive Director, is not a member of management and is free of any relationship that could, or could reasonably be perceived to, materially interfere with the independent exercise of their judgment. The existence of the following relationships may affect independent status, if the Director:

- is a substantial Shareholder of Matrix or an officer of, or otherwise associated directly with a substantial Shareholder of Matrix (as defined in section 9 of the Corporations Act);
- is employed, or has previously been employed in an executive capacity by the Matrix Group, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the Matrix Group, or an employee materially associated with the services provided;
- is a material supplier or customer of the Matrix Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Matrix Group other than as a Director.

Directors are expected to bring independent views and judgement to the Board's deliberations. The Board Charter requires that at least one half of the Directors of Matrix will be non-executive (preferably independent) Directors and that the Chair will be an independent, non-executive Director.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

In the context of Director's independence, "materiality" is considered from both the Company and individual Director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than five per cent of the appropriate base amount, being the monetary value of the transaction or item in question. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10 per cent of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it.

In accordance with the definition of independence above, and the materiality thresholds set, the Board reviewed the positions and associations of each of the five Directors in office at the date of this statement and considers that three of the Directors are independent as follows:

<i>Name</i>	<i>Position</i>
Peter Hood	Non-Executive Chairman
Craig Duncan	Non-Executive Director
Nigel Johnson	Non-Executive Director

Accordingly, the majority of Board is independent. To facilitate independent judgement in decision-making, each Director has the right to seek independent professional advice at the Company's expense. However, prior approval from the Chair is required, which may not be unreasonably withheld.

The term in office held by each Director in office at the date of this statement is as follows:

<i>Name</i>	<i>Term in office</i>
Peter Hood	11 months
Aaron Begley	12 years
Craig Duncan	4 years
Nigel Johnson	4 years
Paul Wright	5 years

Retirement and Re-election of Directors

Rule 11.3 of the Constitution requires that at each annual general meeting of the Company, one third (or the number nearest to but not exceeding one third) of the Directors and any Director who has held office for three years or more must retire from office and no Director may retain office for more than three years without submitting himself or herself for re-election. Rule 11.4 of the Constitution provides that a retiring director is eligible for re-election without the necessity of giving any previous notice of his or her intention to submit him or herself for re-election. The Managing Director is not subject to retirement by rotation. The resolution for re-election of a Director is included in the Company's notice of annual general meeting and voted upon by Shareholders at that meeting.

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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Director Remuneration

It is Matrix's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant market conditions.

For a full discussion of Matrix's remuneration philosophy and framework and the remuneration received by Directors in the current period please refer to the remuneration report, which is contained at pages 13 to 15 of the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non- executive Directors.

Selection and Appointment of New Directors

Matrix's policy for the nomination, selection and appointment of new Directors is set out in the Board Charter and requires consideration be given to the ability of a potential appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company.

Any candidate for election as a Director, which is not an existing Director seeking re-election, must deliver to the Company, at its registered office, written notice consenting to his or her nomination and signifying his or her candidature for the office or the intention of a shareholder to propose them. The consent to act as a Director must include all details required by the Corporations Act and Listing Rules.

The Board may also appoint a Director to fill a casual vacancy, or as an addition to the existing Directors at any time, provided that any such Director holds office only until the next annual general meeting, is eligible for re-election at the next general meeting and will not result in the total number of Directors exceeding ten.

Board Meetings

During the financial year the Board held 14 Board meetings, five Audit and Risk Committee meetings and three Remuneration Committee meetings. Details of the Directors attendance at these meetings are set out on page 11 of the Director's Report.

Company Secretary

The appointment and removal of a company secretary is a matter for decision by the Board. The current company secretary is Mr Peter Tazewell.

Nominations Committee

As at the date of this report, the Board has not established a separate Nominations Committee. The directors consider that the functions of such a committee be reserved for the entire Board at this stage of its public company development. The Board as a whole serves as a Nomination Committee and acts in accordance with the Nomination Committee charter.

Board and Director Performance evaluation

In the absence of a formal Nominations Committee, the Chairman of the Board is responsible for conducting individual performance evaluations of the Board, its committees and individual Directors. During the year the Board conducted an informal self-evaluation of the performance of the Board, its committees and individual Directors under the direction of the Chairman.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Promoting Ethical & Responsible Decision making

Codes of Conduct

The Board considers it essential that Directors, management and employees 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; and
- Procedures for prior approval of contracts with Directors.

Matrix has established codes of conduct to provide:

- a framework for decisions and actions in relation to ethical conduct which underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders;
- practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders; and
- responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

These codes of conduct, entitled "Board Code of Conduct" and "Corporate Code of Conduct" are publicly available on the Company's website:

<http://www.matrixengineered.com/en/#/investors/corporate-governance/>

Diversity policy

Matrix recognises that a talented and diverse workforce is a key competitive advantage and that Matrix's success is a reflection of the quality and skills of its people. 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. Matrix is committed to promoting a workplace that recognises and embraces the skills, characteristics and experiences that people bring to the Group.

While Matrix promotes diversity in the workplace, as at 30 June 2012, it has not yet developed a formal diversity policy and strategy. The Board expects to adopt and implement a diversity during the next 12 months.

Gender diversity

Matrix has not yet established specific measurable targets to promote gender diversity within the Company:

As at 30 June 2012 all five Board positions (100 per cent) were held by men.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Of six senior executive positions, five (83.3 per cent) were held by men and one (16.7 per cent) was held by a woman. Of 388 full-time employees, 50 (12.9 per cent) were women and 338 (87.1 per cent) were men.

As at 30 June 2012, the proportion of women employed by the Matrix Group is set out in the table below:

	Number of employees			Total	Proportion
	Full time	Part time	Casual		
Female	50	0	4	54	12.9
Male	338	0	26	364	87.1
Total	388	0	30	418	100.0

Safeguard integrity in Financial Reporting

Audit & Risk Committee

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.

The Board has established an Audit and Risk Committee that operates under a charter approved by the Board. The purpose of the Audit and Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance.

The Audit and Risk Committee comprises the following members:

- Craig Duncan (Chair)
- Peter Hood
- Paul Wright

Mr Duncan 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.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, please refer to page 11 of the Directors' Report. For details of the respective experience and qualifications of Committee Members, please refer to page 3 to 5 of the Directors' Report.

The Charter of the Audit and Risk Committee is publicly available on the Company's website:

http://www.matrixengineered.com/media/53195/4_audit_risk_committee_charter.pdf

External Auditor

The Audit and Risk Committee is responsible for recommending the appointment and evaluation of the Company's external auditors on a regular basis, and considers whether it is appropriate to tender the audit as it deems necessary. The current auditors of Matrix were appointed on 10 February 2011 and as such, the Audit and Risk Committee has not considered the issue of auditor selection, appointment and rotation in the last 12 months. Matrix expects to implement a formal written policy regarding auditor selection, appointment and rotation over the next 12 months.

The performance of the external auditor is reviewed on an annual basis by the Audit & Risk Committee and recommendations are made to the Board.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Making timely and balanced disclosure

Continuous 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. Matrix has established written policies designed to ensure:

- compliance with ASX Listing Rule disclosure; and
- accountability at a senior executive level for that compliance.

The relevant policy, entitled "Continuous Disclosure" is publicly available on the Company's website: <http://www.matrixengineered.com/media/31807/8%20Continuous%20Disclosure.pdf>

Securities Trading Policies

The Company has established a policy concerning trading in its securities by Directors, senior executives and employees.

This policy, entitled "Guidelines for Buying and Selling Securities" is publicly available on the Company's website:

<http://www.matrixengineered.com/media/31780/10%20Guidelines%20for%20buying%20and%20selling%20Osecurites.pdf>

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 Company has adopted a Communications Policy to ensure that the shareholders and other stakeholders are informed of all major developments affecting the Company's state of affairs.

The policy, entitled "Shareholder Communications Strategy", is publicly available on the Company's website:

<http://www.matrixengineered.com/media/31783/11%20Shareholder%20communications%20strategy.pdf>

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

Recognise and Manage Risk

Risk Management

Matrix recognises the importance of risk management and has a formal risk management framework, including policies for the oversight and management of material business risks. The Matrix Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Committee responsibility 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; and
- Review reports by management on the efficiency and effectiveness of risk management and associated internal compliance and control procedures.

Management is responsible for identifying and evaluating risks within their area of responsibility, implementing agreed actions to manage risk and for reporting as well as monitoring any activity or circumstance that may give rise to new or changed risks.

The Board has required management to design and implement a risk management and internal control system to manage Matrix's material business risks, and to report to it on whether those risks are being managed effectively. During the financial year the Audit and Risk Committee commissioned an independent review of the operational risks of the Group's composite products manufacturing division based at Henderson. The outcome of this review was the establishment of a Risk Register and action plan which was subsequently executed by management under the direction of the Audit and Risk Committee.

