APPENDIX 4E

PRELIMINARY FINAL REPORT
PERIOD ENDED 31 DECEMBER 2011

Name of entity:	Ludowici Limited
ABN:	22 000 001 365
Reporting period:	Year ended 31 December 2011
Previous corresponding period:	Year ended 31 December 2010

Results for announcement to the market

				$A'000
Revenues from ordinary activities	down	-0.64%	to	220,313
Profit from continuing operations before finance costs, tax, depreciation & amortisation	up	+4.36%	to	26,413
Profit from continuing operations before finance costs and tax	up	+0.69%	to	19,600
Profit from ordinary activities after tax attributable to members	down	-7.91%	to	10,693
Net profit for the period attributable to members	down	-7.91%	to	10,693

Further detail and explanation is available in the Directors' Report and accompanying financial information contained in the Preliminary Final Report for the full year ended 31 December 2011.

Dividends (distribution)	Amount per security	Franked amount per
Distributions paid/payable :		
Interim Dividend – paid 23 September 2011	10.0 cents	100%
Final Dividend – payable 9 May 2012	11.0 cents	100%

Record date for determining entitlements to the dividend	24 April 2012

Dividend reinvestment plan
Directors have suspended the dividend reinvestment plan and it will not apply for the 2011 final dividend.

	Current Period	Previous Corresponding
Net tangible assets per security	2.21	2.06

The financial statements have been subject to an audit by PricewaterhouseCoopers.

LUDOWICI LIMITED

ACN 000 001 365

FINANCIAL REPORT
For the year ended
31 December 2011

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as "the Company") consisting of Ludowici Limited and the entities it controlled at the end of, or during, the year ended 31 December 2011.

Directors

The following persons were Directors of the Company during the financial year end up to the date of this report and were in office for the entire period unless otherwise stated:

Phil J Arnall (Chairman)
Patrick J Largier (Managing Director)
Julian K Ludowici
Colin W Ravenhall
Hugh K Rhodes-White
Nick W Stump
Guy M Cowan

Principal Activities

During the year the principal continuing activities of the consolidated entity consisted of design, manufacture, service and distribution of equipment and consumables for the global minerals processing industry.

Review of operations

In 2011 Ludowici continued to strengthen and grow its global mineral processing business. Building on the very strong 2010 business performance, Ludowici generated its highest ever EBITDA, up 4.3% to $26.4 million, whilst continuing to invest in new businesses and improved production facilities.

Ludowici has remained focussed on developing a robust and expanding business servicing the global mineral processing industry. Ludowici has been driving a company-wide improvement program over the past four years and has actively pursued value creating acquisitions particularly in the mineral processing consumables area. In addition, the Company has invested in improved manufacturing facilities, originally with the new factory at Pinkenba and more recently with new production facilities in Chennai in India and the production facility currently being commissioned at Qingdao in China. This program of expansion and improvement has resulted in improved underlying business profitability of nearly 160% since 2008.

Financial Performance

	Full Year Ended 31-Dec-11 $'000	Full Year Ended 31-Dec-10 $'000
Revenue from continuing operations	220,313	221,726
Profit from continuing operations before finance costs, tax, depreciation & amortisation	26,413	25,309
Profit from continuing operations before finance costs and tax	19,600	19,465
Profit attributable to members of Ludowici Limited	10,693	11,611
Earnings per share for profit from continuing operations	38.4	44.8
Final Dividend per share (Franked 100%) – cents	11.0 cps	10.0 cps
FY 2011 Total Dividends per share (declared) – cents	21.0 cps	20.0 cps
Net tangible assets per share	2.21	2.06
Gearing: Net Debt / (Net Debt + Equity)	33.90%	34.10%

Revenue in 2011 was essentially the same as in 2010. While the headline figure was largely unchanged, there were a number of developments that will support future revenue growth. In late 2010, an exclusive Chinese distribution agreement was terminated, resulting in approximately $22 million reduced revenue in 2011. However this change has allowed Ludowici to directly control the building of a much stronger future business in China, a key growth market for the Company. This revenue reduction in 2011 was offset by strong organic growth of approximately 18%, as well as sales from the acquired Rojan business and four months of Meshcape.

2011 EBITDA was up 4.3% to $26.4 million, reflecting a combination of improved gross margin together with tight control of selling and administration costs.

