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# annual report 2010

## Directors

Mr N L Johnson (Chairman)  
Mr A P Begley (CEO)  
Mr C N Duncan  
Mr M G Begley  
Mr P R Wright (CFO)

## Joint Company Secretaries

Mr P R Wright  
Mr D J Holman

## Head Office

Matrix Composites & Engineering Limited  
42 Truganina Road  
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## Subsidiary Companies

### Specialist Engineering Services (Aust) Ltd Trading as Begley International

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Email: reception@begley.com.au

### Torque Engineering (Aust) Pty Ltd

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Malaga WA 6090  
Telephone: +61 (08) 92493300  
Email: mike.spiers@torqueengineering.com

### Matrix Henderson Property Pty Ltd

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Henderson WA 6166

### MC&E (Asia) Pte Ltd

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#06-06 Jit Poh Building  
Singapore

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## Bankers

National Australia Bank  
100 St Georges Terrace  
PERTH WA 6000

## Lawyers

Norton Rose  
BankWest Tower  
108 St Georges Terrace  
PERTH WA 6000

## Auditor

Mack & Co Chartered Accountants  
2nd Floor, 35 Havelock St  
WEST PERTH WA 6005

## Share Registry

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
PERTH WA 6000



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## Dear Shareholder,

I am pleased to present to you the inaugural Annual Report for Matrix Composites & Engineering Ltd following the Company's successful listing on the ASX in November 2009.

This has been an exciting and challenging year for the Company. As well as the listing on the ASX, major activities undertaken by the Company in the year included a plant upgrade at our Malaga facility (which has facilitated a significant increase in production capacity for riser buoyancy modules), securing a long-term lease for land at Henderson and the subsequent commencement of construction of a purpose built facility at this site and the securing of equity and debt to fund the Henderson development.

As forecast in our IPO prospectus, the Company successfully raised \$15 million and in April 2010 raised further equity of \$13.5 million. These proceeds along with debt facilities secured from a leading Australian financial institution, are funding the site and plant fit-out costs for stage 1 of the Henderson development.

From an operational perspective, I am pleased to report that the Company has significantly exceeded the profit forecasts for financial year 2010 contained in the IPO prospectus. The Company has achieved a net profit after tax of \$18.16 million, a 139% increase on the \$7.6 million forecast in the prospectus. Weighted earnings per share of 31.0 cents compares very favourably to the 11.9 cents forecast in the prospectus. The Composite Materials division has achieved excellent production outcomes and continues to maintain a healthy order book. The Heavy Engineering division, despite the business uncertainty prevailing in the Western Australian market place during the year, continued to perform profitably and be a valuable contributor to the Matrix group.

The financial year also saw the appointment of a new Chief Executive Officer, Mr Aaron Begley. Aaron was previously Managing Director of the Composite Materials division and has been largely responsible for the development of the products and markets for this division.

His knowledge of and enthusiasm for these products and markets is important to the strategic plans for the group and its future growth.

Corporate governance practices continue to be monitored and reviewed to ensure that our governance is effective and compliant.

The Board has declared a final fully franked dividend of 2 cents per ordinary share to bring the total dividend for the year to 4 cents per ordinary share. The IPO prospectus forecast total dividends of 4 cents per ordinary share for the year ended 30 June 2010.

The Company is well positioned to continue to build on the strong growth achieved over the last 2 to 3 years.

Matrix is a market leader in syntactic foam technology and buoyancy products for the offshore oil and gas industry, has an established customer base and network, a strong commitment to product research and development and the belief that there will be continuing growth in demand for its products from the oil and gas and mining industries.

The Company's success during the financial year is directly attributable to the dedication, motivation and performance of our Board, management and employees. They have performed admirably and produced an outstanding result for shareholders. I thank and commend them all for their efforts.

We look forward to 2011 to building on our achievements in 2010, and to continue to grow the Company and group to deliver strong returns to our shareholders.

**Nigel Johnson**  
Chairman



## Year in Review

The last twelve months has been a period of enormous growth and change for the company. During this period the company has overcome production and technical challenges, increased output more than 400%, increased staff levels by 100%, adopted new process technologies, developed a range of new products, continued to book over \$150 million in new orders and commenced the development of our new \$60 million state of the art facility in Henderson, in the Australian Marine Complex, south of Perth.

Needless to say it has been a fast-paced, exciting and immensely satisfying year and we have been able to achieve these milestones, plus book a record after tax profit of \$18.16 million. It is also important to note that we were listed on the ASX last November, making this annual report our first as a listed public company.

## Henderson

Aside from continuing to meet our contractual and service commitments to our customers, we have also focused on developing a new facility in Henderson. I am pleased to report that construction at the new Henderson facility is progressing well and that it is due to commence production towards the end calendar year 2010. We are particularly excited by the capacity and opportunities that this new facility will offer our customers. The Henderson facility will be the largest and most advanced of its type anywhere in the world.

Matrix has taken the best technologies available from the automotive, aerospace and advanced chemical processing industries to build a high output, high reliability plant capable of manufacturing a diverse range of syntactic foam products unmatched in terms of capability and technology.

The Henderson plant will also double our current output and consolidate five operating sites into one, improving efficiency and driving down operating costs.

## Organic Growth

Matrix has traditionally built its business via organic growth rather than by acquisition and we have continued to follow this path over the past year. Our growth has been entirely organic and we have expanded the business by broadening our customer, product and service base via both the engineering and composite materials divisions. Growth continues to be driven by the long term shift to deepwater oil and gas exploration and the increase in regional offshore drilling activity, a trend that we expect will continue to propel the business for the foreseeable future.

As exports constitute nearly 80% of its total revenue base Matrix has expanded international business development and marketing efforts. During the past year, this has resulted in the opening of a European sales office in the UK, the appointment of a new representative in Malaysia and the establishment of a distributor for our downhole products. In FY2011 we plan to employ more staff in Singapore and start-up a support operation in Brazil.

## New Products and Technology

Technology and product development go hand in hand at Matrix, evidenced by our R&D spend in excess of \$2 million in FY2010. New materials technologies and continuous improvement drive the development of better products and new products. Matrix invests heavily in both materials technologies and product development that will place the business in a market leadership position with significant competitive barriers. In essence our core strategy in this area is to develop products with a degree of technical complexity, that match our core competencies and that provide market opportunities with limited competition. Our knowledge and expertise in the fields of composite materials, syntactic foam, polymer chemistry and materials science are being leveraged to achieve these objectives.





FY2011 will see the launch of several new products aimed at the well construction, downhole, SURF (Subsea Umbilicals, Risers & Flowlines) and downstream LNG markets. These products will broaden and diversify our market base whilst focusing on what the company does best which is make high performance engineering products from composites, syntactic foam and polymers and precision metal components.

### People

I am honoured and extremely fortunate to work with a highly talented and motivated team of dedicated and loyal staff. FY2010 has seen a rapid expansion of our workforce and we have recruited some of the best from the Australian and International manufacturing sector. In FY2010 the company's head count grew to over 300 and we continue to recruit new personnel for our operations in Henderson that will generate growth for the company this coming year and into the future.

### Quality, Safety and Environment

FY2010 saw a significant quality milestone for Matrix with the attainment of ISO 9001 accreditation. ISO 9001 accreditation demonstrates that our systems and processes are of a globally recognised standard. This opens the door to a number of international customers that require this assurance.

Our mantra at all of our operations is *nothing gets hurt, nobody gets harmed*. We take our responsibilities in relation to the safety of employees, contractors and visitors very seriously. To this end we are committed to achieving AS 4801 accreditation in the 2011 financial year.

### Outlook

I am excited about what the future holds for Matrix for both the coming financial year and beyond. The company has experienced significant growth in FY2010 and I expect it to experience similar growth in FY2011. We have a solid order book of around \$188 million as at the beginning of FY2011 and continue to push into new markets such as production buoyancy, cryogenic insulation and downhole products all of which have significant potential. The launch of our Henderson facility will cement us as a major critical equipment supplier to the Offshore Oil & Gas sector and provide a springboard for future growth.

We look forward to year ahead with all of it's challenges, opportunity and potential.

**Aaron Begley CEO**  
Matrix Composites & Engineering Limited.

it has been  
a fast paced,  
exciting and  
immensely  
satisfying year

Your directors present their report together with the financial report of Matrix Composites & Engineering Ltd (Company) and of the group, being the company and its controlled entities for the year ended 30 June 2010.

## Directors

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

### **Nigel L Johnson**

Qualifications & Experience

### **Non-Executive Chairman and Director**

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

Mr Johnson is a member of the Finance & Treasurers Association of Australia and the Australian Institute of Company Directors. He has served on the board of a number of listed and private companies and was a non-executive director of Catalpa Resources Limited within the last three years.

### **Aaron P Begley**

Qualifications & Experience

### **Chief Executive Officer**

Mr Begley holds a Bachelor of Economics degree and a post graduate diploma in business. Mr Begley has twelve years experience in industrial product marketing in the offshore oil and gas industry, industrial ceramics and composite materials.

Mr Begley has not held any other listed company directorships within the last three years.

### **Paul R Wright**

Qualifications & Experience

### **Chief Financial Officer & Company Secretary**

Mr Wright is a Qualified Accountant with experience in the accounting profession and in commerce working in heavy engineering businesses. Mr Wright was previously managing director of Centurion Industries Limited, which was formed as a result of an employee buyout of the Tomlinson Steel operations.

Mr Wright has not held any other listed company directorships within the last three years.

### **Maxwell G Begley**

Qualifications & Experience

### **Non-Executive Director**

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 has not held any other listed company directorships within the last three years.

### **Craig N Duncan**

Qualifications & Experience

### **Non-Executive Director**

Mr Duncan holds tertiary qualifications in Petroleum Engineering and has thirty years experience in the offshore oil and gas drilling industry.

Mr Duncan has not held any other listed company directorships within the last three years.

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



## Meetings of Directors

During the financial year, the number of board meetings attended by each director during the year is stated below:

Director	Board Meetings	
	Held	Attended
<b>Executive directors</b>		
AP Begley (CEO)	17	17
PR Wright (CFO)	17	17
<b>Non-executive directors</b>		
NL Johnson	17	17
MG Begley	17	17
CN Duncan	17	16

## Principal Activities

During the year the principal activities of the consolidated group consisted of:

- manufacture and sale of syntactic foam buoyancy and polyurethane products
- manufacture and sale of fabricated metal products
- development of the group's leasehold property in Henderson AMC

## Operating Results and Financial Review

The net profit of the consolidated group for the year after provision for income tax was \$18,155,336 (2009: \$3,095,279).

	2010FY	2009FY	Comment
<b>Revenue</b>	\$102.62 million	\$54.33 million	+ 89%
<b>EBITDA</b>	\$28.06 million	\$5.52 million	+408%
<b>Net profit after tax</b>	\$18.16 million	\$3.10 million	+486%
<b>Earnings per share</b>	31.0 cents	6.3 cents	Weighted average over the reporting period
<b>Dividends per share</b>	4.0 cents	2.0 cents	2c final + 2c interim
<b>Order Book</b>	\$188 million	\$136 million	Underwrites further increase in revenue for FY 2011
<b>Gearing</b>	0%	20.0%	Cash on hand exceeds bank debt at 30/6/2010

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## Review of Operations

During the year the consolidated group concentrated its operations on manufacturing principally for the oil and gas sector.

### Composite Materials Division

Manufacture of Syntactic Foam Buoyancy systems was this division's primary activity in FY2010. The Brownfield's plant expansion was completed in Q1 FY2010 and underwent a ramp up cycle that continued throughout the 2010 financial year.