In summary, the Matrix risk management and internal control system comprises:

- Identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- Formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls;
- Monitoring the performance of and improving the effectiveness of risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

The Board has received a formal report from management under Recommendation 7.2 as to the effectiveness of Matrix's management of its material business risks with respect to the reporting period. Upon due consideration of Matrix's risk management and internal control system, management formally reported that, as at 30 June 2012, Matrix maintains a risk management and internal control system that is sufficient to manage its material business risks.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

In addition, the Board has received a written assurance from the Chief Executive Officer and the Chief Financial Officer that, to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on their evaluation of the Company's system of risk management and internal control and that, as at 30 June 2012, the system is operating effectively in relation to financial reporting risks. The Board understands that these assurances regarding the internal control systems provide a reasonable level of assurance only and do not imply a guarantee against adverse events, or losses, or more volatile outcomes arising in the future and that the design and operation of the internal control systems relating to financial reporting has been assessed primarily through the use of declarations by process owners who are responsible for those systems.

The Group Risk Management Policy is publicly available on the Company's website:

<http://www.matrixengineered.com/media/31810/9%20Disclosure%20Risk%20Management.pdf>

Remunerate Fairly and Responsibly

Role of the Remuneration Committee

The Board has established a Remuneration Committee that operates under a charter approved by the Board. The purpose of the Remuneration Committee is to provide advice, recommendations and assistance to the Board with respect to remuneration matters. The Remuneration Committee comprises the following members:

- Peter Hood (Chair)
- Craig Duncan
- Nigel Johnson

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

For details of Directors' attendance at meetings of the Remuneration Committee, please refer to page 11 of the Directors' Report. For details of the respective experience and qualifications of Committee Members, please refer to page 3 to 5 of the Directors' Report.

The Remuneration Committee is responsible for:

- Reviewing and approving the executive remuneration policy;
- Ensuring the executive remuneration policy demonstrates a clear relationship between 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 performance of the executive and the prevailing remuneration expectation in the market;
- Reviewing the Company's recruitment, retention and termination policies;
- Reviewing and approving the remuneration of direct reports to the Chief Executive Officer, and as appropriate other senior executives; and
- Reviewing and approving any equity based plans and other incentive schemes.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

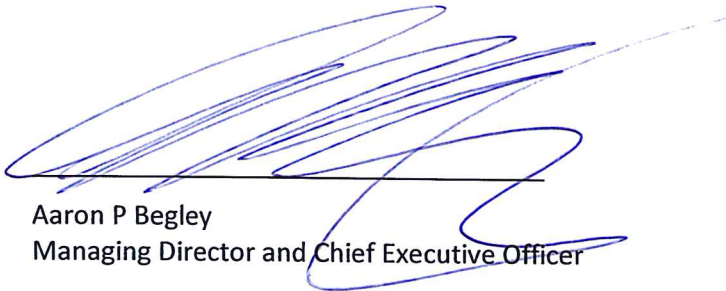
The Charter of the Remuneration Committee is publicly available on the Company's website: [www.matrixengineered.com/media/31798/5 Remuneration committee charter.pdf](http://www.matrixengineered.com/media/31798/5%20Remuneration%20committee%20charter.pdf)

Evaluation of the Performance of Management

The performance of key executives is reviewed internally on an annual basis pursuant to a Group wide performance planning and review process. The outcome of the review then provides the basis for a professional development plan for the key executives. The performance of all senior executives with greater than 12 months service has been evaluated during the reporting period in accordance with this process.

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



Aaron P Begley
Managing Director and Chief Executive Officer

Perth, 15 August 2012

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

15 August 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 audit of the financial statements of Matrix Composites & Engineering Ltd for the financial year ended 30 June 2012, 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



Peter Rupp
Partner
Chartered Accountants

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012**

			Restated
	Note	2012	2011
		\$	\$
Continuing operations			
Revenue	3	144,811,799	174,640,578
Cost of sales		(147,265,850)	(123,599,625)
Gross (loss)/profit		(2,454,051)	51,040,953
Other income	3	479,370	423,873
Other (loss)/gains	3	(10,199,916)	792,432
Corporate expenses		(2,510,379)	(1,702,733)
Administration expenses		(4,681,388)	(3,387,202)
Finance costs		(2,433,384)	(966,238)
Marketing expenses		(3,466,799)	(2,347,797)
Research expenses		(408,595)	(753,924)
Impairment of goodwill and development costs		-	(604,302)
(Loss)/profit before income tax	4	(25,675,142)	42,495,062
Income tax benefit/(expense)	6	11,229,394	(12,269,743)
(Loss)/profit for the year from continuing operations		(14,445,748)	30,225,319
(Loss)/profit attributable to :			
Owners of the Company		(14,445,774)	30,221,253
Non-controlling interest		26	4,066
		(14,445,748)	30,225,319
(Loss)/earnings per share			
Basic (loss)/earnings per share (cents)	30	(18.4)	41.4
Diluted (loss)/earnings per share (cents)	30	(18.4)	41.4

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 2012**

		2012	Restated 2011
		\$	\$
(Loss)/profit for the year		(14,445,748)	30,225,319
Other comprehensive income			
Net foreign currency translation differences		279,270	(82,478)
		279,270	(82,478)
Change in fair value of cash flow hedges		(1,404,693)	1,649,501
Income tax benefit/(expense)		421,408	(494,850)
		(983,285)	1,154,651
Revaluation of freehold property		(78,711)	-
Income tax benefit		23,613	-
		(55,098)	-
Other comprehensive (loss)/income for the year net of tax		(759,113)	1,072,173
Total comprehensive (loss)/ income for the year		(15,204,861)	31,297,492
Total comprehensive (loss)/income attributable to:			
Owners of the parent entity		(15,204,887)	31,293,426
Non-controlling interest		26	4,066
Total comprehensive (loss)/income for the year		(15,204,861)	31,297,492

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 2012**

	Note	2012	Restated 2011	Restated 2010
		\$	\$	\$
CURRENT ASSETS				
Cash and cash equivalents	7	29,921,332	26,658,014	13,555,077
Trade and other receivables	8	13,542,845	33,907,119	31,868,308
Inventory	9	34,561,130	30,040,025	19,455,219
Other current assets	10	1,001,339	1,049,782	1,492,243
Financial assets	12	1,681,019	8,478,122	2,699,580
Income tax asset	17	1,098,708	-	-
TOTAL CURRENT ASSETS		81,806,373	100,133,062	69,070,427
NON CURRENT ASSETS				
Property, plant and equipment	11	109,950,749	97,980,710	56,363,816
Intangible assets	13	7,579,398	6,415,215	7,012,588
Deferred tax asset	6	11,053,550	1,817,298	1,614,952
TOTAL NON CURRENT ASSETS		128,583,697	106,213,223	64,991,356
TOTAL ASSETS		210,390,070	206,346,285	134,061,783
CURRENT LIABILITIES				
Trade and other payables	14	22,101,903	24,542,349	22,675,143
Progress claims and deposits	15	19,718,196	11,579,192	37,081,307
Financial liabilities	16	26,759,026	4,645,190	2,267,995
Income tax provision	17	-	8,707,017	5,175,209
Provisions	18	1,694,723	1,725,873	1,324,971
TOTAL CURRENT LIABILITIES		70,273,848	51,199,621	68,524,625
NON CURRENT LIABILITIES				
Financial liabilities	16	-	30,562,501	5,792,408
Deferred tax liability	6	3,011,769	2,309,025	1,097,687
Provisions	18	369,622	364,260	220,053
TOTAL NON CURRENT LIABILITIES		3,381,391	33,235,786	7,110,148
TOTAL LIABILITIES		73,655,239	84,435,407	75,634,773
NET ASSETS		136,734,831	121,910,878	58,427,010
EQUITY				
Issued capital	19	111,812,722	76,388,203	40,446,325
Reserves	20	1,156,135	1,915,248	843,075
Retained earnings		23,776,177	43,617,656	17,151,905
Equity attributable to owners of the Company		136,745,034	121,921,107	58,441,305
Non-controlling interest		(10,203)	(10,229)	(14,295)
TOTAL EQUITY		136,734,831	121,910,878	58,427,010

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 2012**

	Note	2012	2011
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		173,315,077	149,054,620
Payments to suppliers and employees		(154,088,146)	(139,070,894)
Interest received		356,811	313,493
Finance costs paid		(2,433,384)	(966,238)
Payment of income tax		(6,242,634)	(7,854,165)
Net cash from operating activities	21 (b)	10,907,724	1,476,816
CASH FLOWS USED IN INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	6,837
Payments for property, plant and equipment		(27,113,784)	(30,769,685)
Payments for research and development costs		(1,164,182)	(6,930)
Net cash used in investing activities		(28,277,966)	(30,769,778)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital and exercise of options (net of capital raising costs)		35,284,347	35,574,957
Repayment of borrowings		(21,380,287)	(6,523,435)
Proceeds from borrowings		12,125,205	17,099,878
Dividends paid		(5,395,705)	(3,755,501)
Net cash from financing activities		20,633,560	42,395,899
Net increase in cash and cash equivalents		3,263,318	13,102,937
Cash and cash equivalents at 1 July		26,658,014	13,555,077
Cash and cash equivalents at 30 June	21(a)	29,921,332	26,658,014