EBIT was roughly equivalent to 2010 as the additional acquired businesses increased depreciation and amortisation.

The Company's effective tax rate returned to a more normal 29% in 2011 (2010: 24%) which was the main reason for a 7% reduction in reported net profit after tax.

During 2011, Ludowici enjoyed the first full year of contribution from the Rojan business which performed ahead of expectations. We also acquired the small Amseal business early in the year and the more significant Meshcape business in August 2011. Meshcape is a significant mineral processing consumables business in South Africa. This business has performed well over the past four months and has given Ludowici critical mass in the African market.

Review of operations (continued)

Special mention should be made of Ludowici's North American business which increased earnings before interest and tax by 76%.

Cash Position, Earnings per Share and Balance Sheet

Net cash inflow from operating activities for 2011 was $4.5 million representing a second half cash inflow recovery of $8.7 million. This cash flow was affected by very strong sales in the final quarter for 2011 which resulted in high year end trade receivables for recently shipped product.

In August 2011, Ludowici undertook a 1 for 10 rights issue at $4.00 per share to raise net funds of approximately $10.1 million. This rights issue increased the number of Ludowici shares to approximately 29.4 million. The funds from this rights issue were used in part to support acquisitions and to fund the capital expenditure for the new Qingdao factory in China.

As the returns from these investments will largely be seen in future years, the net effect of this rights issue is to temporarily dampen earnings per share (EPS). EPS in 2011 was 38.4 cents per share which was a 14% decline compared to 2010 but a 55% increase over three years (2008: 24.7 cents per share).

During 2011 net debt increased by $7.7 million to $53.0 million. This debt increase was driven by acquisitions (Meshcape, Amseal and a January 2011 Rojan payment) and investments in the new Chennai and Qingdao factories. These activities were funded by debt partially offset by the rights issue in August 2011.

Gearing (Debt/[Debt + Equity]) at the end of 2011 was 33.9% which is a 1% reduction from December 2010.

Dividends

The following dividends to shareholders have been paid since the end of the last financial year :

		2011 $'000	2010 $'000
(a)	Referred to in the report of the previous year: Final ordinary dividend paid 9 May 2011 10.0 cents per fully paid share (2010 - 6.0 cents)	2,665	1,549
(b)	Ordinary dividend paid – interim dividend paid 23 September 2011 10.0 cents per fully paid share (2010 - 10.0 cents)	2,935	2,652
		5,600	4,201

Matters subsequent to the end of the financial year

Dividend

Your directors have declared a final cash dividend for 2011 of 11.0 cents per share. This dividend is fully franked and will be paid on 9 May 2012. This brings the ordinary dividend for the years to 21.0 cents per share which is an increase of 5% on the previous year.

The dividend reinvestment plan has been suspended and will not apply for the final 2011 dividend.

Offers to acquire Ludowici Limited

On 23 January 2012, Ludowici Limited announced that FLSmidth & Co. A/S ("FLS") had made a non-binding, indicative and conditional proposal to acquire 100% of Ludowici Limited shares by way of a Scheme of Arrangement at a cash price of $7.20 per share. On 10 February 2012, Ludowici Limited announced that it had received a competing non-binding, indicative and conditional proposal from Weir Group PLC ("Weir") to acquire 100% of Ludowici Limited shares by way of a scheme of arrangement at a cash price of $7.92 per share. On 13 February 2012 Weir lodged an application with the Takeovers Panel in relation to statements made by FLS in relation to its proposal. On 16 February 2012, Ludowici Limited announced that it had received an amended offer from FLS for $10.00 per share and that it had entered into a Scheme Implementation Agreement with FLS which is subject to and will not become binding until the proceedings in the Takeovers Panel are determined (the "Transaction").

The Board unanimously resolved that subject to the Scheme Implementation Agreement becoming binding the proposed Transaction was in the best interests of shareholders and to recommend that shareholders approve the proposed Transaction, subject to there being no superior offer and an independent expert concluding that the Transaction is in the best interest of shareholders. Refer to the ASX or Ludowici websites for full announcement details and terms & conditions. If the transaction proceeds, the Board expects completion to occur in June 2012.

On 23 February 2012, Ludowici Limited announced that it had received a revised Competing Proposal from Weir at a price of $10.00 cash per Ludowici share, the same price as the FLSmidth proposal announced on 16 February 2012.