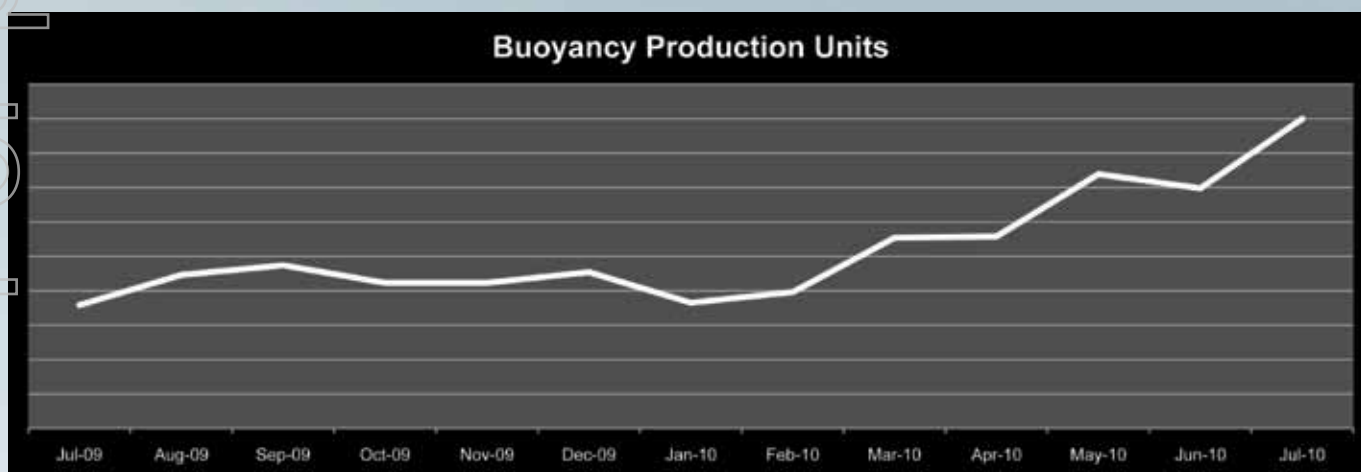
This ramp up process was achieved by the concerted effort of our production team and the reallocation of some equipment originally earmarked for Henderson that will be subsequently relocated when the Henderson plant comes on stream.

Production of non-buoyancy related products was limited during the course of the year, however the company did deliver several subsea clamp, insulation and bend restrictor packages.

Several new operating sites were commissioned in FY2010 including a sphere precursor manufacturing plant, a paint line and a "small parts" syntactic plant built to manufacture small buoyancy parts. These plants and processes will be consolidated in Henderson in FY2011.

The company operated its full scale hydrostatic testing centre throughout the course of the year ensuring that all buoyancy products produced complied to API 16F.

At the end of FY2010 the division's head count was approximately 210 people.





### Composite Materials Division (Continued)

Significant additions were made to operations, production and project management. Notable appointments included the appointment of Mr. Alex Vincan (formerly VP of Manufacturing of Bosch Automotive) to the role of Operations Manager and Peter O'Brien (formerly GM Sales & Service Asia Pac ABB Vetco Gray) to the role of Business Development Manager. The company was accredited to ISO 9001:2008 by SAI global in February 2010. In addition to this the company embarked upon a AS 4801 OH&S accreditation process which is likely to conclude with successful accreditation in FY2011. API Q1 accreditation with API 16F and API 10F monogramming is targeted for FY2011.



### Heavy Engineering Division

Heavy Engineering's product mix changed significantly in FY2010 from previous periods with a significant amount of buoyancy related tooling work and offshore service work being completed throughout the year.

Increased diversification of services, sub contract manufacturing and client based and the specialised nature of the work carried out enabled the Heavy Engineering Division to exceed internal forecasts despite the adverse trading condition experienced in the Western Australian Engineering and Construction Sector.

Matrix continued to invest in capital upgrades for this division throughout the year with several new state of the art heavy machining centres ordered and installed during the year.

This equipment replaced redundant machinery and expanded capability ensuring that the division stays at the forefront of technology and will continue to deliver high precision engineered products to its blue chip customer base.

The fabrication facilities were relocated from the Company's Camboon Road Workshops in Q3 to a new site in the industrial suburb of Malaga, this expanded capacity has allowed segregation of fabrication from the "cleaner" processes of precision machining and heavy equipment fitting.

The division maintained its ISO 9001:2008 accreditation throughout the year and like Matrix is seeking AS 4801 and API Q1 accreditation with associated monograms in 2011.





## Review of Operations (Continued)

### Heavy Engineering Division (Continued)

API Q1 accreditation will enable the Heavy Engineering Division to compete for work that traditionally goes offshore to locations like the UK and the USA.

The division's workforce increased marginally in FY2010 and at the end of this year had a head count of approximately 85 people.

The Heavy Engineering Division continued to trade under the name of Begley International throughout the course of the year.

### Henderson

Site works commenced in Henderson during October 2009 and construction of the 20,000m<sup>2</sup> factory and chemical complex began in early FY2010.

At the end of FY2010 the main assembly hall, sphere plants and chemical storage structural works were substantially complete with all major equipment either on order or under construction.

This project has a high degree of complexity due to the significant level of automation adopted throughout the process; to manage this process successfully the company has built a project team with management experienced in the construction of manufacturing and chemical plants.

A SCADA based system will control and monitor the automated processes throughout the plant.

The Henderson project is on track for commissioning late 2010 calendar year and when complete will be the largest most automated plant of its kind anywhere in the world.

It will also be the only buoyancy plant with dockside access enabling the company to deliver large structures such as large deployment and mooring buoys, Mid Water Arch Systems and a variety of other subsea structures.

### Dividends Paid or Recommended

The company paid dividends totalling \$2,258,564; 2 cents/share, fully franked, on 9 October 2009 and 2 cents/share, fully franked, on 28 April 2010 (2009: \$489,592).

The directors have declared a final dividend of 2 cents per share fully franked for the year ending 30 June 2010, which will be due to shareholders registered on the record date of 14 October 2010 and payable on 28 October 2010.



## Significant Changes in State of Affairs

In November 2009 the company raised \$15 million through the issue of 15 million shares at \$1.00 each and subsequently gained quotation of its ordinary shares on the Australian Stock Exchange. In April 2010 the company raised \$13.5 million through the issue of 6 million shares at \$2.25 each. Proceeds from the two issues have been principally used to assist the Company in the development of its Henderson property.

Other than the above, and as noted elsewhere in this Annual Report, there have been no significant changes in the state of affairs of the company or group for the year ended 30 June 2010.

## Post Balance Date Events

No matter or circumstance has arisen subsequent to 30 June 2010 that has significantly affected, or may significantly affect the operations or the state of affairs of the consolidated entity in future financial years.

On 23 July 2010, the Group reached an out of court settlement with Straits (Hillgrove) Gold Pty Ltd over a contractual dispute. At 30 June 2010, there was sufficient provisioning to settle the agreed amount.

## Likely Developments

The company anticipates substantial growth in its core business operations during the coming years as a result of increased capacity at its Henderson facility.

## Environmental Regulation

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

the company  
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substantial  
growth

## Audited Remuneration Report

This remuneration report details the policy for determining the remuneration of directors and executives and provides specific detail of their remuneration. Key management personnel have authority and responsibility for planning, controlling and directing the activities of the group.

### Remuneration of Non-Executive Directors

The Board policy aims to attract, retain and motivate talented and highly skilled non-executive directors and to remunerate fairly and responsibly having regard to:

- the level of fees paid to non-executive directors at market rate for comparable companies;
- the size and complexity of the company's operations; and
- the 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 when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders (currently \$500,000).

### Remuneration of Executives

The company's remuneration policy for executive directors and key management personnel is fairly and responsibly rewarding them having regard to the performance of the group, the performance of 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. As detailed in the remuneration table executive directors and key management personnel were paid a bonus for the current financial year based on the strong group financial results and delivery of key outcomes in FY2010.

Overall remuneration policies are subject to the discretion of the board and can be changed to reflect the competitive market and business conditions when it is in the interests of the company and shareholders to do so.

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.

### Executive Services Agreement

On 29 September 2009, Matrix entered into executive services agreements with executive directors on the following material terms and conditions:

		Term	Notice
Executive Directors	Commencement Date	Period	Period
• A Begley - CEO	1 Oct 2009	36 months	3 months
• P Wright - CFO	1 Oct 2009	12 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 (2009: nil).



## Audited Remuneration Report (Continued)

		Short-term Benefits			Post Employment Benefits		Long-term Benefits		Proportion of remuneration performance related	
		Salary & fees	Cash bonus	Non-monetary benefits	Total	Superannuation benefits	Share-based Payments	Total		
		\$	\$	\$	\$	\$	Equity Options	\$	%	
<b>Executive Directors</b>										
	AP Begley	2010	324,853	150,000	10,450	485,303	-	29,237	514,540	29.2
		2009	212,958	-	9,862	222,820	-	21,062	243,882	-
	PR Wright	2010	244,999	100,000	-	344,999	-	22,050	367,049	27.2
	2009	199,985	-	-	199,985	-	19,778	219,763	-	
<b>Non-Executive Directors</b>										
NL Johnson		2010	57,500	-	-	57,500	-	5,175	62,675	-
		2009	43,600	-	-	43,600	-	3,924	47,524	-
MG Begley		2010	153,751	-	-	153,751	-	3,037	156,788	-
		2009	120,000	-	-	120,000	-	-	120,000	-
CN Duncan		2010	42,916	-	-	42,916	-	3,862	46,778	-
		2009	54,378	-	-	54,378	-	5,378	59,756	-
<b>Key management personnel</b>										
G Northway		2010	171,807	20,000	-	191,807	-	16,992	208,799	9.6
		2009	156,776	-	-	156,776	-	15,505	172,281	-
P Riordan		2010	178,705	20,000	-	198,705	-	17,674	216,379	9.2
		2009	167,925	-	-	167,925	-	16,608	184,533	-
A Vincan		2010	174,247	40,000	-	214,247	-	17,233	231,480	17.3
		2009	-	-	-	-	-	-	-	-

### Note:

G Northway - General Manager of Matrix Composites & Engineering Ltd  
P Riordan - General Manager of Specialist Engineering Services (Aust) Ltd  
A Vincan - Operation Manager of Matrix Composites & Engineering Ltd, appointed 14 September 2009.  
M G Begley - Fees totaling \$120,000 in the 2010 and 2009 years are paid to BIMS Pty Ltd  
- company of which MG Begley is a director and a substantial shareholder.



## Audited Remuneration Report (Continued)

### Share Options

At the date of this report the options over unissued ordinary shares are as follows:

Director	Number of Options	Expiry Date	Exercise Price
AP Begley	1,000,000	8 April 2013	60 cents
PR Wright	1,000,000	8 April 2013	60 cents
MG Begley	1,000,000	8 April 2013	60 cents

### Directors' Relevant Interests

No director has or has any interest in a contract entered into or has any interest in the contract entered into during the year or any proposed contract with the company or any controlled entity or any related entity other than as disclosed in the notes to the financial statements.

The relevant interest of each director in the securities of the company as notified by the directors to Australian Stock Exchange as at the date of this report is as follows:

Director	No of Ordinary Shares (Direct & Indirect)	No. of Options exercisable at 60c over Ordinary Shares expiring 8 April 2013
AP Begley	3,472,763	1,000,000
PR Wright	1,819,942	1,000,000
NL Johnson	150,000	-
MG Begley	29,237,138	1,000,000
CN Duncan	550,000	-

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

### Indemnification of Officers and Auditors

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

Neither the company nor any related entity has indemnified or agreed to indemnify, paid or agreed to pay any insurance premium which would be prohibited under the Corporation Act 2001 during or since the financial period ended 30 June 2010.

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

### Proceedings on Behalf of Company

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

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



## Non Audit Services

During the year under review, Mack & Co, the company's auditor, has performed certain other services in addition to the statutory duties. Details of the amounts paid to the auditors is as follows:

	\$
<b>Taxation advisory services</b>	9,500
<b>Other advisory services</b>	5,500
	<b>15,000</b>

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of the non-audit services during the year by the auditor is compatible with and did not compromise, the auditor independence requirements of the Corporation Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

## Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2010 has been received and is included in the annual report.