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 2012**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging reserve	Foreign currency translation reserve	Attributable to owners of the parent	Non-controlling interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2011 as reported	76,388,203	48,466,944	273,000	842,762	1,032,631	(233,145)	126,770,395	(10,229)	126,760,166
Prior year correction	-	(4,849,288)	-	-	-	-	(4,849,288)	-	(4,849,288)
Balance restated at 1 July 2011	76,388,203	43,617,656	273,000	842,762	1,032,631	(233,145)	121,921,107	(10,229)	121,910,878
Total comprehensive income for the year									
Loss for the year	-	(14,445,774)	-	-	-	-	(14,445,774)	26	(14,445,748)
Other comprehensive income									
Foreign currency translation	-	-	-	-	-	279,270	279,270	-	279,270
Change in fair value of cash flow hedges net of tax	-	-	-	-	(983,285)	-	(983,285)	-	(983,285)
Revaluation of freehold property net of tax	-	-	-	(55,098)	-	-	(55,098)	-	(55,098)
	-	(14,445,774)	-	(55,098)	(983,285)	279,270	(15,204,887)	26	(15,204,861)
Transactions with owners, recorded directly in equity									
Issue of shares net of costs and tax	35,424,519	-	-	-	-	-	35,424,519	-	35,424,519
Dividends paid to equity holders	-	(5,395,705)	-	-	-	-	(5,395,705)	-	(5,395,705)
	35,424,519	(5,395,705)	-	-	-	-	30,028,814	-	30,028,814
Balance at 30 June 2012	111,812,722	23,776,177	273,000	787,664	49,346	46,125	136,745,034	(10,203)	136,734,831

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 2012**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging 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	273,000	842,762	(122,020)	(150,667)	59,907,542	(14,295)	59,893,247
Prior year correction	-	(1,466,237)	-	-	-	-	(1,466,237)	-	(1,466,237)
Balance restated at 1 July 2010	40,446,325	17,151,905	273,000	842,762	(122,020)	(150,667)	58,441,305	(14,295)	58,427,010
Total comprehensive income for the year									
Profit for the year as reported in 2011 financial statement	-	33,604,304	-	-	-	-	33,604,304	4,066	33,608,370
Adjustment on correction of error	-	(3,383,051)	-	-	-	-	(3,383,051)	-	(3,383,051)
Restated profit for the year	-	30,221,253	-	-	-	-	30,221,253	4,066	30,225,319
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
	-	30,221,253	-	-	1,154,651	(82,478)	31,293,426	4,066	31,297,492
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	43,617,656	273,000	842,762	1,032,631	(233,145)	121,921,107	(10,229)	121,910,878

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 2012**

	Issued capital	Retained earnings	Option premium reserve	Properties revaluation reserve	Cash flow hedging reserve	Foreign currency 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 year									
Profit for the year as reported in the 2010 financial statement	-	18,159,906	-	-	-	-	18,159,906	(4,570)	18,155,336
Adjustment on correction of error	-	(1,466,237)	-	-	-	-	(1,466,237)	-	(1,466,237)
Restated profit for the year	-	16,693,669	-	-	-	-	16,693,669	(4,570)	16,689,099
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
	-	16,694,146	-	275,255	(4,051,390)	(139,498)	12,778,513	(4,570)	12,773,943
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	17,151,905	273,000	842,762	(122,020)	(150,667)	58,441,305	(14,295)	58,427,010

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

Matrix Composites & Engineering Ltd (the Company) is a limited liability 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. For the purpose of preparing the consolidated financial statements, the Company is a for profit entity.

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 15 August 2012.

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.

Application of New and Revised Accounting Standards

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

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in the section below:

<p>Amendments to AASB 7 'Financial Instruments: Disclosure'</p>	<p>The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'1) clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.</p>
<p>Amendments to AASB 101 'Presentation of Financial Statements'</p>	<p>The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'1) clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.</p>

NOTES TO AND FORMING PART OF THE 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.

<p>AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'</p>	<p>Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments to Interpretation 114 has not had material effect on the Group's consolidated financial statements.</p>
<p>AASB 2009-12 'Amendments to Australian Accounting Standards</p>	<p>The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009). The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2009-12 has not had any material effect on amounts reported in the Group's consolidated financial statements.</p>
<p>AASB 2010-5 'Amendments to Australian Accounting Standards</p>	<p>The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.</p>
<p>AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'</p>	<p>The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset. To date, the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore, the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.</p>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 9 'Financial Instruments', AASB 200911 '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 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 January 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 January 2012	30 June 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 2012 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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(c) Income Tax (Cont.)

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.

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 directors 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(e) Property, Plant and Equipment (Cont.)

Plant and equipment

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	2.5
Plant and equipment	7.5 – 30.0
Motor vehicles	22.5
Office equipment	11.25 – 25.0
Computer equipment	37.50 – 50.0

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.

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 revalued 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(f) Goodwill (Cont.)

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 attributable amount of goodwill 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.

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(h) Financial Instruments (Cont.)

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.

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.

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 2012 are included in Note 22. There were no put option positions at 30 June 2012. Movements in the value of these derivative instruments are recognised immediately in profit or loss.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(h) Financial Instruments (Cont.)

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.

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

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.

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(i) 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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(j) Foreign Currency Transactions and Balances

Transaction 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 earlier of:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(n) Revenue recognition (Cont.)

Sale of goods

- i) delivery of the goods to the customers;
- ii) receipt of payment from the customer; or
- iii) achieving a relevant invoicing milestone under a contract with the customer.

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).

(o) Cost of sales

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

(p) 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.

(q) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(r) Comparative Figures

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

(s) 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.

iii. 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 directors 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

(s) Significant accounting estimates and judgements

iv. Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group Company's domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

Other

This segment comprises the activities undertaken by all other business units, including overseas entities.

Unallocated

This represents assets and liabilities which cannot be allocated into any business units.

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

2. OPERATING SEGMENTS

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 (loss)/profit	
	2012	2011	2012	2011
	\$	\$	\$	\$
Composite materials	119,214,310	151,896,626	(23,740,309)	41,760,371
Offshore services & engineering	30,045,167	31,440,227	1,616,634	1,144,511
Other	1,326,615	2,220,922	(1,474,894)	242,925*
Inter segment revenue	(5,774,293)	(10,917,197)	-	-
Total for continuing operations	144,811,799	174,640,578	(23,598,569)	43,147,807
Investment income			356,811	313,493
Finance costs			(2,433,384)	(966,238)
(Loss)/profit before tax (continuing operations)			(25,675,142)	42,495,062

*This includes impairment of development costs and goodwill of \$604,302

Segment assets and liabilities	2012	2011	2010
	\$	\$	\$
Segment assets			
Composite materials	155,340,242	158,394,489	89,917,213
Offshore services & engineering	20,583,271	18,701,565	23,565,813
Total segment assets	175,923,513	177,096,054	113,483,026
Unallocated	34,466,557	29,250,231	20,578,757
Consolidated total assets	210,390,070	206,346,285	134,061,783
Segment liabilities			
Composite materials	51,160,292	61,487,547	58,212,589
Offshore services & engineering	12,486,866	8,896,031	16,561,265
Total segment liabilities	63,647,158	70,383,578	74,773,854
Unallocated	10,008,081	14,051,829	860,919
Consolidated total liabilities	73,655,239	84,435,407	75,634,773

Other segment information	Depreciation and amortisation		Additions to non-current assets	
	2012	2011	2012	2011
	\$	\$	\$	\$
Composite materials	8,656,818	3,640,329	15,618,044	29,869,010
Offshore services & engineering	823,392	785,325	297,663	88,698
Other	913,575	247,886	6,454,767	11,264,159
	10,393,785	4,673,540	22,370,474	41,221,867

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

2. OPERATING SEGMENTS

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

	2012	2011
	\$	\$
Offshore services and engineering		
Impairment losses recognised for the year in respect of development costs and goodwill	-	604,302

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		
	2012	2011	2012	2011	2010
	\$	\$	\$	\$	\$
Australia	31,455,668	21,438,594	128,490,362	106,213,223	64,991,356
Korea	32,994,554	19,480,530	-	-	-
USA	58,503,373	100,446,694	75,769	-	-
Malaysia	19,956,325	27,517,202	-	-	-
Singapore	267,664	4,999,329	-	-	-
Europe	1,484,976	758,229	-	-	-
Brazil	-	-	17,566	-	-
Other	149,239	-	-	-	-
	<u>144,811,799</u>	<u>174,640,578</u>	<u>128,583,697</u>	<u>106,213,223</u>	<u>64,991,356</u>

Information about Major Customers

Included in revenues arising from sales of composite material products of \$119,214,310 (Restated 2011: \$150,382,490) are revenues of approximately \$95,848,910 (Restated 2011 : \$140,010,379) which arose from sales to the Group's largest customers. No other single customer contributed 10 per cent or more to the Group's revenue for both 2012 and 2011.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. REVENUE

	2012	2011
	\$	\$
Manufacturing revenue	119,214,310	151,896,626
Contract revenue	25,597,489	22,743,952
	<u>144,811,799</u>	<u>174,640,578</u>
Other Income		
Interest received	356,811	313,492
Commission received	-	15,779
Sundry income	122,559	94,602
	<u>479,370</u>	<u>423,873</u>
Other (loss)/gain		
Foreign exchange (loss)/gain	(2,402,912)	1,860,540
Interest rate swap (loss)	(806,415)	-
Fixed assets disposals/write off	(4,749,960)	(1,068,108)
Other expenses	(2,240,629)	-
Total other/(expense) income	<u>(10,199,916)</u>	<u>792,432</u>

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 manufacturing and contract revenues include the reclassification of the effective amount of the foreign currency derivatives that are used to hedge foreign currency revenue.