Under the proposal, Weir (or a nominee) will acquire all of Ludowici's shares for $10.00 cash per share (less any dividends declared or paid by Ludowici before the transaction is completed) by way of Scheme of Arrangement ("Weir Proposal"). The Weir Proposal is conditional on the Takeovers Panel making a decision to the effect that FLSmidth cannot offer, or propose to pay, Ludowici shareholders more than $7.20 per share whether for a specified period or otherwise.

The Board of Ludowici acknowledged receipt of the Weir Proposal and noted that it was on similar terms and conditions and at the same price as the recommended offer by FLSmidth but expires at 5.00pm Friday 24 February 2012.

Environmental reporting

All the Company's business units are subject to Federal and State Government Environmental regulation and licence. The Company has complied with its obligations in all respects.

Information on Directors

Phil J Arnall BCom. *Chairman – Independent non-executive.*

Experience and expertise

Mr Arnall was appointed in January 2003 following a 30 year career in the mining and steel industries including senior executive responsibility in Smorgon Steel Group, Tubemakers and ANI Limited. He maintains interests in businesses servicing the mining and rail markets in Australia.

Other current directorships
Bradken Limited – Director
A J Lucas Group Limited - Director

Former directorships in last 3 years
Capral Limited - retired 17 March 2010

Special responsibilities
Chairman of the Board
Member of the Audit Committee
Member of the Remuneration Committee

Patrick J Largier BSc Chem Eng with Honours (University of Cape Town); Advanced Management Program (Harvard University).
Managing Director – appointed 21 June 2007.

Experience and expertise

Prior to joining Ludowici, Mr Largier spent nearly fifteen years with Orica/ICI Australia. During that period he led a number of Orica's business units and divisions. His last role in Orica was Group General Manager Strategy and Acquisitions. His earlier career included 10 years with the Shell group of companies in a variety of business and marketing roles in South Africa and London. After graduating as a chemical engineer, Mr Largier worked for Impala Platinum and a local chemical engineering contracting company in Johannesburg.

Other current directorships
None

Former directorships in last 3 years
None

Julian K Ludowici BCom. *Non-independent non-executive.*

Experience and expertise

Mr. Ludowici was appointed in September 1988. He established BeMax Resources Limited and subsequently started Customers Ltd, where he was Chairman until he retired on in June 2006. Mr. Ludowici was a founding Director and Chairman of Rey Resources Ltd, a coal development company. He has wide experience in capital markets and is the Chairman of Ludowici Investments, the largest shareholder in Ludowici Limited.

Other current directorships
None

Former directorships in last 3 years
Rey Resources Limited – Chairman (retired 29 November 2010)

Special responsibilities
Member of the Audit Committee
Member of the Remuneration Committee

Colin W Ravenhall Dip App Chem. *Independent non-executive.*

Experience and expertise

Mr Ravenhall was appointed in February 2001. Former Managing Director of Taubmans Industries Limited and former President and CEO of Courtaulds Coatings Inc. USA. He has 35 years experience in industrial and consumer marketing and manufacture, both locally and overseas.

Other current directorships
None

Former directorships in last 3 years
None

Special responsibilities
Member of the Remuneration Committee

Information on Directors (continued)

Hugh K R Rhodes-White. *Non-independent non-executive.*

Experience and expertise
Mr Rhodes-White was appointed in September 1999. He is the Managing Director and owner of a Sydney construction company.

Other current directorships
None

Former directorships in last three years
None

Special responsibilities
Member of the Remuneration Committee

Nick W Stump MAppSc (Adel), FAusIMM. HonDEngin Qld *Independent non-executive*

Experience and expertise
Mr Stump was appointed in April 2005. He was former CEO of Comalco Ltd and MIM Holdings Ltd.

Other current directorships
None

Former directorships in last three years
None

Special responsibilities
Member of the Remuneration Committee

Guy M Cowan BSc (Hons), FCCA. *Independent non-executive*

Experience and expertise
Mr Cowan was appointed in November 2009. He previously spent 24 years working for energy group Shell in international finance and strategy roles, most recently as Chief Financial Officer of Shell Petroleum Inc and Shell Oil Company in the United States, of which he was also a Director. Mr Cowan retired from New Zealand-based dairy group Fonterra in March 2009, at which he had been Chief Financial Officer since 2005.