Signed in accordance with a resolution of the Board of Directors.

**AP Begley**

Chief Executive Officer

Date: 9th August 2010



# auditor's independence declaration



GROWTH SUCCESS WEALTH

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PO BOX 609, WEST PERTH WA 6872

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E-MAIL: MAIL@MACKCO.COM.AU WEB: MACKCO.COM.AU

## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MATRIX COMPOSITES & ENGINEERING LTD

I declare that to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

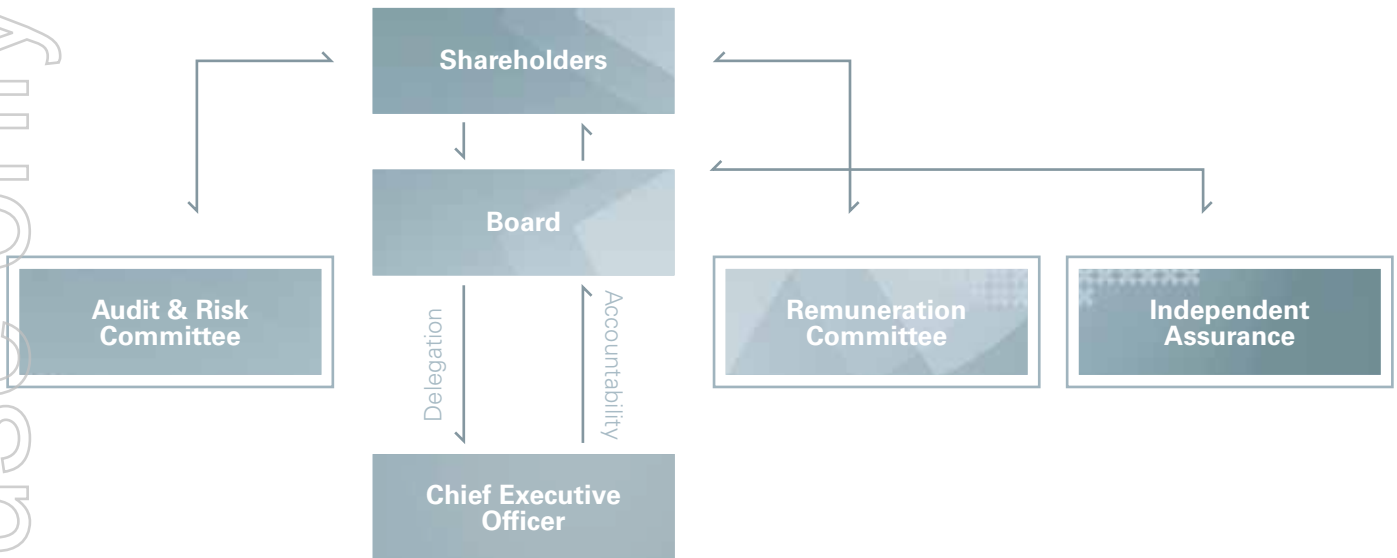
- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

*Mack and Co.*  
MACK & CO  
*S Sermanis*  
S S SERMANIS  
PARTNER  
WEST PERTH

DATE: 9<sup>th</sup> August 2010

Chartered Accountants Australia Limited Professional Standards Committee

## Matrix Corporate Governance Model



## Corporate Governance

Matrix is committed to a high level of corporate governance and fostering a culture that values ethical behaviour, integrity and respect.

This statement reports on Matrix's key governance principles and practices. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and developments in corporate governance.

The Board considers it essential that directors and staff of the group employ sound corporate governance practices in carrying out their duties and responsibilities. Accordingly, a code of conduct has been issued to detail the expected behaviour required to ensure the company acts with integrity and objectivity.

A number of committees, which operate in accordance with their respective charters, have been established to assist the board in carrying out its responsibilities.

The company has posted its corporate governance practices to its website: [www.matrixap.com.au](http://www.matrixap.com.au).

The code of conduct, committee charters and various policies are available on this website.

The company, as a listed entity, must comply with the Corporations Act 2001, the Australian Securities Exchange (ASX) Listing Rules and other Australian and international laws.

The ASX Listing Rules require the company to report the extent to which it has followed the Corporate Governance Recommendations contained in the ASX Corporate Governance Council's (ASXCGC) second edition of its Corporate Governance Principles and Recommendations (August 2007). Details of Matrix's compliance with the ASXCGC Recommendations are set out on the following pages.

Unless disclosed below, all Recommendations have been applied for the entire financial year ended 30 June 2010.

### Statement of Non-Compliance with Recommendations

The company uses alternative methods of good corporate governance to those included in the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" second edition.

*Recommendation 2.1: The majority of the board should be independent directors.*

As at the date of this report, one of the non-executive directors, Maxwell G Begley, held more than 5% of the voting shares of the company and is an adviser to the company on the building of Matrix's plant in Henderson, WA.



## Board of Directors

The board has approved a formal Board Charter which details the Board's role, powers, duties and functions. The central role of the Board is to set the company's strategic direction, reviewing risk management systems and internal compliance and control, ensuring high standard of corporate governance practice and regulatory compliance, to select and appoint a Chief Executive Officer (CEO) to oversee the company management and business activities. The Board Charter and the delegation of Board authority to the CEO are reviewed regularly.

The Board is comprised of three non-executive directors, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The details of the directors, their experience, qualifications, term of office and independence status are set out in the Directors' Report.

The majority of the Board is comprised of non-executive directors with a mix of qualifications, experience and expertise which will assist the Company in achieving growth and delivering value to shareholders.

Where practical, at least 50% of the Board will be independent. Independent Directors should meet the definition of what constitutes independence as set out in the ASX Corporate Governance Recommendations except as stated in the statement of non-compliance above. They are independent of management and free from any business or other relationship that could materially interfere with (or could reasonably be perceived to materially interfere with) the exercise of their unfettered and independent judgement.

The Board has approved Director's Conflict of Interest Guidelines which apply if there is, or may be, a conflict between the personal interests of a director, or duties a director owes to another company, and the duties the director owes to Matrix. A director with an actual or potential conflict of interest in relation to a matter should discuss the matter with the Chairman of the Board. The director should withdraw from the discussion if requested while the Board discusses the potential conflict.

If it is decided that a conflict does exist, then depending on its assessed significance, the director involved will be requested to take one of the following courses of action (in order of increasing significance):

- i. refraining from voting on a relevant matter during a Board meeting;
- ii. withdrawing from discussion of a relevant matter during a Board meeting;
- iii. taking leave of absence from the Board for a period; or
- iv. resigning from the Board.

Each director is expected to voluntarily review their position on the Board from time to time taking into account their respective length of service, age, qualification and expertise relevant to the facilitation of the Company's successful strategic direction; together with the other criteria considered desirable for the composition of a balanced Board and the overall interests of the Company.





## Board Committees

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

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

The charter of the Committees that identify the roles and responsibilities of the various committees have been approved by the Board and reviewed following any applicable regulatory changes. They are available on the company's website. Members of Committees are appointed by the Board. The Board may appoint additional Directors to Committees or remove and replace members of Committees by resolution.

### Audit & Risk Committee

The Committee comprises the three non-executive directors of the company. The external auditors, the other Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and senior executives, may be invited to Committee meetings at the discretion of the Committee.

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

- i. approval of the scope, plan and fees for the 2010 external audit;
- ii. review of the independence and performance of the external auditor;
- iii. review of significant accounting policies and practices;
- iv. review of the Group's key risks and revised risk management framework;
- v. review of the effectiveness of the Group's management of its material business risks;
- vi. review and recommendation to the Board for adoption of the Group's half year and annual financial statements.

### Remuneration Committee

The Committee comprises the three non-executive directors of the company.

Key activities undertaken by the Remuneration Committee during the year included:

- i. approval of the appointment and remuneration packages of executives reporting directly to the CEO;
- ii. reviewing and making recommendations to the Board on:
  - (a) the criteria for the valuation of the performance of the CEO and CFO;
  - (b) the remuneration of the CEO and CFO;
  - (c) the annual Remuneration Report.





Directors' attendance at meetings during the year.

Director	Board		Audit & Risk Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
<b>Executive directors</b>						
AP Begley (CEO)	17	17	1	1 (by invitation)		
PR Wright (CFO)	17	17	1	1 (by invitation)		
<b>Non-executive directors</b>						
NL Johnson	17	17	1	1	2	2
MG Begley	17	17	1	1	2	2
CN Duncan	17	16	1	1	2	2
<p>Legend:</p> <p>Chairman</p> <p>Member</p> <p>By Invitation</p> <p>Notes:</p> <p>(1) 'Held' indicates the number of meetings held during the period of each director's tenure.</p> <p>(2) 'Attended' indicates the number of meetings attended by the director.</p>						

## Shareholders Communication and Continuous Disclosure

The Board of the Company aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of shares.

Information is communicated to shareholders through:

- the disclosure of full and timely information about the Company activities in accordance with the disclosure requirements contained in the ASX Listing Rules and Corporations Act;
- all information released to the Australia Stock Exchange to be placed on the Company's website;

- the auditor's lead engagement partner being present at the AGM to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Presentation material from significant briefings or management speeches is also posted to the website as well as briefings on the financial results, and other significant briefings with major institutional investors and analysts, are made available on the Company's website.

The Company is committed to ensuring that shareholders and the market are provided with full and timely information and that all stakeholders have equal opportunities to receive externally available information issued by the Company.



In accordance with ASX Listing Rule 3.1, once the Company becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the Company's securities, the Company must immediately disclose that information to the ASX.

All announcements are to be released electronically, either under the control of the Chief Executive Officer or the Company Secretary.

Once the announcement has been released on the ASX's company announcements platform, the Company Secretary is to circulate the release to all members of the Board and post on the Company's website as soon as practicable.

Price sensitive information is publicly released through the ASX before it is disclosed to Shareholders and market participants. Distribution of other information to shareholders and market participants is also managed through disclosure to the ASX.

### **Promoting Responsible and Ethical Behaviour**

Matrix has two sets of Code of Conduct which consists of:

- i. Board Code of Conduct
- ii. Corporate Code of Conduct

Both outline Matrix's commitment to appropriate and ethical corporate practice.

The Board Code of Conduct describes its obligations under legislation, personal and corporate behaviour, conflict of interest and completion of engagement as a director.

The purpose of this Corporate Code of Conduct is to provide a framework for decisions and actions in relation to ethical conduct in employment. It 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.

Matrix's policy for buying and selling securities applies to all directors and employees. The policy is to assist Directors and employees to avoid conduct known as "insider trading" and intended to assist in maintaining market confidence in the integrity of dealings in the Company's securities.

In some respects, the Company policy extends beyond the strict requirements of the Corporation Act.

Directors and employees of the Company are encouraged to be long-term holders of the Company's securities.

The policy prohibits Directors and employees from dealing in the Company's securities when they are in possession of price sensitive information that is not generally available to the market. Any Director or employee who buys, sells, or exercises rights in relation to Company securities must first notify the Chairman and Company Secretary, or the Board before doing so and provided the Chairman, Company Secretary or the Board indicate that there is no impediment to undertaking the proposed transaction.

Directors are forbidden to buy or sell any Company securities in the four week period preceding the release of the Company's annual and half yearly results to the ASX.





matrix has developed a wide range of proprietary and bespoke products based on experience built over 25 years of industry involvement.