Fixed assets disposals/write off mainly relates to the closure of the Malaga plant and these plant and equipment written off were related to the composite material segment. Refer to note 11 for further disclosure.

4. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is stated after charging the following expenses:

	2012	2011
	\$	\$
Depreciation and amortisation	10,393,785	4,673,540
Research and development costs expensed as incurred	-	753,924
Employee benefits expense	39,823,564	34,300,869
Finance costs	2,433,384	966,238

5. AUDITORS' REMUNERATION

	2012	2011
	\$	\$
<i>Auditor of the parent entity (Deloitte Touche Tohmatsu)</i>		
Audit and review fees for the year	216,275	140,000
Taxation and other advisory services	114,564	61,100
	<u>330,839</u>	<u>201,100</u>
<i>Previous auditor of the parent entity (Mack & Co)</i>		
Audit and review fees for the year	-	40,000
Taxation advisory services	-	11,000
	<u>-</u>	<u>51,000</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

	2012	2011
	\$	\$
The components of tax expense comprise:		
Current tax	(3,170,382)	12,968,416
Deferred tax	(8,059,012)	(698,673)
	<u>(11,229,394)</u>	<u>12,269,743</u>

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

Prima facie tax payable on operating profit before income tax at 30% (2010: 30%)	(7,702,543)	12,748,519
Non allowable Items	13,048	366
Other	274,531	264,971
Research & development tax concession	(600,000)	(519,634)
Differential income tax rate on MC&E Asia profit	(44,049)	(18,036)
Deferred tax balances not previously recognised	-	59,333
Over provision prior year	(3,170,381)	-
Tax investment allowance	-	(265,776)
Income tax(benefit)/expense	<u>(11,229,394)</u>	<u>12,269,743</u>
Average weighted tax rate	<u>43.7%</u>	<u>28.3%</u>

2012	2011	2010
\$	\$	\$

Reconciliations

i. Gross movements

The overall movement in the deferred tax account is as follows:

Balance at 1 July	(491,727)	517,235	(1,760,016)
Recognised in other comprehensive income	334,323	(478,770)	1,736,105
Recognised in equity	140,173	168,481	474,692
Recognised in income statement	8,059,012	(698,673)	66,454
Balance at 30 June	<u>8,041,781</u>	<u>(491,727)</u>	<u>517,235</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	1,148,820	653,970	2,390,075
Recognised in other comprehensive income	(334,323)	494,850	(1,736,105)
Recognised in equity	-	-	-
Balance as at 30 June	<u>814,497</u>	<u>1,148,820</u>	<u>653,970</u>

Other

Balance at 1 July	1,160,205	443,717	81,759
Recognised in other comprehensive income	-	-	-
Recognised in income statement	1,037,067	716,488	361,958
Balance at 30 June	<u>2,197,272</u>	<u>1,160,205</u>	<u>443,717</u>

Total	<u>3,011,769</u>	<u>2,309,025</u>	<u>1,097,687</u>
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. INCOME TAX (BENEFIT)/EXPENSE

	2012	2011	2010
	\$	\$	\$

Reconciliations

iii. Deferred tax assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

Balance at 1 July	1,817,298	1,614,922	711,818
Recognised in income statement	9,096,079	33,895	428,442
Recognised in equity	140,173	168,481	474,692
Balance at 30 June	<u>11,053,550</u>	<u>1,817,298</u>	<u>1,614,952</u>

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

- The company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised.
- The company continues to comply with conditions for deductibility imposed by law; and
- 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 formed a tax-consolidated Group as at 1 July 2010. From this date the Group will be taxed as a single entity. The head entity within the tax-consolidated Group is Matrix Composites & Engineering Ltd. As a result entering into a tax consolidation Group, the company has reset its tax base of asset and liabilities resulting a unrecognised deferred tax assets of \$1.4 million.

7. CASH AND CASH EQUIVALENTS

	2012	2011	2010
	\$	\$	\$
Cash on hand	6,545	3,409	1,945
Cash at bank			
Cash management accounts	22,175,579	7,229,629	371,435
Short-Term Bank Deposits	-	15,000,000	11,838,380
US Dollar Account	7,729,023	4,376,220	1,323,750
Other	10,185	48,756	19,567
	<u>29,921,332</u>	<u>26,658,014</u>	<u>13,555,077</u>

The effective interest rate on short-term bank deposits was 4.35% (2011:5.0%; 2010: 2.05%). In prior year, deposits were invested for periods up to 60 days with access to the funds available as and when required.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. TRADE AND OTHER RECEIVABLES

	2012	Restated 2011	Restated 2010
	\$	\$	\$
Trade receivables	12,097,255	30,810,475	28,352,900
Other receivables	787,249	2,064,686	893,946
GST refundable	658,341	1,031,958	2,621,462
	<u>13,542,845</u>	<u>33,907,119</u>	<u>31,868,308</u>

Terms and Conditions

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

9. INVENTORY

	2012	Restated 2011	Restated 2010
	\$	\$	\$
Raw Materials at cost	20,722,640	8,465,789	12,899,081
Work in progress at cost	10,030,595	18,661,278	4,146,168
Finished goods at cost	3,807,895	2,912,958	2,409,970
	<u>34,561,130</u>	<u>30,040,025</u>	<u>19,455,219</u>

10. OTHER CURRENT ASSETS

	2012	2011	2010
	\$	\$	\$
Prepayments	<u>1,001,339</u>	<u>1,049,782</u>	<u>1,492,243</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

	2012	Restated 2011	Restated 2010
	\$	\$	\$
Land and Building/Leasehold improvements:			
Land at independent valuation ¹	3,406,700	3,406,700	3,406,700
Building at independent valuation ¹	1,243,300	1,226,385	1,218,299
Buildings ²	34,817,462	28,024,980	-
Other leasehold improvements ³	397,471	502,751	474,902
Less: accumulated depreciation	(974,093)	(300,384)	(103,114)
	<u>38,890,840</u>	<u>32,860,432</u>	<u>4,996,787</u>
Plant and Equipment:			
Plant and equipment at cost	87,961,998	74,884,000	31,018,586
Less: accumulated depreciation	(18,054,928)	(10,815,448)	(6,735,726)
	<u>69,907,070</u>	<u>64,068,552</u>	<u>24,282,860</u>
Motor Vehicles:			
Motor vehicles at cost	241,928	355,885	323,528
Less: accumulated depreciation	(120,454)	(139,371)	(86,663)
	<u>121,474</u>	<u>216,514</u>	<u>236,865</u>
Office Equipment:			
Office equipment at cost	452,889	309,454	254,009
Less: accumulated depreciation	(154,453)	(106,242)	(82,369)
	<u>298,436</u>	<u>203,212</u>	<u>171,640</u>
Computer Equipment			
Computer equipment at cost	1,977,166	1,601,360	1,310,042
Less: accumulated depreciation	(1,244,237)	(969,360)	(722,414)
	<u>732,929</u>	<u>632,000</u>	<u>587,628</u>
Assets under construction			
Buildings in progress at cost	-	-	18,365,007
Plant and equipment in progress at cost	-	-	7,723,029
	<u>-</u>	<u>-</u>	<u>26,088,036</u>
	<u>109,950,749</u>	<u>97,980,710</u>	<u>56,363,816</u>

¹ The land and buildings located at 185 Camboon Road, Malaga were independently valued by Knight Frank in June 2012.

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

³ Leasehold improvements located at 42 Truganina Road, Malaga.