Other current directorships
UGL Limited, Queensland Sugar Limited, Gold Oil Plc (UK), Coffey International Limited.

Former directorships in last three years
Raisama Limited

Special responsibilities
Chairman of the Audit Committee from 20 November 2009
Member of the Remuneration Committee

Company Secretary

Mark Day - BA (Hons) University of Queensland, Post Graduate Certificate in Economics Nanjing University & LLB Melbourne University

Mark Day was appointed Company Secretary on 16 December 2011. Mark joined Ludowici in March 2011 as General Counsel with substantial intellectual property and commercial law experience in Australia and Asia Pacific. After commencing his legal career with Phillips Fox in Melbourne, Mark spent 10 years in private practice before taking up a position as General Counsel in Asia Pacific for a major international trade association.

Stephen J Gaffney BBus BLaw (QUT) CA

Mr Gaffney was appointed Company Secretary on 15 February 2011 and held this position until resigning on 16 December 2011. Stephen remains in his position as Chief Financial Officer of Ludowici Limited.

Meetings of Directors

The following table sets out the number of the Directors' meetings (including Committee meetings) held during the year ended 31 December 2011 and the number of meetings attended by each Director.

	Directors' Meetings		Meetings of Committees			
			Audit		Nomination & Remuneration	
	A	B	A	B	A	B
P J Arnall	12	12	2	2	2	2
P J Largier	12	12	*	*	*	*
J K Ludowici	12	12	2	2	2	2
C W Ravenhall	12	11	*	*	2	2
H K R Rhodes-White	12	12	*	*	2	2
N W Stump	12	11	*	*	2	2
G M Cowan	12	12	2	2	2	2

A = Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended
* = Not a member of the relevant Committee

Remuneration report (audited)

Objective:

The objective of the Company's remuneration policy is to attract, develop, motivate and retain people with the capability to contribute to the achievement of its business objectives. This applies throughout the Company, at all levels.

This statement outlines the remuneration policy as it applies to senior executives, non executives, directors and key management personnel.

Principles used to determine the nature and amount of remuneration:

The remuneration policy is based on the principles that executive remuneration should be:

- Appropriate to the responsibilities of the position;
- Industry competitive;
- Related to performance (financial and other);
- Aligned to Shareholder interests.

Non-Executive Director Remuneration Policy:

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to the shareholders. The aggregate remuneration of non-executive Directors shall be determined from time to time by general meeting. This amount is then divided between the Directors as agreed. The latest determination was made in April 2010 when an aggregate remuneration of $490,000 was approved.

Executive Remuneration Structure:

Total remuneration for senior executives has two elements:
1. Total fixed remuneration (TFR).
2. Bonuses comprising a cash short-term incentive (STI) and a longer term incentive performance plan (IPP).

TFR:

Comprises base salary and superannuation. Other permissible benefits may be provided on a salary sacrifice basis including novated lease of a vehicle.

Base salaries are reviewed annually by reference to salary surveys and other market data, the value assigned to each position and individual performance. Acceptable performance generally attracts a base salary around the 50th percentile of the market range for an equivalent position.

Remuneration report (audited) (continued)

Bonuses

Results based bonuses are paid on formally assessed performance. Performance is rated on task achievement levels in key result areas which include financial, operational, safety and strategic objectives contained in the three year plan. A total bonus amount is calculated by applying the achieved rating (out of 100) to a percentage of base salary determined by the Board from time to time. These percentages are currently capped at:

Managing Director	Up to 60%*
Key management personnel	30% to 50%
Other senior managers	30% to 50%

The total bonus amount is then paid as two sums:

(i) STI, a taxable cash bonus of 40% to 60% of the total bonus;

(ii) IPP, a taxable share based bonus of 40% to 60% of the total bonus. Whilst the beneficial ownership of the shares vests in the employee and they have the right to receive dividends, the legal ownership of the shares is deferred and only vests in the employee if they remain in the employment of the company three years after being awarded.

* Refer executive service agreements for Patrick J Largier later in this report.

Policy Review:

The Nomination and Remuneration Committee reviews remuneration policy and structure at least annually.