# Financial report

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# income statement

for the year ended 30 june 2010

Note	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
3	102,622,164	54,325,637	91,792,914	36,532,094
	(70,945,789)	(46,632,882)	(63,265,372)	(30,525,085)
	31,676,375	7,692,755	28,527,542	6,007,009
3	540,041	1,090,815	382,459	571,786
	(1,278,427)	(531,848)	(1,278,427)	(531,848)
	(3,564,539)	(3,393,644)	(2,148,422)	(1,747,004)
	(701,614)	(1,005,830)	(734,000)	(835,904)
	(1,622,102)	(484,886)	(1,395,202)	(260,011)
	(290,548)	(2,853)	(286,380)	-
	(196,726)	-	-	-
	-	98,500	-	-
4	24,562,460	3,463,009	23,067,570	3,204,028
6	(6,407,124)	(367,730)	(6,141,745)	(367,422)
	18,155,336	3,095,279	16,925,825	2,836,606
	18,159,906	3,096,027	16,925,825	2,836,606
	(4,570)	(748)	-	-
	18,155,336	3,095,279	16,925,825	2,836,606

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



# Statement of comprehensive income

for the year ended 30 june 2010

Note	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Profit for the period</b>	18,155,336	3,095,279	16,925,825	2,836,606
<b>Other comprehensive income</b>				
Net foreign currency translation differences	(139,498)	(11,169)	-	-
Income tax expense	-	-	-	-
	(139,498)	(11,169)	-	-
Change in fair value of cash flow hedges	(5,787,018)	3,970,561	(5,787,700)	3,970,561
Income tax expense	1,736,105	(1,191,168)	1,736,310	(1,191,168)
	(4,050,913)	2,779,393	(4,051,390)	2,779,393
Revaluation of freehold property	393,222	(513,954)	-	-
Income tax expense	(117,967)	154,186	-	-
	275,255	(359,768)	-	-
Other comprehensive income/(loss) for the period net of tax	(3,915,156)	2,408,456	(4,051,390)	2,779,393
<b>Total comprehensive income for the period</b>	<b>14,240,180</b>	<b>5,503,735</b>	<b>12,874,435</b>	<b>5,615,999</b>
<b>Total comprehensive income attributable to:</b>				
Members of the parent entity	14,244,750	5,504,483	12,874,435	5,615,999
Non controlling interest	(4,570)	(748)	-	-
<b>Total comprehensive income for the period</b>	<b>14,240,180</b>	<b>5,503,735</b>	<b>12,874,435</b>	<b>5,615,999</b>
Basic earnings per share (cents)	29	31.0	6.3	
Diluted earnings per share (cents)	29	29.4	6.0	

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

# Statement of financial position

as at 30 june 2010



	Note	Consolidated		Parent	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash and cash equivalents	7	13,555,077	1,467,713	13,128,747	1,328,534
Trade and other receivables	8	31,868,308	9,433,191	27,733,815	8,052,020
Inventory	9	18,902,850	17,965,992	15,013,519	14,985,883
Financial assets	12	2,699,580	7,447,985	2,699,580	7,447,985
Other current assets	10	1,492,243	531,642	1,210,888	288,720
<b>Total Current Assets</b>		<b>68,518,058</b>	<b>36,846,523</b>	<b>59,786,549</b>	<b>32,103,142</b>
<b>Non Current Assets</b>					
Property, plant and equipment	11	57,156,816	19,244,133	27,612,386	10,708,191
Financial assets	12	-	-	33,536,714	14,445,742
Intangible assets	13	7,012,588	7,594,310	-	-
Deferred tax asset	6	1,614,952	711,818	1,080,422	557,690
<b>Total Non Current Assets</b>		<b>65,784,356</b>	<b>27,550,261</b>	<b>62,229,522</b>	<b>25,711,623</b>
<b>Total Assets</b>		<b>134,302,414</b>	<b>64,396,784</b>	<b>122,016,071</b>	<b>57,814,765</b>
<b>Current Liabilities</b>					
Trade and other payables	14	22,675,143	13,122,742	19,702,712	11,525,351
Progress claims and deposits	15	35,567,171	21,605,911	32,374,313	20,896,003
Financial liabilities	16	2,267,995	1,604,889	1,759,760	891,676
Current tax liabilities	17	5,463,739	60,243	4,955,346	458,048
Provisions	18	1,324,971	831,986	941,787	530,971
<b>Total Current Liabilities</b>		<b>67,299,019</b>	<b>37,225,771</b>	<b>59,733,918</b>	<b>34,302,049</b>
<b>Non Current Liabilities</b>					
Financial liabilities	16	5,792,408	3,991,008	4,360,841	2,098,970
Deferred tax liability	6	1,097,687	2,471,834	170,078	1,684,016
Provisions	18	220,053	127,138	75,035	-
<b>Total Non Current Liabilities</b>		<b>7,110,148</b>	<b>6,589,980</b>	<b>4,605,954</b>	<b>3,782,986</b>
<b>Total Liabilities</b>		<b>74,409,167</b>	<b>43,815,751</b>	<b>64,339,872</b>	<b>38,085,035</b>
<b>Net Assets</b>		<b>59,893,247</b>	<b>20,581,033</b>	<b>57,676,199</b>	<b>19,729,730</b>
<b>Equity</b>					
Issued capital	19	40,446,325	13,115,727	40,446,325	13,115,727
Reserves	20	843,075	4,758,708	150,980	4,202,370
Retained earnings		18,618,142	2,716,323	17,078,894	2,411,633
Parent equity interest		59,907,542	20,590,758	57,676,199	19,729,730
Non controlling interest		(14,295)	(9,725)	-	-
<b>Total Equity</b>		<b>59,893,247</b>	<b>20,581,033</b>	<b>57,676,199</b>	<b>19,729,730</b>

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

# Statement of cash flows

for the year ended 30 June 2010

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Cash Flows From Operating Activities</b>				
Receipts from customers	79,226,446	64,021,724	71,188,951	47,137,214
Payments to suppliers and employees	(50,013,128)	(52,193,009)	(45,447,986)	(36,788,454)
Interest received	370,557	108,841	365,863	94,563
Borrowing costs paid	(452,638)	(324,338)	(269,341)	(154,412)
Payment of income tax	(1,161,390)	(763,253)	(1,443,515)	(165,299)
Payment of option premium	(1,615,249)	(2,000,000)	(1,615,249)	(2,000,000)
<b>Net cash from operating activities</b>	<b>26,354,598</b>	<b>8,849,965</b>	<b>22,778,723</b>	<b>8,123,612</b>
<b>Cash Flows (Used In) Investing Activities</b>				
Proceeds from sale of property, plant and equipment	49,227	13,110	-	11,240
Payments for property, plant and equipment	(41,337,959)	(10,266,533)	(19,585,143)	(7,355,073)
Payments for development costs	(13,866)	(22,336)	-	-
<b>Net cash used in investing activities</b>	<b>(41,302,598)</b>	<b>(10,275,759)</b>	<b>(19,585,143)</b>	<b>(7,343,833)</b>
<b>Cash Flows From Financing Activities</b>				
Proceeds from issue of share capital	26,829,422	-	26,829,422	-
Loans to related parties	-	-	(19,090,972)	(1,035,800)
Repayment of borrowings	(720,000)	(634,225)	(600,000)	(634,225)
Proceeds from borrowings	3,406,679	2,459,382	3,728,351	2,240,123
Dividend paid	(2,258,564)	(489,592)	(2,258,564)	(489,592)
<b>Net cash from financing activities</b>	<b>27,257,537</b>	<b>1,335,565</b>	<b>8,608,237</b>	<b>80,506</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12,309,537</b>	<b>(90,229)</b>	<b>11,801,817</b>	<b>860,285</b>
Cash and cash equivalents at 1 July	1,245,540	1,335,769	1,326,930	466,645
<b>Cash and cash equivalents at 30 June</b>	<b>13,555,077</b>	<b>1,245,540</b>	<b>13,128,747</b>	<b>1,326,930</b>

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



# Statement of Changes in equity

for the year ended 30 June 2010

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



	Share Capital	Retained Earnings	Option Premium Reserves	Revaluation Reserve	Cash Flow Hedging Reserve	Foreign Translation Reserves	Non Controlling Interest	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Consolidated Balance at 1 July 2008</b>	13,120,053	572,714	273,000	927,275	687,151	-	(8,977)	15,571,216
<b>Total comprehensive income for the period</b>								
Profit/(loss) for year	-	3,096,027	-	-	-	-	(748)	3,095,279
Other comprehensive income								
– Foreign currency translation	-	-	-	-	-	(11,169)	-	(11,169)
– Change in fair value of cash flow hedges net of tax	-	(462,826)	-	-	3,242,219	-	-	2,779,393
– Revaluation of freehold property net of tax	-	-	-	(359,768)	-	-	-	(359,768)
	-	2,633,201	-	(359,768)	3,242,219	(11,169)	(748)	5,503,735
<b>Transactions with owners, recorded directly in equity</b>								
Issue of shares	(4,326)	-	-	-	-	-	-	(4,326)
Dividends to equity holders	-	(489,592)	-	-	-	-	-	(489,592)
	(4,326)	(489,592)	-	-	-	-	-	(493,918)
<b>Balance at 30 June 2009</b>	13,115,727	2,716,323	273,000	567,507	3,929,370	(11,169)	(9,725)	20,581,033

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



# Statement of changes in equity

for the year ended 30 June 2010



	Share Capital	Retained Earnings	Option Premium Reserves	Cash Flow Hedging Reserve	Total
	\$	\$	\$	\$	\$
<b>Parent Balance at 1 July 2009</b>	13,115,727	2,411,633	273,000	3,929,370	19,729,730
<b>Total comprehensive income for the period</b>					
Profit/(loss) for year	-	16,925,825	-	-	16,925,825
Other comprehensive income					
– Foreign currency translation	-	-	-	-	-
– Change in fair value of cash flow hedges net of tax	-	-	-	(4,051,390)	(4,051,390)
	-	16,925,825	-	(4,051,390)	12,874,435
<b>Transactions with owners, recorded directly in equity</b>					
Issue of shares	27,330,598	-	-	-	27,330,598
Dividends to equity holders	-	(2,258,564)	-	-	(2,258,564)
	27,330,598	(2,258,564)	-	-	25,072,034
<b>Balance at 30 June 2010</b>	40,446,325	17,078,894	273,000	(122,020)	57,676,199



	Share Capital	Retained Earnings	Option Premium Reserves	Cash Flow Hedging Reserve	Total
	\$	\$	\$	\$	\$
<b>Parent Balance at 1 July 2008</b>	13,120,053	527,444	273,000	687,151	14,607,648
<b>Total comprehensive income for the period</b>					
Profit/(loss) for year	-	2,836,606	-	-	2,836,606
Other comprehensive income					
– Change in fair value of cash flow hedges net of tax	-	(462,826)	-	3,242,219	2,779,393
	-	2,373,780	-	3,242,219	5,615,999
<b>Transactions with owners, recorded directly in equity</b>					
Issue of shares	(4,326)	-	-	-	(4,326)
Dividends to equity holders	-	(489,591)	-	-	(489,591)
	(4,326)	(489,591)	-	-	(493,917)
<b>Balance at 30 June 2009</b>	13,115,727	2,411,633	273,000	3,929,370	19,729,730

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

## **Note 1: Statement of Significant Accounting Policies**

### **Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting interpretations and other authoritative pronouncements of the Australian Accounting Standards Board. The consolidated financial statements were authorised for issue by the Board of Directors on 9 August 2010.

Matrix Composites & Engineering Ltd is a company limited by shares, incorporated and domiciled in Australia, and listed in the Australian Securities Exchange.

The financial report of Matrix Composites & Engineering Ltd and controlled entities, and Matrix Composites & Engineering Ltd as a parent entity comply with Australian Accounting Standards and International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies adopted are consistent with the Annual Financial Report for the year ended 30 June 2009 except for changes made as a result of new and amended Australian Accounting Standards and Interpretations as detailed below.

### **New Accounting Standards and Interpretations**

Changes in accounting policy and disclosure.

The adoption of new and amended Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2009 did not result in any significant changes to the accounting policies.