Assets pledged as security

Land and buildings with a carrying amount of approximately \$39,467,462 (Restated 2011: \$32,658,065; 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 \$15,015,609 (2011: \$18,390,436; 2010: \$3,455,201).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

11. PROPERTY, PLANT AND EQUIPMENT

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 2011	32,860,432	64,068,552	216,514	203,212	632,000	-	97,980,710
Additions	7,217,894	19,359,662	-	160,460	375,768	-	27,113,784
Disposals/write-offs	(325,261)	(4,361,288)	(52,753)	(10,658)	-	-	(4,749,960)
Depreciation/amortisation expenses	(862,225)	(9,159,856)	(42,287)	(54,578)	(274,839)	-	(10,393,785)
Carrying amount at 30 June 2012	38,890,840	69,907,070	121,474	298,436	732,929	-	109,950,749
Carrying amount at 1 July 2010	4,996,787	24,282,860	236,865	171,640	587,628	26,088,036	56,363,816
Additions	10,655,908	36,300,854	53,446	55,444	292,890	-	47,358,542
Disposals/write-offs	(960,000)	(100,307)	(7,153)	-	(648)	-	(1,068,108)
Reclassified	18,365,007	7,723,029	-	-	-	(26,088,036)	-
Depreciation/amortisation expenses	(197,270)	(4,137,884)	(66,644)	(23,872)	(247,870)	-	(4,673,540)
Carrying amount at 30 June 2011	32,860,432	64,068,552	216,514	203,212	632,000	-	97,980,710
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)	(793,000)	(1,352,921)
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	26,088,036	56,363,816

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

12. FINANCIAL ASSETS & OTHER FINANCIAL ASSETS

	2012	2011	2010
	\$	\$	\$
Forward exchange contracts (hedge-accounted)	388,045	4,904,450	(174,313)
Foreign currency options	1,292,974	3,573,672	2,873,893
	<u>1,681,019</u>	<u>8,478,122</u>	<u>2,699,580</u>

13. INTANGIBLE ASSETS

	2012	2011	2010
	\$	\$	\$
Development costs (i)	1,164,183	-	398,862
Goodwill on acquisition	-	-	198,511
Goodwill on acquisition of Specialist Engineering Services (Aust) Ltd (ii)	6,415,215	6,415,215	6,415,215
	<u>7,579,398</u>	<u>6,415,215</u>	<u>7,012,588</u>

(i) Development costs incurred in the current year relates to several ongoing projects that are in the development phase that will likely result in commercially viable products.

(ii) On 31 January 2008 Matrix acquired 100 per cent of the issued share capital of Specialist Engineering Services (Aust) Ltd (MOSE). The resulting goodwill has been tested at MOSE's level for impairment. The recoverable amount 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 pre-tax discount rate of 15 per cent per annum (2011: 14%).

Cash flows beyond the three year period have been extrapolated using a steady two per cent 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.

14. TRADE AND OTHER PAYABLES

	2012	2011	2010
	\$	\$	\$
Trade payables	13,882,194	21,199,056	13,903,949
GST payable	998,287	775,760	1,060,404
Other creditors and accruals	7,221,422	2,567,533	7,710,790
	<u>22,101,903</u>	<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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

	2012	2011	2010
	\$	\$	\$
Progress claims and deposits	19,718,196	11,579,192	37,081,307

16. FINANCIAL LIABILITIES

	2012	2011	2010
	\$	\$	\$
CURRENT			
Bank loan – secured	1,407,124	103,462	391,096
Bank bill – secured	9,529,878	720,000	720,000
Interest rate swap option (i)	806,415	-	-
Finance lease liability	15,015,609	3,821,728	1,156,899
	<u>26,759,026</u>	<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>-</u>	<u>30,562,501</u>	<u>5,792,408</u>
Total current and non-current secured liabilities:			
Bank loan	1,407,124	1,567,379	2,235,202
Bank bills	9,529,878	15,249,876	2,370,000
Interest rate swap option (i)	806,415	-	-
Finance lease liabilities	15,015,609	18,390,436	3,455,201
	<u>26,759,026</u>	<u>35,207,691</u>	<u>8,060,403</u>

(i) These are held at fair value

Finance lease liabilities	Minimum lease payments			Present value of minimum lease payments		
	2012	2011	2010	2012	2011	2010
	\$	\$	\$	\$	\$	\$
Not later than one year	17,063,174	4,986,033	1,367,345	4,403,042	3,821,728	1,156,899
Later than one year and not later than five years	-	16,566,348	2,471,975	10,612,567	14,568,708	2,298,302
	<u>17,063,174</u>	<u>21,552,381</u>	<u>3,839,320</u>	<u>15,015,609</u>	<u>18,390,436</u>	<u>3,455,201</u>
Less future finance charges	(2,047,565)	(3,161,945)	(384,119)	-	-	-
Present value of minimum lease payments	<u>15,015,609</u>	<u>18,390,436</u>	<u>3,455,201</u>	<u>15,015,609</u>	<u>18,390,436</u>	<u>3,455,201</u>

	2012	2011	2010
	\$	\$	\$
Included in the consolidated financial statements as:			
-current borrowings	15,015,609	3,821,728	1,156,899
-non-current borrowings	-	14,568,708	2,298,302
	<u>15,015,609</u>	<u>18,390,436</u>	<u>3,455,201</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

16. FINANCIAL LIABILITIES

Terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Approved Facilities	Amount Drawn	Available Facilities
		%	\$	\$	\$
Business Card Facility	AUD	15.50	50,000	9,828	40,172
Bank guarantee facility	AUD	2.80-3.00	820,644	820,644	-
Bill Acceptance Facility -Fixed	AUD	9.91	930,000	930,000	-
Revolving Lease Limit	AUD	6.05 to 8.95	2,554,699	2,554,699	-
Bill - Construction loan	AUD	7.21	8,599,878	8,599,878	-
Equipment loan facility	AUD	6.97	12,537,854	12,537,854	-
			<u>25,493,075</u>	<u>25,452,903</u>	<u>40,172</u>

The Group has total credit facilities available from its bankers of \$25,493,075 (2011: \$40,506,630; 2010:\$39,156,990).

The credit facilities are secured on the following:

- A registered first mortgage over the freehold properties of the consolidated entity;
- Mortgage of sub-lease over Henderson property;
- Fixed and floating charge over the whole of the assets of the consolidated entity;
- Guarantee and Indemnity; and
- Lease documentation.

The Group is subject to financial covenants, including a capital requirement, as prescribed by its bankers, National Australia Bank (“NAB”). 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 per cent. The Group’s CAR at 30 June 2012 was 63.7 per cent.

During the year the Group was subject to an Operating Leverage ratio (defined as the Group’s total financial debt divided by the Group’s rolling 12 month EBITDA) which is required to be less than 2.5. As at 31 March 2012, Matrix suffered a technical breach of this ratio, caused by the non-cash write-off of plant and equipment previously used at the Company’s Malaga manufacturing facility. NAB provided a waiver from this covenant on 23 May 2012 in favour of an absolute EBITDA target for the quarter ended 30 June 2012. The Group did not exceed this target for the June quarter and this covenant was breached.

Subsequent to year end, NAB has issued a waiver of its rights in relation to this covenant breach. In addition, NAB has agreed to provide the Company with increased facilities within which to operate its businesses. These increased facilities include:

- Provision of increased guarantee facilities to provide customer performance bonds; and
- US\$10 million working capital facility.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

16. FINANCIAL LIABILITIES

As the covenant was breached at 30 June 2012, Matrix has temporarily reclassified all of its debt facilities as current liabilities as at that date, as a result of the technical requirements of "Australian Accounting Standard 101, Presentation of Financial Statements".

If the new facilities provided by NAB had been in place at 30 June, the total facilities would have been disclosed as follows:

	Currency	Nominal interest rate	Approved Facilities	Amount Drawn	Available Facilities
		%	\$	\$	\$
Bonding Facility	AUD	2.00	24,480,000	-	24,480,000
Business Card Facility	AUD	15.50	50,000	9,828	40,172
Bank guarantee facility	AUD	2.80-3.00	820,644	820,644	-
Bill Acceptance Facility -Fixed	AUD	9.91	930,000	930,000	-
Revolving Lease Limit	AUD	6.05 to 8.95	2,554,699	2,554,699	-
Bill - Construction loan	AUD	7.21	8,599,878	8,599,878	-
Equipment loan facility	AUD	6.97	12,537,854	12,537,854	-
			<u>49,973,075</u>	<u>25,452,903</u>	<u>24,520,172</u>
Working Capital Facility	USD		<u>10,000,000</u>	<u>-</u>	<u>10,000,000</u>
			2012	2011	2010
			\$	\$	\$
CURRENT					
Bank loan – secured			-	103,462	391,096
Bank bill – secured			1,720,000	720,000	720,000
Interest rate swap option			806,415	-	-
Finance lease liability			4,403,042	3,821,728	1,156,899
			<u>6,929,457</u>	<u>4,645,190</u>	<u>2,267,995</u>
NON CURRENT					
Bank loan – secured			1,407,124	1,463,917	1,844,106
Bank bill – secured			7,809,878	14,529,876	1,650,000
Finance lease liability			10,612,567	14,568,708	2,298,302
			<u>19,829,569</u>	<u>30,562,501</u>	<u>5,792,408</u>
Total current and non-current secured liabilities:					
Bank loan			1,407,124	1,567,379	2,235,202
Bank bills			9,529,878	15,249,876	2,370,000
Interest rate swap option			806,415	-	-
Finance lease liabilities			15,015,609	18,390,436	3,455,201
			<u>26,759,026</u>	<u>35,207,691</u>	<u>8,060,403</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