Amounts of remuneration:

2011		Short term			Long Term		Post Employment	Share-based payment		Total
		Salary & Fees $	***Cash Bonus* $**	**MV Benefits $**	**Long service leave $**	**Super $**	**Termination benefits $**	**IPP Bonus $**	**Options $**	**$**
Directors										
P J Arnall	Non Executive	102,182	-	-	-	9,196	-	-	-	111,378
P J Largier √	Executive	587,846	124,000	-	15,886	15,488	-	-	456,494	1,199,714
J K Ludowici	Non Executive	38,677	-	21,641	-	3,481	-	-	-	63,799
C W Ravenhall	Non Executive	58,531	-	-	-	5,268	-	-	-	63,799
H K Rhodes-White	Non Executive	58,531	-	-	-	5,268	-	-	-	63,799
N W Stump	Non Executive	58,531	-	-	-	5,268	-	-	-	63,799
G Cowan	Non Executive	72,419	-	-	-	6,518	-	-	-	78,937
Total Directors compensation		976,717	124,000	21,641	15,886	50,487	-	-	456,494	1,645,225

Note: Non Executive Directors receive no benefits other than Directors' fees and deferred retirement benefits (superannuation) disclosed above. 250,000 rights were granted to Mr Largier on 20 April 2011 as approved at the Annual General Meeting held on 20 April 2011.

2011		Short term			Long Term		Post Employment	Share-based payment		Total
		Salary & Fees $	**Cash Bonus $**	**MV Benefits $**	**Long service leave $**	**Super $**	**Termination benefits $**	**IPP Bonus $**	**Options $**	**$**
Other Company executives										
E McKerr	√	230,604	32,065	-	9,569	15,488	-	-	-	287,726
C Wilson	√	194,699	38,276	-	7,389	15,488	-	-	-	255,852
D Ricketts	√	215,513	33,208	-	3,856	15,488	-	-	-	268,065
S Gaffney	√	225,054	34,944	-	3,725	14,221	-	-	-	277,944
D Barber *	√	98,021	14,656	-	1,609	5,258	-	-	-	119,544
* (from 29 August 2011)										

√ denotes one of the 5 highest paid executives of the Group and Company, as required to be disclosed under the Corporations Act 2001.

Remuneration report (audited) (continued)

2010		Short term			Long Term		Post Employment	Share-based payment		Total
		Salary & Fees	*Cash Bonus*	MV Benefits	Long service leave	Super	Termination benefits	IPP Bonus	Options	
		$	$	$	$	$	$	$	$	$
Directors										
P J Arnall	Non Executive	95,862	-	-	-	8,628	-	-	-	104,490
P J Largier √	Executive	499,003	228,800	-	5,958	14,830	-	-	128,442	877,033
J K Ludowici	Non Executive	26,985	-	21,805	-	3,084	-	-	-	51,874
C W Ravenhall	Non Executive	54,866	-	-	-	4,938	-	-	-	59,804
H K Rhodes-White	Non Executive	54,866	-	-	-	4,938	-	-	-	59,804
N W Stump	Non Executive	54,866	-	-	-	4,938	-	-	-	59,804
G Cowan	Non Executive	68,123	-	-	-	6,131	-	-	-	74,254
Sub- total Directors		854,571	228,800	21,805	5,958	47,487	-	-	128,442	1,287,063

Note: Non executive Directors receive no benefits other than Directors' fees and deferred retirement benefits (superannuation) disclosed above. 150,000 options were granted to Mr Largier as approved at the Annual General Meeting held on 28 April 2008.

2010	Short term			Long Term		Post Employment	Share-based payment		Total
	Salary & Fees	Cash Bonus	MV Benefits	Long service leave	Super	Termination benefits	IPP Bonus	Options	
	$	$	$	$	$	$	$	$	$
Other key management personnel									
J D MacDonald √ (from 1 January - 31 May 2010)	87,725	-	-	-	12,051	123,654	-	-	223,430
Sub – total other key management personnel	87,725	-	-	-	12,051	123,654	-	-	223,430
Total key management personnel compensation	942,296	228,800	21,805	5,958	59,538	123,654	-	128,442	1,510,493
Other Company executives									
E McKerr √	194,493	30,061	22,916	27,037	16,060	-	9,867	-	300,435
C Wilson √	192,194	36,641	-	6,355	14,830	-	7,717	-	257,737
D Ricketts √	205,170	33,855	-	1,706	14,830	-	-	-	255,561
D Ricketts √ * (from 14 May 2010)	186,103	19,456	-	1,244	10,010	-	-	-	216,813