The impact of new and amended Standards and Interpretations on the financial statements is as follows:

- AASB 101 Presentation of Financial Statements (revised). The revised Standard separates owner and non-owner changes in equity and requires a statement of comprehensive income to be prepared which discloses all changes in equity during a period resulting from non-owner transactions. The Group has elected to present comprehensive income using the two statement approach;
- AASB 8 Operating Segments. The Standard replaces AASB 114 Segment Reporting and requires a management approach to be used for segment reporting and also replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. This approach identifies operating segments by reference to internal reports that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments reported under AASB 114; and
- AASB 7 Financial Instruments: Disclosure. The amended Standard requires disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy by class. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 22. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 22.

## Note 1: Statement of Significant Accounting Policies (Continued)

### (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 2010 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.

Refer to the business combinations note for an outline of acquisitions that occurred during the year.

### (b) Operating Segments

An operating segment is a component of an entity 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 executive management team.

### (c) Income Tax

The charge for current income tax expense is based on the profit for the year end adjusted for any nonassessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

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.

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.

## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(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 included in equity, 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.

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.



## Note 1: Statement of Significant Accounting Policies (Continued)

### (e) Property, Plant and Equipment (Continued)

#### Depreciation (Continued)

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	1 – 2%
Plant and equipment	7.5 – 30%
Motor vehicles	22.5%
Office equipment	11.25 – 25%
Computer equipment	37.5 – 50%

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

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

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.

#### Changes in accounting estimates

During the year, an operating division changed the depreciation calculation method from diminishing value to prime cost, to ensure consistency throughout the Group.

### (f) 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 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.

### (g) Financial Instruments

#### 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.

## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(g) Financial Instruments (Continued)**

#### **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.

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets designated as Available-for-sale and that are not included in the previous categories. Available-for-sale financial assets are measured at fair value. Changes in fair value, other than impairment losses and foreign currency differences on Available-for-sale equity instruments are recognised in other comprehensive income and presented within equity in the fair value reserve.

#### **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 2010 are included in Note 22. There were no put option positions at 30 June 2010. Movements in the value of these derivative instruments are recognised immediately in profit or loss.

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

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

## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(g) Financial Instruments (Continued)**

#### **Derivative financial instruments and hedging (Continued)**

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 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 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.

### **(h) Impairment**

#### **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.

#### **Impairment of non financial assets**

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.

### **(i) Investment in Associates**

Investments in associate companies are recognised in the consolidated financial statements by applying the equity method of accounting. The equity method of accounting recognises the group's share of post-acquisition reserves of its associates. Associates are entities over which the group has significant influence, and that are neither subsidiaries nor joint ventures.

## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(j) Foreign Currency Transactions and Balances**

#### **Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary 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. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### **(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) Trade and Other Payables**

Trade and other payables are carried at amortised cost when goods and services are received, and the Group becomes obliged to make future payments in respect of the acquisition of the goods or services.

### **(n) Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### **(o) Trade and Other Receivables**

Trade and other receivables, including receivables from related parties, are initially recognised at fair value and subsequently measured at amortised cost less an allowance for uncollectable amounts.

Collectability and impairment are assessed on a regular basis. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

### **(p) 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.



## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(p) Revenue recognition (Continued)**

#### **Sale of goods**

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

#### **Contract revenue**

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

#### **Rendering of services**

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

#### **Interest**

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

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

### **(q) Cost of Sales**

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

### **(r) Goods and Services Tax (GST)**

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

Receivables and payables in the 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.

### **(s) 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.

## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(t) Comparative Figures**

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

### **(u) 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 testing of goodwill**

Goodwill is tested for impairment each reporting period or if an impairment trigger exists.

Impairment triggers include divisional product and service delivery performance, technology, economic and political environments and future budget expectations. Assumptions used in goodwill impairment tests and sensitivity assessments are included in Note 13.

#### **(iii) Impairment of non-financial assets other than goodwill**

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.

## **Note 1: Statement of Significant Accounting Policies (Continued)**

### **(u) Significant accounting estimates and judgements (Continued)**

#### **(iv) Impairment of financial assets**

In determining the amount of impairment for financial assets, the Group has made judgements in identifying financial assets whose decline in fair value below carrying value is considered "significant" or "prolonged".

#### **(v) Capitalised development costs**

Development costs are capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

## **Note 2: Operating Segments**

The Group has identified its operating segments based on internal reports that are reviewed and used by the management team in assessing performance and in determining the allocation of resources.

### **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.

### **Heavy Engineering Business Unit**

The Heavy 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.

### **Other and unallocated**

This segment comprises the activities undertaken by all other Business Units and corporate costs.

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

### **Performance monitoring and evaluation**

Management 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.

**Note 2: Operating Segments (Continued)**

	<b>Composite Materials Business Unit</b>	<b>Heavy Engineering Business Unit</b>	<b>Other unallocated</b>	<b>Adjustments</b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$
<b>30 June 2010</b>					
Sale to external customers	91,792,914	10,299,107	530,143	-	102,622,164
Other Income	382,451	167,584	(9,994)	-	540,041
Inter segment revenue	-	8,610,928	-	(8,610,928)	-
<b>Total segment revenue</b>	<b>92,175,365</b>	<b>19,077,619</b>	<b>520,149</b>	<b>(8,610,928)</b>	<b>103,162,205</b>
Segment profit before income tax expense and interest expense	23,336,911	1,680,535	(2,346)	-	25,015,100
Interest cost	269,341	183,297	-	-	452,640
Income tax expense	6,141,745	265,379	-	-	6,407,124
Depreciation and amortisation	2,332,997	618,033	-	-	2,951,030
Impairment of goodwill	-	196,726	-	-	196,726
<b>Segment assets as at 30 June 2010</b>	<b>87,398,935</b>	<b>12,286,343</b>	<b>1,080,422</b>	<b>33,536,714</b>	<b>134,302,414</b>
<b>Segment liabilities as at 30 June 2010</b>	<b>64,169,794</b>	<b>10,069,295</b>	<b>170,078</b>	<b>-</b>	<b>74,409,167</b>
	<b>Composite Materials Business Unit</b>	<b>Heavy Engineering Business Unit</b>	<b>Other unallocated</b>	<b>Adjustments</b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$
<b>30 June 2009</b>					
Sale to external customers	36,532,094	21,364,327	1,174,295	(4,745,079)	54,325,637
Other Income	571,706	520,045	(936)	-	1,090,815
Inter segment revenue	(340,159)	(3,434,120)	(970,800)	4,745,079	-
<b>Total segment revenue</b>	<b>36,763,641</b>	<b>18,450,252</b>	<b>202,559</b>	<b>-</b>	<b>55,416,452</b>
Segment profit before income tax expense and interest expense	3,358,440	401,892	(71,484)	98,500	3,787,348
Interest expense	154,412	169,926	-	-	324,339
Income tax expense	367,422	308	-	-	367,730
Depreciation and amortisation	1,168,922	565,707	-	-	1,734,629
Impairment of goodwill	-	-	-	-	-
<b>Segment assets as at 30 June 2009</b>	<b>42,811,333</b>	<b>6,582,019</b>	<b>557,690</b>	<b>14,445,742</b>	<b>64,396,784</b>
<b>Segment liabilities as at 30 June 2009</b>	<b>36,401,019</b>	<b>5,730,716</b>	<b>1,684,016</b>	<b>-</b>	<b>43,815,751</b>



### Note 3: Revenue

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Revenue</b>				
Manufacturing revenue	102,622,164	54,325,637	91,792,914	36,532,094
<b>Other Income</b>				
Interest received	370,558	112,427	365,863	94,563
Commission received	125,518	412,600	-	-
Sale of scrap	36,474	38,790	9,208	9,031
Profit on sale of investment	-	354,300	-	354,300
Sundry income	7,491	172,698	7,388	113,892
Total other income	540,041	1,090,815	382,459	571,786

### Note 4: Profit Before

#### Income Tax

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

Intercompany loan write off	(7,750)	-	(7,750)	-
Depreciation and amortisation	(3,042,721)	(1,734,629)	(2,332,997)	(1,168,922)

#### Borrowing costs

Borrowing expenses	(452,638)	(324,338)	(269,341)	(154,412)
Fair value losses on foreign currency derivatives	(371,990)	(681,492)	(350,968)	(681,492)
Realized forex gain/(loss)	123,015	-	(113,691)	-
Total borrowing costs	(701,614)	(1,005,830)	(734,000)	(835,904)

### Note 5: Auditors Remuneration

- Audit and review fees for the year	195,804	90,000	129,254	55,000
- Taxation advisory services	9,500	9,300	9,500	4,500
- Other advisory services	5,500	14,812	5,500	9,812
	210,804	114,112	144,254	69,312

## Note 6: Income Tax Expense

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
The components of tax expense comprise:				
Current tax	6,446,029	627,518	5,940,814	626,457
Deferred tax	(38,905)	(259,788)	200,931	(259,035)
	<u>6,407,124</u>	<u>367,730</u>	<u>6,141,745</u>	<u>367,422</u>
The prima facie tax payable on the operating profit is reconciled to the income tax provided in the accounts as follows:				
Prima facie tax payable on operating profit before income tax at 30% (2009:30%)	7,368,738	1,038,902	6,920,271	961,208
<b>Tax effect of permanent differences:</b>				
Non allowable Items	1,361	1,799	-	-
Prior year under provisions	12,972	7,883	12,972	-
Research & development tax concession	(159,801)	(92,713)	(159,801)	(92,713)
Differential income tax rate on MC&E Asia profit	(29,288)	-	-	-
Deferred tax balances not previously recognised	(102,401)	-	-	-
Tax investment allowance	(684,457)	(588,141)	(631,697)	(501,073)
<b>Income tax expense</b>	<u>6,407,124</u>	<u>367,730</u>	<u>6,141,745</u>	<u>367,422</u>
Average weighted tax rate	26.1%	10.6%	26.6%	11.5%

## Note 6: Income Tax Expense (Continued)

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Reconciliations</b>				
<b>i. Gross movements</b>				
The overall movement in the deferred tax account is as follows:				
Balance at 1 July	(1,760,016)	(785,788)	(1,126,326)	2,307
Recognised in other comprehensive income	2,002,790	(1,258,808)	2,112,428	(1,412,490)
Recognised in income statement	274,461	284,580	(75,758)	283,857
Balance at 30 June	517,235	(1,760,016)	910,344	(1,126,326)
<b>ii. Deferred tax liability</b>				
The movement in deferred tax liability for each temporary difference during the year is as follows:				
<b>Reserves</b>				
Opening balance	2,390,075	1,154,234	1,684,016	294,494
Recognised in other comprehensive income	(1,574,378)	1,235,841	(1,684,016)	1,389,522
Closing balance	815,697	2,390,075	-	1,684,016
<b>Other</b>				
Opening balance	81,759	268,267	-	204,962
Recognised in other comprehensive income	-	-	-	-
Recognised in income statement	200,231	(186,508)	170,078	(204,962)
Balance at 30 June	281,990	81,759	170,078	-
<b>Total</b>	<b>1,097,687</b>	<b>2,471,834</b>	<b>170,078</b>	<b>1,684,016</b>
<b>iii. Deferred tax assets</b>				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Balance at 1 July	711,818	636,713	557,690	501,763
Recognised in income statement	428,412	98,072	428,412	78,895
Recognised in other comprehensive income	474,692	(22,967)	94,320	(22,968)
Balance at 30 June	1,614,922	711,818	1,080,422	557,690

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

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

### Tax losses

The value of deferred tax assets recognised in relation to income tax losses carried forward as at 30 June 2010 is \$95,296.