17. INCOME TAX ASSET/LIABILITY

	2012	2011	2010
	\$	\$	\$
Current tax asset			
Income tax asset	1,098,708	-	-
Current tax liability			
Income tax payable	-	8,707,017	5,175,209

18. PROVISIONS

	2012	2011	2010
	\$	\$	\$
Current			
Employee Entitlements	1,574,618	1,725,735	994,187
Others	120,105	138	330,784
	<u>1,694,723</u>	<u>1,725,873</u>	<u>1,324,971</u>
Non Current			
Employee Entitlements	369,622	364,260	220,053

19. ISSUED CAPITAL

	2012	2011	2010
	\$	\$	\$
Issued and paid up capital 94,555,428 (2011: 77,081,507; 2010: 69,964,098) fully paid ordinary shares	115,398,522	78,703,289	41,905,312
Less: capital issue costs net of tax	(3,585,800)	(2,315,086)	(1,458,987)
	<u>111,812,722</u>	<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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. ISSUED CAPITAL

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	Shares issued	6,000,000	13,500,000
	Less: capital issue costs net of tax	-	(1,458,987)
Balance 30 June 2010		69,964,098	40,446,325
1 October 2010	Options exercised	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	-	(856,099)
Balance 30 June 2011		77,081,507	76,388,203
29 May 2012	Shares issued	15,605,348	32,771,230
15 June 2012	Shares issued	1,868,573	3,924,003
	Less: capital issue costs net of tax	-	(1,270,714)
Balance 30 June 2012		94,555,428	111,812,722

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.

On 29 May 2012 the company issued 15,605,348 shares at an issue price of \$2.10 each to institutional investors.

On 15 June 2012, the company finalised a Retail Entitlement Offer whereby 1,868,573 shares were issued at a price of \$2.10 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 targets a gearing ratio in the range of 15 to 25 per cent determined as a proportion of net debt to equity. The gearing ratio at 30 June 2012 of (2.9 per cent) (see below) was well below the lower end of the target range, however is positively impacted by the amount of cash on hand as a result of the Company's recent capital raising activities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

19. ISSUED CAPITAL

	2012	2011	2010
	\$	\$	\$
Debt ¹	25,952,611	35,207,692	8,060,403
Cash and cash equivalents	(29,921,332)	(26,658,014)	(13,555,077)
Net debt/(cash and cash equivalents)	<u>(3,968,721)</u>	<u>8,549,678</u>	<u>(5,494,674)</u>
Equity ²	136,745,034	121,921,107	58,441,305
Net debt to equity ratio at 30 June	<u>(2.9%)</u>	<u>7.0%</u>	<u>(9.4%)</u>

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. RESERVES (NET OF INCOME TAX)

	Option premium reserve	Properties Revaluation reserve	Cash flow hedge reserve	Foreign currency 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	-	-	-	(82,477)	(82,477)
Changes in fair value of cash flow hedges	-	-	1,154,651	-	1,154,651
Balance at 30 June 2011	273,000	842,762	1,032,631	(233,145)	1,915,248
Foreign currency translation difference	-	-	-	279,270	279,270
Changes in fair value of cash flow hedges	-	-	(983,285)	-	(983,285)
Revaluation of free hold property	-	(55,098)	-	-	(55,098)
Balance at 30 June 2012	273,000	787,664	49,346	46,125	1,156,135

Option Premium Reserve

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

Properties Revaluation Reserve

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

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 Currency Translation Reserve

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

20. RESERVES (NET OF INCOME TAX)

	2012	2011	2010
	\$	\$	\$
Equity-settled benefits reserve			
Balance at beginning of year	273,000	273,000	273,000
Arising on share-based payments	-	-	-
Balance at end of year	<u>273,000</u>	<u>273,000</u>	<u>273,000</u>

The above equity-settled employee benefits reserve relates to share options granted by the Company to some of its directors under a share option plan. Further information about share-based payments is set out in note 25.

	2012	2011	2010
	\$	\$	\$
Properties revaluation reserve			
Balance at beginning of year	842,762	842,762	567,507
(Decrease)/Increase arising on revaluation of properties	(78,711)	-	393,221
Deferred tax liability arising on revaluation	23,613	-	(117,966)
	<u>787,664</u>	<u>842,762</u>	<u>842,762</u>

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset will be transferred directly to retained earnings.

	2012	2011	2010
	\$	\$	\$
Cash Flow hedge reserve			
Balance at beginning of year	1,032,631	(122,020)	3,923,370
(Losses)/gains arising on changes in fair value of hedging instruments – forward foreign exchange contracts	(1,404,693)	1,649,501	(5,781,495)
Income tax related to gains/(losses) recognised in other comprehensive income	421,408	(494,850)	1,736,105
Balance at end of the year	<u>49,346</u>	<u>1,032,631</u>	<u>(122,020)</u>

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising in changes in fair value of the hedging instruments that are recognised and accumulated under the heading cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

Foreign currency translation reserve			
Balance at beginning of year	(233,145)	(150,667)	(11,169)
Exchange differences arising on translating the foreign operations	279,270	(82,478)	(139,498)
Balance at end of year	<u>46,125</u>	<u>(233,145)</u>	<u>(150,667)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

21. NOTES TO THE STATEMENT OF CASH FLOWS

	2012 \$	2011 \$	2010 \$
(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 statement of financial position as follows:			
Cash at bank	29,921,332	26,658,014	13,555,077
	2012 \$	2011 \$	
(b) Reconciliation of cash flow from operations with (loss)/profit after income tax			
(Loss)/profit after income tax		(14,445,748)	30,225,319
Adjustment for non-cash items			
- Net movement in derivative instruments		6,984,578	(4,364,297)
- Depreciation		10,393,785	4,673,540
- Write-off of property, plant & equipment		4,749,960	1,068,108
- Impairment of goodwill		-	198,512
- Write-off development costs		-	405,791
Changes in assets & liabilities			
- Decrease/(increase) in receivables		20,364,274	(2,038,811)
- Decrease in other assets		48,443	442,460
- Increase in inventories		(4,521,105)	(10,584,806)
- Increase/(decrease) in payables & accruals & progress claims		5,698,558	(23,634,909)
- (Decrease)/increase in employee provisions		(25,788)	545,109
- (Decrease)/increase provision for tax		(9,805,725)	3,531,808
- Increase in deferred tax asset		(9,236,252)	(202,346)
- Increase in deferred tax liability		702,744	1,211,338
Net cash flows from operating activities		10,907,724	1,476,816

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 borrowing and the use of interest rate swap contracts where appropriate. 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 2012, 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:

	2012	2011	2010
	\$	\$	\$
Change in profit			
Increase in interest rate by 2% (200 basis point)	391,570	226,025	215,840
Decrease in interest rate by 2% (200 basis point)	(391,570)	(226,025)	(215,840)
Change in other comprehensive income			
Increase in interest rate by 2% (200 basis point)	-	-	-
Decrease in interest rate by 2% (200 basis point)	-	-	-

The sensitivity to a 200 basis point increase or decrease in interest rates is considered reasonable given the markets forecast 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

22. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

	Weighted Average Effective Interest Rate			Floating Interest Rate			Fixed Interest Rate Maturing					Non Interest Bearing			
	2012	2011	2010	2012	2011	2010	2012	Within 1 year		Over 1 year			2012	2011	2010
	%	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents	4	4	2	29,914,787	26,654,605	13,553,132	-	-	-	-	-	-	6,545	3,409	1,945
Trade and Other Receivables	-	-	-	-	-	-	-	-	-	-	-	-	12,884,505	32,875,161	29,246,846
Other Financial Assets	-	-	-	-	-	-	-	-	-	-	-	-	1,681,019	8,478,122	2,699,580
Total Financial Assets				29,914,787	26,654,605	13,553,132	-	-	-	-	-	-	14,572,069	41,356,692	31,948,371

FINANCIAL LIABILITIES

	Weighted Average Effective Interest Rate			Floating Interest Rate			Fixed Interest Rate Maturing					Non Interest Bearing			
	2012	2011	2010	2012	2011	2010	2012	Within 1 year		Over 1 year			2012	2011	2010
	%	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Trade and Other Payables	-	-	-	-	-	-	-	-	-	-	-	-	21,103,616	23,766,589	21,614,739
Loans	7.5	7.5	7.5	-	103,462	391,096	-	-	-	1,407,124	1,463,917	1,844,106	-	-	-
Hire purchase agreements	7.5	7.5	7.5	-	-	-	15,015,608	3,821,728	1,156,899	-	14,568,708	2,298,302	-	-	-
Interest Rate Swaps	5.6	-	-	806,415	-	-	-	-	-	-	-	-	-	-	-
Bank bills	5.0	5.0	4.5	9,529,878	15,249,876	2,370,000	-	-	-	-	-	-	-	-	-
Total Financial Liabilities				10,336,293	15,353,338	2,761,096	15,015,608	3,821,728	1,156,899	1,407,124	16,032,625	4,142,408	21,103,616	23,766,589	21,614,739

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk relates to the risk that a counter party 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 2012.

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:

	2012	2011	2010
	\$	\$	\$
Trade receivables	12,097,255	30,810,475	28,352,900

At balance date, the aging analysis of trade receivables is as follows:

Days	2012	2011	2010
0-30	8,988,298	29,736,409	24,605,102
31-60	2,398,660	221,842	902,423
61-90	326,091	75,051	724,213
90+	384,206	777,173	2,121,162
	12,097,255	30,810,475	28,352,900

Trade receivables of \$710,297 (2011: \$852,223; 2010: \$6,359,783) were past due at 30 June, of which \$68,811 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 2012.

Foreign Currency Risk

The Group undertakes transactions denominated in foreign currencies; consequently exposure 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 amount of the Group's foreign currency denominated assets and monetary liabilities at the end of the period are as follows:

	Liabilities			Assets		
	2012	2011	2010	2012	2011	2010
US Dollars	19,545,499	2,226,381	1,348,017	16,258,074	25,388,243	21,112,226
Euro	-	14,763	66,951	636	-	-
British Pound	-	2,076	-	-	-	-
Singapore dollar	-	5,547	11,169	7,917	-	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Foreign Currency Sensitivity Analysis

The Group is mainly exposed to fluctuations in the US Dollar.

The following table details the Group's sensitivity to a 10 per cent increase and decrease in the Australian dollar against the relevant foreign currencies. 10 per cent 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 per cent change in foreign currency rates. A positive number below indicates an increase in profit or equity where the Australian dollar strengthens 10 per cent against the relevant currency. For a 10 per cent weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit or equity, and the balances would be negative.

		Profit after tax		Other Comprehensive Income	
		Increase/(Decrease)		Increase/(Decrease)	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
US dollar	+10%	(2,908)	1,573	2,382	1,845
US dollar	-10%	2,975	(1,466)	(2,620)	(2,030)

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.

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 per cent 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 per cent 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:

	Average exchange rate		Foreign currency		Notional value		Fair value	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Cash flow hedges								
Sell US Dollar								
Less than 3 months	1.0133	0.8106	12,900	3,800	12,730	4,688	45	1,104
3 to 6 months	0.9853	0.8625	5,750	15,000	5,836	17,391	146	3,170
6 months to 1 year	0.9798	0.8577	8,050	3,000	8,216	3,498	197	630
More than 1 year	-	-		-		-	-	-
							388	4,904

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

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 2012, 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 \$49,346 (2011: \$1,032,631). It is anticipated that the sales will take place during the first 6 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. 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 on 28 May 2010 to sell USD\$25,000,000 at an exchange rate of US\$0.85 =AU\$1.00 with an option premium of US\$1,572,000 due to be paid on 28 November 2012. The expiration date of the option was 30 November 2015. On 12 April 2012, this option was closed out and settled at its fair value of A\$3,546,428.

On this date, the consolidated Group also entered into a third European type foreign exchange option to sell USD\$25,000,000 at an exchange rate of US\$1.01=AU\$1.00. The expiration date of the option is 26 June 2014. A premium of US\$1,434,000 is payable for the option on 30 June 2014 and at 30 June 2012 the option was valued at fair value of A\$1,292,973.

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

Liquidity risk

	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 2012							
Cash and other equivalents	4.35	29,921,332	-	-	-	-	29,921,332
Trade and other receivables	-	8,514,687	4,369,818	-	-	-	12,884,505
Trade and other payables	-	(16,136,263)	(4,967,353)	-	-	-	(21,103,616)
Borrowing and finance leases	7.50	(445,119)	(1,335,358)	(27,001,726)	-	-	(28,782,203)
		21,854,637	(1,932,893)	(27,001,726)	-	-	(7,079,982)
30 June 2011							
Cash and other equivalents	4.00	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)
Borrowing and finance leases	7.50	(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)

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.

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).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. FINANCIAL INSTRUMENTS

- 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 2012	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Derivative financial assets	-	1,681,019	-	1,681,019
Derivative financial liabilities	-	(806,415)	-	(806,415)
Total	-	874,604	-	874,604

30 June 2011				
Derivative financial assets	-	8,478,122	-	8,478,122
Total	-	8,478,122	-	8,478,122

30 June 2011				
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.

23. OPERATING LEASE COMMITMENTS

	2012	2011
	\$	\$
Not later than 1 year	1,492,654	1,501,829
Later than 1 year but not later than 5 years	5,896,313	4,759,979
Later than 5 years	28,040,984	25,703,885

The lease commitment is for rental of land and buildings.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

24. FRANKING ACCOUNT

	2012 \$	2011 \$
Franking account balance at 1 July	18,578,149	7,921,988
Tax paid	3,998,713	2,926,370
Tax refunded on prior year tax	(1,480,469)	
Franking debits that will arise from the payment of dividends	(660,699)	(625,407)
Overstatement of Year 2010/11 tax	(6,617,533)	-
Franking account balance at 30 June	13,818,161	10,222,951
Franking credits that will arise from the payment of income tax payable as at the reporting date	-	10,006,944
Franking credits that will arise from the payment of dividends	-	(1,651,746)
Net franking credits available	13,818,161	18,578,149

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:

	2012		2011	
	No. of Options	Weighted average exercise price	No. of Options	Weighted average exercise price
Balance at beginning of year	-	-	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	-	-	-	-
Exercisable at the end of the year	-	-	-	-

Share options exercised during the year

The following share options were exercised during the year:

2012 Options series	Number exercised	Exercise date	Share price at exercise date \$
-	-	-	-
2011 Options series	Number exercised	Exercise date	Share price at exercise date \$
Granted 1 February 2008	3,000,000	01/10/10	4.95

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES

(a) Key management personnel compensation

	2012	2011
	\$	\$
Short term employment benefits	1,650,067	1,450,174
Post employment benefits	141,093	163,729
	<u>1,791,160</u>	<u>1,613,903</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 Ltd.

(d) Related Party Transactions

Transactions between related parties are on normal commercial terms.

	2012	2011
	\$	\$
The premises at 42 Truganina Road is leased from Kanu Pty Ltd, a company of which Maxwell Begley is a substantial shareholder. Rent for the period was:	<u>379,426</u>	<u>404,489</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES

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:

2012	Balance at 1 July	Granted as Remuneration	On Exercise of Options	Purchases/ (sold)	Balance at 30 June 2012
Directors					
PJ Hood ¹	-	-	-	130,000	130,000
AP Begley	3,422,763	-	-	95,000	3,517,763
CN Duncan	553,528	-	-	36,901	590,429
NL Johnson	101,176	-	-	15,000	116,176
PR Wright	2,219,942	-	-	(876,301)	1,343,641
MG Begley ²	26,253,014	-	-	n/a*	n/a*
Executives					
P Tazewell ³	-	-	-	-	-
A Vincan	24,000	-	-	-	24,000
P Riordan	20,812	-	-	-	20,812
M Kenyon ⁴	8,588	-	-	n/a*	n/a*
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
CN Duncan	550,000	-	-	3,528	553,528
NL Johnson	150,000	-	-	(48,824)	101,176
PR Wright	1,819,942	-	1,000,000	(600,000)	2,219,942
MG Begley ²	29,237,138	-	1,000,000	(3,984,124)	26,253,014
Executives					
G Northway ⁵	988,483	-	-	(988,483)	-
M Kenyon ⁴	-	-	-	8,588	8,588
A Vincan	-	-	-	24,000	24,000
P Riordan	119,604	-	-	(98,792)	20,812

¹ Mr Hood was appointed to the Company on 15 September 2011.

² Mr Begley resigned on 1 May 2012.

³ Mr Tazewell was appointed to the Company on 19 December 2011.

⁴ Mr Kenyon was appointed to the Company on 14 October 2010 and resigned on the 22 September 2011.

⁵ Mr Northway retired from the Company on 12 November 2010.