## Note 7: Cash and Cash Equivalents

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash on hand	1,945	1,756	496	496
Cash at bank				
Cheque Accounts	371,435	781,573	31,900	769,489
Short-Term Bank Deposits	11,838,380	282,368	11,835,477	282,368
US Dollar Account	1,323,750	276,181	1,260,874	276,181
Other	19,567	125,835	-	-
	<u>13,555,077</u>	<u>1,467,713</u>	<u>13,128,747</u>	<u>1,328,534</u>

The effective interest rate on short-term bank deposits was 5.0% (2009: 2.05%); these deposits have been held "at call".

## Note 8: Trade and Other Receivables

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Current</b>				
Trade receivables	28,352,900	8,589,659	25,352,746	7,300,720
Other receivables	893,946	69,085	606,873	29,618
GST refundable	2,621,462	774,447	1,774,196	721,682
	<u>31,868,308</u>	<u>9,433,191</u>	<u>27,733,815</u>	<u>8,052,020</u>

Terms and Conditions

Trade receivables are payable within 30 days and are non interest bearing.

## Note 9: Inventory

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Raw Materials at cost	12,899,081	11,430,274	12,657,474	10,746,060
Work in progress at cost	3,593,799	4,660,413	2,220,361	4,239,823
Finished goods at cost	2,409,970	1,875,305	135,684	-
	<u>18,902,850</u>	<u>17,965,992</u>	<u>15,013,519</u>	<u>14,985,883</u>

## Note 10: Other Current Assets

Prepayments	<u>1,492,243</u>	<u>531,642</u>	<u>1,210,888</u>	<u>288,720</u>
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## Note 11: Property, Plant and Equipment

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Land and Building				
/Leasehold improvements:				
Land at independent valuation (i)	3,406,700	3,048,100	-	-
Building at independent valuation (i)	1,218,299	1,111,900	-	-
Other leasehold improvements	474,902	466,813	404,392	398,608
Less: accumulated depreciation	(103,114)	(44,487)	(75,525)	(30,845)
	4,996,787	4,582,326	328,867	367,763
Plant & Equipment:				
Plant & equipment at cost	31,018,586	18,801,112	22,937,111	12,506,344
Less: accumulated depreciation	(6,735,726)	(4,768,148)	(3,857,064)	(2,407,938)
	24,282,860	14,032,964	19,080,047	10,098,406
Motor Vehicle:				
Motor vehicles at cost	323,528	145,773	206,835	96,220
Less: accumulated depreciation	(86,663)	(56,544)	(58,291)	(27,656)
	236,865	89,229	148,544	68,564
Office Equipment:				
Office equipment at cost	254,009	234,533	56,368	80,654
Less: accumulated depreciation	(82,369)	(85,297)	(7,321)	(24,276)
	171,640	149,236	49,047	56,378
Computer Equipment				
Computer equipment at cost	1,310,042	952,512	487,808	311,648
Less: accumulated depreciation	(722,414)	(562,134)	(204,956)	(194,568)
	587,628	390,378	282,852	117,080
	30,275,780	19,244,133	19,889,357	10,708,191
Assets under construction				
Buildings in progress at cost	19,158,008	-	-	-
Plant & equipment in progress at cost	7,723,029	-	7,723,029	-
	26,881,036	-	7,723,029	-
	57,156,816	19,244,133	27,612,386	10,708,191

(i) The land and buildings were independently valued by Knight Frank in May 2010.

## Note 11: Property, Plant and Equipment (Continued)

### 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
	\$	\$	\$	\$	\$	\$	\$
<b>Consolidated</b>							
Carrying amount at 1 July 2009	4,582,326	14,032,964	89,229	149,236	390,378	-	19,244,133
Additions / valuation	473,088	13,403,513	201,081	87,313	469,294	26,881,036	41,515,325
Disposals / write offs	-	(475,210)	(16,329)	(42,599)	(25,783)	-	(559,921)
Depreciation / amortisation expenses	(58,627)	(2,678,407)	(37,116)	(22,310)	(246,261)	-	(3,042,721)
Carrying amount at 30 June 2010	4,996,787	24,282,860	236,865	171,640	587,628	26,881,036	57,156,816
Carrying amount at 1 July 2008	4,654,695	5,889,792	87,189	106,537	400,604	-	11,138,817
Additions / valuation	-	9,649,036	28,538	63,469	176,676	-	9,917,719
Disposals / write offs	(27,882)	(27,373)	(12,109)	(8,540)	(1,870)	-	(77,774)
Depreciation / amortisation expenses	(44,487)	(1,478,491)	(14,389)	(12,230)	(185,032)	-	(1,734,629)
Carrying amount at 30 June 2009	4,582,326	14,032,964	89,229	149,236	390,378	-	19,244,133



# Note 11: Property, Plant and Equipment (Continued)

Parent Entity	Land and Building / Leasehold improvement	Plant and equipment	Motor vehicles	Office equipment	Computer equipment	Assets under construction	Total
	\$	\$	\$	\$	\$	\$	\$
Carrying amount at 1 July 2009	367,763	10,098,406	68,564	56,378	117,080	-	10,708,191
Additions	5,784	11,608,107	110,614	43,550	282,743	7,723,029	19,773,827
Disposals / write-offs	-	(475,210)	-	(42,599)	(25,783)	-	(543,592)
Depreciation/amortisation expense	(44,680)	(2,151,256)	(30,634)	(8,282)	(91,188)	-	(2,326,040)
Carrying amount at 30 June 2010	328,867	19,080,047	148,544	49,047	282,852	7,723,029	27,612,386
Carrying amount at 1 July 2008	4,695	4,309,650	60,639	34,670	133,035	-	4,542,689
Additions	393,913	6,862,320	28,538	32,538	37,764	-	7,355,073
Disposals / write-offs	-	-	(12,109)	(8,540)	-	-	(20,649)
Depreciation / amortisation expense	(30,845)	(1,073,564)	(8,504)	(2,290)	(53,719)	-	(1,168,922)
Carrying amount at 30 June 2009	367,763	10,098,406	68,564	56,378	117,080	-	10,708,191



## Note 12: Financial Assets & Other Financial Assets

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Current</b>				
Forward exchange contracts	(174,313)	5,606,265	(174,313)	5,606,265
Foreign currency options	2,873,893	1,841,720	2,873,893	1,841,720
	<u>2,699,580</u>	<u>7,447,985</u>	<u>2,699,580</u>	<u>7,447,985</u>
<b>Non Current Investments in Related Companies</b>				
Wale Marine Aust Pty Ltd	-	-	2	2
Specialist Engineering Services (Aust) Ltd	-	-	11,031,552	11,031,522
Torque Engineering Australia Pty Ltd	-	-	2	2
MC&E (Asia) Pty Ltd	-	-	2	2
Matrix Henderson Property Pty Ltd	-	-	10	-
	<u>-</u>	<u>-</u>	<u>11,031,568</u>	<u>11,031,528</u>
<b>Non Current Loans Due from Related Companies</b>				
Specialist Engineering Services (Aust) Ltd (2)	-	-	2,375,520	2,382,334
Torque Engineering Australia Pty Ltd (2)	-	-	320,395	1,030,380
MC&E (Asia) Pty Ltd (2)	-	-	651,233	-
Matrix Henderson Property Pty Ltd (2)	-	-	19,157,998	-
Wale Marine Aust Pty Ltd (Note) (1) (2)	-	-	-	1,500
	<u>-</u>	<u>-</u>	<u>22,505,146</u>	<u>3,414,214</u>
	<u>-</u>	<u>-</u>	<u>33,536,714</u>	<u>14,445,742</u>

1) Loans due from Wale Marine Aust Pty Ltd totalling \$213,862 have been fully impaired at 30 June 2010.

2) Loans to subsidiaries and associate companies are payable on demand however these loans will not be called within the next 12 months.

## Note 13: Intangible Assets

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Development costs (i)	398,862	783,858	-	-
Goodwill on acquisition (i)	198,511	395,237	-	-
Goodwill on acquisition of Specialist Engineering Services (Aust) Ltd (ii)	6,415,215	6,415,215	-	-
	<u>7,012,588</u>	<u>7,594,310</u>	<u>-</u>	<u>-</u>

## Note 13: Intangible Assets (Continued)

- (i) Development costs have been incurred in respect of the Raptor CBS tool and includes initial acquisition costs of the project, development of prototypes, patent applications and development and testing costs. It is still under development and therefore the useful life of asset has not been determined. During the year the company has impaired half of the development costs and associated goodwill based on a Board decision with advice and assessment from an independent consultant.
- (ii) On 31 January 2008 Matrix acquired 100% of the issued share capital of Specialist Engineering Services (Aust) Ltd. The resulting goodwill has been tested at the cash generating unit level for impairment. The long term growth rate used to extrapolate Cashflows over a 15 year period is 3% pa and the pre-tax risk adjusted discount rate used in the calculation is 12%.

## Note 14: Trade and Other Payables

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Trade payables	13,903,949	8,122,607	12,901,731	8,069,196
Other creditors and accruals	7,710,790	5,046,801	6,796,505	3,456,155
GST	1,060,404	(46,666)	4,476	-
	<u>22,675,143</u>	<u>13,122,742</u>	<u>19,702,712</u>	<u>11,525,351</u>

Terms and conditions

Trade and other payables are generally paid within 45 days. No security is provided for these liabilities.

## Note 15: Progress Claims & Deposits

Progress claims and deposits are valued at cost plus profit recognised to date based on the value of work completed, less provision for foreseeable losses.

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Progress claims and deposits	<u>35,567,171</u>	<u>21,605,911</u>	<u>32,374,313</u>	<u>20,896,003</u>



**Note 16: Financial Liabilities**

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>				
Bank overdraft – secured	-	222,173	-	1,604
Bank loan - secured	391,096	-	391,096	-
Bank bill - secured	720,000	720,000	600,000	600,000
Amount due on hire purchase liabilities - secured	1,367,345	801,977	936,542	366,367
Less unexpired hire charges	(210,446)	(139,261)	(167,878)	(76,295)
	<u>2,267,995</u>	<u>1,604,889</u>	<u>1,759,760</u>	<u>891,676</u>
<b>Non Current</b>				
Bank loan – secured	1,844,106	-	1,844,106	-
Bank bill - secured	1,650,000	2,370,000	600,000	1,200,000
Amount due on hire purchase liabilities - secured	2,471,974	1,740,618	2,066,180	965,785
Less: Unexpired hire charges	(173,672)	(119,610)	(149,445)	(66,815)
	<u>5,792,408</u>	<u>3,991,008</u>	<u>4,360,841</u>	<u>2,098,970</u>
<b>(a) Total current and non-current secured liabilities:</b>				
Bank overdraft	-	222,173	-	1,604
Bank loan	2,235,202	-	2,235,202	-
Bank bills	2,370,000	3,090,000	1,200,000	1,800,000
Hire purchase liabilities	3,455,201	2,283,724	2,685,399	1,189,042
	<u>8,060,403</u>	<u>5,595,897</u>	<u>6,120,601</u>	<u>2,990,646</u>

**Credit Facilities**

The company has total credit facilities available from its bankers of \$39,156,990 (2009: \$3,551,364).

<b>Credit Facilities</b>	<b>Approved Facilities</b>	<b>Amount Drawn</b>	<b>Available Facilities</b>
Overdraft Facility	300,000	-	300,000
Bank Guarantee	506,000	506,000	-
Bills Fixed	2,370,000	2,370,000	-
HP Loans (Not Revolving)	2,797,658	2,797,658	-
Revolving Lease Limit	17,500,000	2,264,819	15,235,181
Overseas Currency Loan	333,332	333,332	-
Options Overseas Currency Loan	1,600,000	1,600,000	-
Bills Floating	13,750,000	-	13,750,000
	<u>39,156,990</u>	<u>9,871,809</u>	<u>29,285,181</u>

**(b) 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.

## Note 17: Current Tax Liabilities

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Current</b>				
Income tax payable	5,463,739	60,243	4,955,346	458,048

## Note 18: Provisions Current

Employee Bonus	330,000	-	330,000	-
Employee Social Club	784	-	634	-
Employee Entitlements	994,187	831,986	611,153	530,971
	1,324,971	831,986	941,787	530,971
<b>Non Current</b>				
Employee Entitlements	220,053	127,138	75,035	-

## Note 19: Issued Capital

(a) Share Capital Issued and paid up capital 69,964,098 (2009: 48,964,098) fully paid ordinary shares	41,905,312	13,405,312	41,905,312	13,405,312
Less: capital issue costs net of tax	(1,458,987)	(289,585)	(1,458,987)	(289,585)
	40,446,325	13,115,727	40,446,325	13,115,727

(b) 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	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

On 9 November 2009, 15,000,000 shares were issued pursuant to an initial public offering at an issue price of \$1.00 each.