*These individuals ceased to be key management personnel of the company by 30 June 2012 and the presentation in this table does not indicate the status of their shareholding.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

26. RELATED PARTY DISCLOSURES

Option holdings of key management personnel

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

2012	Balance at 1 July 2011	Granted as Remuneration	Exercised	Expired	Balance at 30 June 2012	Total Vested at 30 June 2012	Total Exercisable at 30 June 2012
PJ Hood	-	-	-	-	-	-	-
AP Begley	-	-	-	-	-	-	-
CN Duncan	-	-	-	-	-	-	-
NL Johnson	-	-	-	-	-	-	-
PR Wright	-	-	-	-	-	-	-
MG Begley	-	-	-	-	-	-	-
2011	Balance at 1 July 2010	Granted as Remuneration	Exercised	Expired	Balance at 30 June 2011	Total Vested at 30 June 2011	Total Exercisable at 30 June 2011
AP Begley	1,000,000	-	(1,000,000)	-	-	-	-
CN Duncan	-	-	-	-	-	-	-
NL Johnson	-	-	-	-	-	-	-
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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

27. SUBSIDIARIES

The consolidated financial statements include the following subsidiaries:

Name	Incorporation	Shares	Equity Holding %	
			2012	2011
Specialist Engineering Services (Aust) Ltd	Australia	Ordinary	100	100
Drilling Solutions Pty Ltd ¹	Australia	Ordinary	99	99
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) Limited	UK	Ordinary	100	100
Matrix Composites & Engineering (US) Inc.	USA	Ordinary	100	100
Matrix Composites Brasil Comercio Manutencao de Equipamentos Petroliferos Ltda	Brazil	Ordinary	100	-
Wale Marine Aust Pty Ltd	Australia	Ordinary	-	50

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

28. PRIOR PERIOD CORRECTION

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

- (i) 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.
- (ii) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

28. PRIOR PERIOD CORRECTION

	30 June 2011	30 June 2010
	\$	\$
Statement of Comprehensive Income		
Increase/(decrease) in Revenue	12,630,634	(1,514,136)
Increase in Cost of Sales	(9,169,132)	(961,767)
Increase/(decrease) in Gross Profit	3,461,502	(552,369)
Increase/(decrease) in basic and diluted earnings per share	(4.6) cents	(2.4) cents
Statement of financial position		
Increase in Inventory	9,721,501	552,369
Decrease in Other Current Assets	(2,565,577)	-
Decrease in Property, Plant & Equipment	(1,753,000)	(793,000)
(Increase)/decrease in Progress Claims	(11,579,193)	1,514,136
(Increase)/decrease in Current Tax Liabilities	1,326,981	(288,530)
Decrease in Retained Earnings	(4,849,288)	(1,466,237)
Decrease in Total Equity	(4,849,288)	(1,466,237)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

Financial position

	2012	2011	2010
	\$	\$	\$
Assets			
Current assets	68,438,562	122,509,127	60,338,918
Non-current assets	123,554,995	61,089,585	62,229,522
Total assets	<u>191,993,557</u>	<u>183,598,712</u>	<u>122,568,440</u>
Liabilities			
Current liabilities	41,389,213	45,369,860	60,959,524
Non-current liabilities	13,204,833	16,273,788	4,605,954
Total liabilities	<u>54,594,046</u>	<u>61,643,648</u>	<u>65,565,478</u>
Net assets	<u>137,399,511</u>	<u>121,955,064</u>	<u>57,002,962</u>
Equity			
Issued capital	111,812,721	76,388,202	40,446,325
Retained earnings	25,264,444	44,261,231	16,405,657
Option premium reserve	273,000	273,000	273,000
Cash flow hedge	49,346	1,032,631	(122,020)
Total equity	<u>137,399,511</u>	<u>121,955,064</u>	<u>57,002,962</u>
Financial performance			
(Loss)/profit for the year	(12,927,805)	31,611,076	16,252,588
Other comprehensive income	(983,285)	1,154,651	(4,051,390)
Total comprehensive income	<u>(13,911,090)</u>	<u>32,765,727</u>	<u>12,201,198</u>
Contingent liabilities of the parent entity	<u>-</u>	<u>-</u>	<u>-</u>
Commitments for the acquisition of property, plant and equipment by the parent entity			
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	-	-	-
	<u>-</u>	<u>4,920,340</u>	<u>34,000,000</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

30. EARNINGS PER SHARE

	2012	2011
	\$	\$
(Loss)/Profit attributable to members of parent entity (\$)	(14,445,774)	30,221,253
Weighted average number of shares on issue (number)	78,471,436	73,083,147
Weighted average number of shares adjusted for dilution (number)	78,471,436	73,083,147
Basic earnings per share (cents)	(18.4)	41.4
Diluted earnings per share (cents)	(18.4)	41.4

31. DIVIDENDS PAID AND PROPOSED

	2012	2011	2010
	\$	\$	\$
Dividends paid and proposed			
(a) Dividends paid during the year			
Fully franked final dividend			
5 cents, paid 31 October 2011 (2011: 2 cents, paid 28 October 2010; 2010: 2 cents, paid 9 October 2009)	3,854,075	1,459,282	979,282
Fully franked interim dividend			
2 cents, paid 30 Apr 2012 (2011: 3 cents, paid 29 April 2011; 2010: 2 cents, paid 28 April 2010)	1,541,630	2,296,220	1,279,282
	<u>5,395,705</u>	<u>3,755,502</u>	<u>2,258,564</u>
(b) Dividends declared (not recorded as a liability)			
Fully franked final dividend			
Nil dividend declared in 2012 (2011: 5 cents to be paid 31 October 2011; 2010: 2 cents to be paid 28 October 2010)	-	3,854,075	1,459,282
Dividend per share in respect of financial year	<u>7.0 cents</u>	<u>8.0 cents</u>	<u>4.0 cents</u>

32. CAPITAL AND OTHER COMMITMENTS

The Group has no capital commitments as at 30 June 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 2012.

35. EVENTS AFTER THE REPORTING DATE

There are no other events of a material nature that have occurred subsequent to the reporting date other than the matters disclosed in directors' report.

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; and

(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:



Aaron P Begley
Managing Director and Chief Executive Officer

Dated this 15 August 2012

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 2012, 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 28 to 83.

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.

Deloitte.

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 consolidated entity's financial position as at 30 June 2012 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial 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 13 to 15 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Matrix Composites & Engineering Ltd for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Peter Rupp
Partner
Chartered Accountants
Perth, 15 August 2012

ADDITIONAL STOCK EXCHANGE INFORMATION AS AT 8 AUGUST 2012

Ordinary Share Capital

94,555,428 fully paid ordinary shares are held by 4,826 individual shareholders. All issued ordinary shares carry one vote per share and are entitled to dividends.

Distribution of Holders of Equity Securities

Range	Fully paid ordinary shares	Number of Holders	% of Issued Capital
1-1,000	945,146	1,745	1.00
1,001-5,000	5,597,505	2,154	5.92
5,001 – 10,000	3,879,985	514	4.10
10,001 – 100,000	9,715,511	371	10.27
>100,001	74,417,281	42	78.70
Total	94,555,428	4,826	100.00
Holding less than a marketable parcel	60,504	447	0.06

Twenty (20) largest holders of Quoted Equity Securities

Name	Fully paid ordinary shares Number	Percentage
Milto Pty Ltd	16,729,702	17.69
National Nominees Limited	11,287,808	11.94
J P Morgan Nominees Australia Limited	9,266,546	9.80
Milto Pty Ltd <Begley Family A/C>	7,081,377	7.49
HSBC Custody Nominees (Australia) Limited	5,219,603	5.52
BNP Paribas Nominees Pty Ltd <Master Cust DRP>	4,771,279	5.05
Citicorp Nominees Pty Ltd	4,101,793	4.34
Mr Aaron Paul Begley	3,062,763	3.24
Mr Maxwell Graham Begley	1,610,308	1.70
Mr Todd Justin Begley	1,147,661	1.21
Ms Linda Sampey & Mr Bruce Sampey <Sampey Super Fund A/C>	1,077,036	1.14
Vector Nominees Pty Limited <Vector Super Fund A/C>	850,022	0.90
Begley Superannuation Co Pty Ltd <Begley Engineering S/F A/C>	760,854	0.80
Mr Craig Neil Duncan	535,214	0.57
Mr Peter Lindsay Wright	534,359	0.57
Sinedie Pty Ltd	507,241	0.54
Mr Paul Richard Wright	500,000	0.53
Mr Paul Richard Wright	460,000	0.49
RBC Investor Services Australia Nominees Pty Limited <BCKUST A/C>	395,201	0.42
J P Morgan Nominees Australia Limited <Cash Income A/C>	330,107	0.35
Total	70,228,874	74.29

ADDITIONAL STOCK EXCHANGE INFORMATION

Substantial Shareholders

Ordinary shareholders	Fully paid ordinary shares	
	Number	%
M.G. Begley & Associates	26,753,014	28.84
Allan Gray Australia Pty Ltd	16,499,584	17.45
IOOF Holdings Limited	7,830,135	8.28

Company secretary

Mr Peter Tazewell

Registered and principal administration office

150 Quill Way
Henderson WA 6166

Phone: +61 8 9412 1200

Share registry

Link Market Services Ltd
Ground Floor
178 St Georges Terrace
Perth WA 6000

Phone: + 61 8 9211 6670

On-market share buy-back

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

Restricted Securities

As at the date of the Annual Report there are no securities subject to any voluntary escrow or any transfer restrictions.