On 19 April 2010 the company issued 6,000,000 shares at an issue price of \$2.25 each to sophisticated and institutional investors.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

## Note 19: Issued Capital (Continued)

### Capital Management

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

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

The Group is not subject to any externally imposed capital requirements.

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Capital Management				
Cash and cash equivalents	13,555,077	1,467,713	13,128,747	1,328,534
Less total borrowings	8,060,403	5,595,897	6,120,601	2,990,646
Net (debt)/cash and cash equivalents	5,494,674	(4,128,184)	7,008,146	(1,662,112)
Total equity	59,893,247	20,581,033	57,676,199	19,729,730
Net debt to equity ratio at 30 June	0%	20.0%	0%	8.4%

## Note 20: Reserves

Other reserve	Consolidated			
	Option premium reserve	Revaluation reserve	Cash flow hedge reserve	Foreign translation reserve
	\$	\$	\$	\$
<b>Balance at 1 July 2008</b>	<b>273,000</b>	<b>927,275</b>	<b>687,151</b>	<b>-</b>
Foreign currency translation difference	-	-	-	(11,169)
Changes in fair value of cash flow hedges	-	-	3,242,219	-
Revaluation of free hold property	-	(359,768)	-	(359,768)
<b>Balance at 30 June 2009</b>	<b>273,000</b>	<b>567,507</b>	<b>3,929,370</b>	<b>(11,169)</b>
Foreign currency translation difference	-	-	-	(139,498)
Changes in fair value of cash flow hedges	-	-	(4,051,390)	-
Revaluation of free hold property	-	275,255	-	-
<b>Balance at 30 June 2010</b>	<b>273,000</b>	<b>842,762</b>	<b>(122,020)</b>	<b>(150,667)</b>
				<b>843,075</b>
Other reserve	Parent			
	Option premium reserve	Revaluation reserve	Cash flow hedge reserve	Foreign translation reserve
	\$	\$	\$	\$
<b>Balance at 1 July 2008</b>	<b>273,000</b>	<b>-</b>	<b>687,151</b>	<b>-</b>
Foreign currency translation difference	-	-	-	-
Changes in fair value of cash flow hedges	-	-	3,242,219	-
Revaluation of free hold property	-	-	-	-
<b>Balance at 30 June 2009</b>	<b>273,000</b>	<b>-</b>	<b>3,929,370</b>	<b>-</b>
Foreign currency translation difference	-	-	-	-
Changes in fair value of cash flow hedges	-	-	(4,051,390)	-
Revaluation of free hold property	-	-	-	-
<b>Balance at 30 June 2010</b>	<b>273,000</b>	<b>-</b>	<b>(122,020)</b>	<b>-</b>
				<b>150,980</b>



## Note 21: Notes to the Statement of Cash Flows

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
(a) Reconciliation of cash.				
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:				
Cash at bank	13,555,077	1,467,713	13,128,747	1,328,534
Bank overdraft	-	(222,173)	-	(1,604)
	<u>13,555,077</u>	<u>1,245,540</u>	<u>13,128,747</u>	<u>1,326,930</u>
(b) Reconciliation of cash flow from operations with profit after income tax				
Profit after income tax	18,155,336	3,095,279	16,925,825	2,836,606
<b>Adjustment for non cash items</b>				
- Profit on disposal of property, plant & equipment	-	-	-	(11,240)
- Net movement in derivative instruments	1,201,432	(1,615,932)	1,201,432	(1,615,932)
- Depreciation	3,042,721	1,744,038	2,332,997	1,178,331
- Write off of property, plant & equipment	480,139	5,563	347,951	-
- Loss on disposal of fixed assets	-	21,553	-	-
- Impairment of goodwill	196,726	-	-	-
- Write off of loan with associated entity	-	-	-	98,500
- Write off research cost	385,046	-	-	-
<b>Changes in assets &amp; liabilities</b>				
- (Increase)/decrease in receivables	(22,435,117)	7,016,373	(19,681,795)	3,395,276
- (Increase)/decrease in prepayments	(960,601)	(228,223)	(922,168)	(156,045)
- (Increase)/decrease in inventories	(936,858)	(5,903,475)	(27,636)	(3,418,582)
- Increase/(decrease) in payables & accruals	23,513,661	4,911,939	19,655,639	5,421,955
- Increase/(decrease) in employee provisions	585,898	219,638	485,850	194,474
- Increase/(decrease) provision for tax	5,403,496	(137,235)	4,497,298	461,158
- (Increase)/decrease in deferred tax asset	(903,134)	(75,105)	(522,732)	(55,927)
- Increase/(decrease) in deferred tax liability	(1,374,147)	(204,448)	(1,513,938)	(204,962)
<b>Net cashflow from operating activities</b>	<u>26,354,598</u>	<u>8,849,965</u>	<u>22,778,723</u>	<u>8,123,612</u>



## Note 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 and other borrowings. 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

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2010 approximately 75% of Group debt is fixed.

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

Consolidated	Weighted Average Effective interest rate	Floating Interest Rate	Fixed Interest Rate		Maturing		Non Interest Bearing	
			Within 1 year		Over 1 year			
			2009	2010	2009	2010	2009	2010
Financial Assets			\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents	2	1.70	13,555,077	1,467,713	-	-	-	-
Trade and Other Receivables	-	-	-	-	-	-	31,868,308	9,433,191
Other Financial Assets	-	-	-	-	-	-	2,699,580	7,447,985
Total Financial Assets			13,555,077	1,467,713	-	-	34,567,888	16,881,176



# notes to and forming part of the financial statements

for the year ended 30 June 2010

## Note 22: Financial Instruments (Continued)

Consolidated	Weighted Average Effective interest rate	Floating Interest Rate		Fixed Interest Rate				Non Interest Bearing	
				Within 1 year		Over 1 year			
		2010	2009	2010	2009	2010	2009	2010	2009
Financial Liabilities	%	%	\$	\$	\$	\$	\$	\$	\$
Trade and Other Payables	-	-	-	-	-	-	-	-	-
Bank Overdraft	10.45	10.45	-	222,173	-	-	-	-	22,675,143
Loans	-	-	-	-	391,096	-	1,844,106	-	-
HP	7.5	7.5	-	-	1,156,899	662,716	2,298,303	1,621,008	-
Bank bills	4.5	5.97	-	-	720,000	720,000	1,650,000	2,370,000	-
Total Financial Liabilities			-	222,173	2,267,995	1,382,716	5,792,409	3,991,008	22,675,143
									13,122,742
Parent	Weighted Average Effective interest rate	Floating Interest Rate		Fixed Interest Rate				Non Interest Bearing	
				Within 1 year		Over 1 year			
		2010	2009	2010	2009	2010	2009	2010	2009
Financial Assets	%	%	\$	\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents	2	2.05	13,128,747	1,328,534	-	-	-	-	-
Trade and Other Receivables	-	-	-	-	-	-	-	27,733,815	8,052,020
Other Financial Assets	-	-	-	-	-	-	-	2,699,580	7,447,985
Total Financial Assets			13,128,747	1,328,534	-	-	-	30,433,395	15,500,005
Financial Liabilities									
	Trade and Other Payables	-	-	-	-	-	-	27,733,815	11,525,351
	Bank Overdraft	11	-	1,604	-	-	-	-	-
Loans	-	-	-	391,096	-	1,844,106	-	-	-
HP	7.7	7.7	-	-	768,664	290,072	1,916,735	898,970	-
Bank bills	4.5	4.53	-	-	600,000	600,000	1,200,000	-	-
Total Financial Liabilities			-	1,604	1,759,760	890,072	4,360,841	2,098,970	27,733,815
									11,525,351

## Note 22: Financial Instruments (Continued)

### Credit risk

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 2010.

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:

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Financial assets at fair value through profit or loss	2,669,580	7,447,985	2,669,580	7,447,985
Loan to subsidiaries	-	-	22,505,146	3,414,214
Cash and cash equivalents	13,555,077	1,467,713	13,128,747	1,382,534
Receivables	31,868,308	9,433,191	27,733,815	8,052,020
	<u>48,092,965</u>	<u>18,348,889</u>	<u>66,037,288</u>	<u>20,296,753</u>

	Consolidated	
	2010	2009
	\$	\$
At balance date, the aging analysis of trade receivables is as follows:		
Days		
0-30	24,605,102	8,129,921
31-60	902,423	310,467
61-90	724,213	7,960
*90+	5,636,570	984,843
	<u>31,868,308</u>	<u>9,433,191</u>

### Impairment loss

None of the consolidated entity's other receivables are past due (2009:Nil)

There were no impairment provisions in respect of trade receivables as at 30 June 2010.

\*Subsequent to the balance sheet date, \$3,729,967 has been received in respect of debtors over 90 days.

## Note 22: Financial Instruments (Continued)

### Foreign currency risk

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.

### Derivative Financial Instruments

Derivative financial instruments are used by the consolidated Group to hedge exposure to exchange rate risk associated with sales denominated in foreign currency. Transactions for hedging purposes are undertaken without the use of collateral as only reputable institutions with sound financial positions are dealt with.

### Forward Exchange Contracts

The consolidated Group enters into forward exchange contracts to buy and sell specified amounts of foreign currencies in the future at stipulated exchange rates. The objective in entering the forward exchange contracts is to protect the consolidated Group against unfavourable exchange rate movements for both the contracted and anticipated future sales. Details of outstanding forward exchange contracts are:

Buy Australian Dollars	Average Exchange Rate							
	Consolidated		Parent		Consolidated		Parent	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$000	\$000	\$000	\$000				
Settlement								
Less than 15 months	35,430	30,190	35,430	30,190	0.83	0.72	0.83	0.72

### Foreign Currency Options

The consolidated Group acquired a European type foreign exchange option to sell USD\$36,420,000 at an exchange rate of US\$0.88 =AU\$1.00. The expiration date of the option is 15 December 2011. A premium of \$2,000,000 was paid for the option and at 30 June 2010 the option was valued at fair value for \$1,367,868. (2009:\$1,834,599).

The consolidated Group also acquired a second European type foreign exchange option on 28 May 2010 to sell USD\$25,000,000 at an exchange rate of US\$0.85 =AU\$1.00. The expiration date of the option is 30 November 2015. A premium of US\$1,382,000 was paid for the option and at 30 June 2010 the option was valued at fair value for A\$1,509,939.

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.

## Note 22: Financial Instruments (Continued)

Trade and other payables are expected to be paid as follows:

	2010	2009
	\$	\$
Less than 2 months	58,242,314	13,122,742

### Net Fair Values

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

### Sensitivity Analysis

#### Interest Rate Risk and Foreign Currency Risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk and price risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

#### Interest Rate Sensitivity Analysis

At 30 June 2010, 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:

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Change in profit				
- increase in interest rate by 2%	109,893	(82,564)	140,163	(33,242)
- decrease in interest rate by 2%	(109,893)	82,564	(140,163)	33,242
Change in other comprehensive income				
- increase in interest rate by 2%	109,893	(82,564)	140,163	(33,242)
- decrease in interest rate by 2%	(109,893)	82,564	(140,163)	33,242

#### Foreign Exchange Sensitivity Analysis

As at the balance sheet date, the consolidated entity has entered into forward exchange contracts amounting to \$35 million, which substantially protects the group against adverse fluctuations in the exchange rate.



## Note 23: Lease Commitments

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Not later than 1 year	3,621,071	805,529	3,107,382	708,239
Later than 1 year but not later than 5 years	5,582,067	309,750	5,361,888	308,750
Later than 5 years	27,600,000	-	27,600,000	-

The lease commitment is for rental of premises.

## Note 24: Franking Account

Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years

7,921,988	2,370,245	6,224,388	1,251,530
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## Note 25: Related Party Disclosures

### (a) Key management personnel compensation

Short term employment benefits	1,742,228	965,484	1,742,228	965,484
Other long term benefits	-	-	-	-
Post employment benefits	115,183	82,255	115,183	82,255
Termination benefits	-	-	-	-
Share based payments	-	-	-	-
	1,857,411	1,047,739	1,857,411	1,047,739

### (b) Individual directors' and executives' compensation disclosure

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

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

### (c) Parent entity

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

## Note 25: Related Party Disclosures (Continued)

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>(d) Related Party Transactions</b>				
Transactions between related parties are on normal commercial terms.				
(a) 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:	373,464	358,625	373,464	358,625
(b) Hire purchase of Kuka Machining Robot by Kanu Pty Ltd on behalf of Matrix.	-	53,010	-	53,010

### 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:

2010	Balance at 1 July	Granted as Remuneration	On Exercise of Options	(1) Purchases /(sold)	Balance at 30 June 2010
<b>Directors</b>					
AP Begley	3,422,763	-	-	50,000	3,472,763
PR Wright	1,819,942	-	-	-	1,819,942
NL Johnson	100,000	-	-	50,000	150,000
MG Begley	28,707,138	-	-	530,000	29,237,138
CN Duncan	550,000	-	-	-	550,000
<b>Key management personnel</b>					
G Northway	1,388,483	-	-	(400,000)	988,483
A Vincan	-	-	-	-	-
P Riordan	119,604	-	-	-	119,604
	36,107,930	-	-	230,000	36,337,930

(1) Shares purchases as part of the IPO.

2009	Balance at 1 July	Granted as Remuneration	On Exercise of Options	(1) Purchases /(sold)	Balance at 30 June 2009
<b>Directors</b>					
AP Begley	3,422,763	-	-	-	3,422,763
PR Wright	1,819,942	-	-	-	1,819,942
NL Johnson	100,000	-	-	-	100,000
MG Begley	28,707,138	-	-	-	28,707,138
CN Duncan	550,000	-	-	-	550,000
<b>Key management personnel</b>					
G Northway	1,388,483	-	-	-	1,388,483
A Vincan	-	-	-	-	-
P Riordan	119,604	-	-	-	119,604
	36,107,930	-	-	-	36,107,930

## Note 25: Related Party Disclosures (Continued)

### *Option holdings of key management personnel*

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

	Balance at 1 July	Granted as Remuneration	Exercised	Expired	Balance at 30 June 2010	Total Vested at 30 June 2010	Total Exercisable at 30 June 2010
<b>2010</b>							
AP Begley	1,000,000	-	-	-	1,000,000	-	-
PR Wright	1,000,000	-	-	-	1,000,000	-	-
NL Johnson	-	-	-	-	-	-	-
MG Begley	1,000,000	-	-	-	1,000,000	-	-
CN Duncan	-	-	-	-	-	-	-
	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>
	Balance at 1 July	Granted as Remuneration	Exercised	Expired	Balance at 30 June 2009	Total Vested at 30 June 2009	Total Exercisable at 30 June 2009
<b>2009</b>							
AP Begley	1,000,000	-	-	-	1,000,000	-	-
PR Wright	1,000,000	-	-	-	1,000,000	-	-
NL Johnson	-	-	-	-	-	-	-
MG Begley	1,000,000	-	-	-	1,000,000	-	-
CN Duncan	-	-	-	-	-	-	-
	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>

### *Key management personnel*

- There were no loans to key management personnel during the year or outstanding at the end of the year.

- No options have been issued to key management personnel.

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

#### **Services**

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

## Note 26: Subsidiaries

The consolidated financial statements include the following subsidiaries:

Name	Country of Incorporation	Class of shares	Equity Holding %	
			2010	2009
Specialist Engineering Services (Aust) Ltd	Australia	Ordinary	100	100
Torque Engineering Australia Pty Ltd	Australia	Ordinary	100	100
MC&E (Asia) Pte Ltd	Singapore	Ordinary	100	100
Matrix Henderson Property Pty Ltd	Australia	Ordinary	100	-
Wale Marine Aust Pty Ltd	Australia	Ordinary	50	50
Drilling Solutions Pty Ltd (1)	Australia	Ordinary	99	99

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

## Note 27: New Accounting Standards for Application in Future Periods

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments:

Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvement Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash settled Share-based Payment Transactions resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a Group. As a result of the amendments AI 8 Scope of AASB 2 and AI 11 AASB 2 - Group and Treasury Share Transactions will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-14 Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement - AASB 119 - The Limit on a Defined Benefit Asset Minimum Funding Requirements removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

## Note 28: Events After Balance Sheet Date

On 23 July 2010, the Group reached an out of court settlement with Straits (Hillgrove) Gold Pty Ltd over a contractual dispute. At 30 June 2010, there was sufficient provisioning to settle the agreed amount.

## Note 29: Earnings Per Share

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
Profit attributable to members of parent entity (\$)	18,159,906	3,096,027
Weighted average number of shares on issue (number)	58,580,342	48,964,098
Weighted average number of shares adjusted for dilution (number)	61,768,388	51,964,098
Basic earnings per share (cents)	31.0 cents	6.3 cents
Diluted earnings per share (cents)	29.4 cents	6.0 cents

## Note 30: Dividends Paid and Proposed

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Dividends paid and proposed (a) Dividends paid during the year Fully franked final dividend 2 cents, paid 9 October 2009 (2008: 2 cents, paid 6 November 2008)	979,282	489,591	979,282	489,591
Fully franked interim dividend 2 cents, paid 28 April 2010 (2009: Nil )	1,279,282	-	1,279,282	-
(b) Dividends declared (not recorded as a liability) Fully franked final dividend 2 cents, to be paid 28 October 2010 (2009: 2 cents, paid 9 October 2009)	1,399,282	979,282	1,399,282	979,282
Dividend per share in respect of financial year	4.0 cents	2.0 cents	4.0 cents	2.0 cents



### **Note 31: Capital and Other Commitments**

The company has commitments totalling \$60,000,000 for the development of the Henderson site (\$30,000,000) and the cost of plant and equipment (\$30,000,000) to be located at the Henderson site. At balance date approximately \$26,000,000 had been incurred leaving a balance of \$34,000,000 to be expended in the next 6 months to 31 December 2010.

### **Note 32: Company Details**

The registered office and principal place of business of the company is 42 Truganina Road, Malaga WA 6090.

### **Note 33: Contingent Liabilities and Assets**

There were no contingent liabilities or assets at 30 June 2010.

## Directors' Declaration

The directors of the company declare that:

1. The financial statements, notes and the Remuneration Report in the Directors' Report designated as audited are in accordance with the Corporations Act 2001 including:
  - (a) complying with Australian Accounting Standards and Corporations Regulations 2001;
  - (b) containing an explicit and unreserved statement of compliance with International Financial Reporting Standards in note 1; and
  - (c) giving a true and fair view of the financial position of the company and the consolidated group as at 30 June 2010, and of their performance for the year ended on that date.
2. 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 payable.
3. This declaration has been made after receiving the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

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



**AP Begley**  
CEO

Dated this 9th day of August 2010.

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## INDEPENDENT AUDIT 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 (the company), which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration, of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### 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. These Auditing 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 judgment, 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 and fair presentation of the financial report 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.

### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Liability Limited By A Scheme Approved Under Professional Standards Legislation

**INDEPENDENT AUDIT REPORT  
TO THE MEMBERS OF  
MATRIX COMPOSITES & ENGINEERING LTD**

**Auditor's Opinion**

In our opinion:

- a. the financial report of Matrix Composites & Engineering Ltd is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Report on Remuneration Report**

We have audited the Remuneration Report included in pages 10 to 12 of the director's report for the year ended 30 June 2010. 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.

**Auditor's Opinion**

In our opinion the remuneration report of Matrix Composites & Engineering Ltd for the year ended 30 June 2010, complies with Section 300A of the Corporations Act 2001.

*Mack and Co.*  
\_\_\_\_\_  
MACK & CO.  
*S S Fermanis*  
\_\_\_\_\_  
S S FERMANIS  
PARTNER  
WEST PERTH

DATE: *9th August 2010*



# ask additional shareholder information

The Shareholder information set out below was current as at 9 August 2010.

## 1. Range of Shares Analysis by Size of Holding

Range	Total holders	Units	% of Issued Capital
1-1,000	82	48,513	0.07
1,001-5,000	288	892,207	1.28
5,001 – 10,000	155	1,387,360	1.98
10,001 – 100,000	210	6,403,483	9.15
>100,001	49	61,232,535	87.52
Total	784	69,964,098	100.00
Unmarketable Parcels Minimum \$ 500.00 parcel at \$2.90 per share	3	16	0.00

## 2. The Twenty (20) Largest Holders of Ordinary Shares as at 9 August 2010

Name	Units	% of Units
Milto Pty Ltd	20,729,702	29.63
Milto Pty Ltd <Begley Family A/C>	7,081,377	10.12
National Nominees Limited	6,808,214	9.73
Mr Aaron Paul Begley	3,472,763	4.96
Mr Todd Justin Begley	2,020,000	2.89
Cogent Nominees Pty Ltd	1,988,381	2.84
JP Morgan Nominees Australia Limited	1,552,322	2.22
Ms Linda June Sampey & Mr Bruce Ronald Sampey <Sampey Super Fund A/C>	1,450,000	2.07
Vector Nominees Pty Limited	1,350,000	1.93
Mr Paul Richard Wright & Mrs Karen Bronwyn Wright <The Paul Wright S/F A/C>	1,159,634	1.66
Wasos Pty Ltd <The Northway Family A/C>	965,791	1.38
Bond Street Custodians Limited <Macquarie Smaller Co's A/C>	808,368	1.16
WB Ives Nominees Pty Ltd <WB & BM Ives Super Fund A/C>	715,584	1.02
Queensland Investment Corporation	675,000	0.96
Mr Peter Lindsay Wright	654,241	0.94
Sinedie Pty Ltd	644,241	0.92
Mr Bruce Ronald Sampey <The Ventnor Ave Unit A/C>	630,000	0.90
Mr Maxwell Graham Begley	610,308	0.87
Mr Paul Richard Wright	600,000	0.86
UBS Nominees Pty Ltd	588,009	0.84
Total	54,503,935	77.90

### 3. Unquoted Equity Securities

	No. on Issue	No of Holders
Options issued to directors to take up ordinary shares (3 holders > 100,001)	3,000,000	3

### 4. Substantial Shareholders

Name	No. of Shares	%
M.G. Begley & Associates	29,237,138	41.79
Acorn Capital Ltd	4,153,063	5.94

### 5. The names of the Joint Company Secretaries are:

Dennis J. Holman  
Paul R. Wright

### 6. The Address of the Principal Office in Australia is:

42 Truganina Road  
Malaga WA 6090  
Phone +61 (0)8 9249 3637

### 7. A Register of Securities is held at the Following Address:

Computershare Investor Services  
Level 2, 45 St Georges Terrace  
Perth WA 6000

### 8. Voting Rights

A. Ordinary Shares

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

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

B. Options have no voting rights.

### 9. On-market share buy-back

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

### 10. Restricted Securities

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

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

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

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**Matrix Composites & Engineering Ltd  
and Controlled Entities**

**ABN: 54 009 435 250**

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