√ denotes one of the 5 highest paid executives of the Group and Company, as required to be disclosed under the Corporations Act 2001.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed Remuneration		At Risk STI		At Risk - LTI	
	2011	2010	2011	2010	2011	2010
Executive Directors						
P J Largier √	49%	59%	10%	26%	41%	15%
Other Company executives						
E McKerr √	80%	86%	11%	11%	9%	4%
C Wilson √	76%	83%	15%	14%	9%	3%
D Ricketts √	80%	87%	12%	13%	7%	0%
S Gaffney √	81%	n/a	13%	n/a	6%	n/a
D Barber √ (from 29 August 2011)	82%	n/a	12%	n/a	6%	n/a

√ denotes one of the 5 highest paid executives of the Group and Company, as required to be disclosed under the Corporations Act 2001.

Remuneration report (audited) (continued)

Executive Service Agreements
Details of contract agreements for the above personnel, if applicable, are detailed below:-

Patrick J Largier, *Managing Director (appointed 21 June 2007)*
Term of agreement – To continue until terminated in accordance with the agreement.
TFR, inclusive of superannuation is $620,000 per annum. The base salary is to be reviewed annually by the remuneration committee.

STI, a taxable bonus of 60% of total TFR upon achievement of targets.
LTI in form of a share option plan approved at the 2008 Annual General Meeting and rights approved at the 2011 Annual General Meeting.

The number of options over unissued shares in the company which shall be granted initially is 675,000. This grant shall occur in the following tranches:

- 375,000 options immediately as approved by shareholders at the 2008 AGM
- 150,000 options on 1 January 2009
- 150,000 options on 1 January 2010

Each option granted shall on exercise convert to one fully paid ordinary share in the company.

The vesting of options is based on growth in earnings per share for prescribed measurement periods.

For the 375,000 options the number vested on the day of the announcement to the Australian Securities Exchange, will depend on the achievement level of the three financial years ended 31 December 2010.

- Less than 5% per annum – number vested nil
- Threshold: 5% - 100,000 vested
- Target 10% - 200,000 vested
- Stretch 15% or more – 375,000

For the 150,000 options the number vested on the day of the announcement to the Australian Securities Exchange, will depend on the achievement level of the three financial years ended 31 December 2011.

- Less than 5% per annum – number vested: nil
- Threshold: 5% - 40,000 vested
- Target 10% - 80,000 vested
- Stretch 15% or more – 150,000

For the 150,000 options the number vested on the day of the announcement to the Australian Securities Exchange, will depend on the achievement level of the three financial years ended 31 December 2012.

- Less than 5% per annum – number vested: nil
- Threshold: 5% - 40,000 vested
- Target 10% - 80,000 vested
- Stretch 15% or more – 150,000

Options which have vested must be exercised within twelve months from the date of the announcement to the Australian Securities Exchange of the Company's yearly financial results.

The exercise price of an option will be as follows:

- 375,000 options –fixed price $6.70
- Up to 150,000 (1 January 2009) - $2.40 being the weighted average of the prices at which shares traded on the ASX for the months of November and December 2008.
- Up to 150,000 (1 January 2010) - $2.63 being the weighted average of the prices at which shares traded on the ASX from November and December 2009.

As part of his remuneration package, the Board granted a free issue of securities under a long term investment plan to Patrick Largier, the Managing Director of the Company. The securities will be in the form of rights, which upon vesting, will entitle Mr Largier to a maximum number of 250,000 fully paid ordinary shares in the Company or, at the Board's election, a cash equivalent;

The vesting criteria will be tested for vesting as follows:

(i) 150,000 rights by 28 February 2014 based on the 2013 financial year; and

(ii) 100,000 rights by 28 February 2015 based on the 2014 financial year;

No other securities have been granted to any person under this scheme. The interests in other options and other securities of the Directors and executives are set out in the Company's annual report.

Remuneration report (audited) (continued)

The key terms of the rights granted to Mr Largier are:

The rights will vest in Mr Largier without any payment, subject to the satisfaction of the vesting conditions as follows:

(i) 150,000 in February 2014 subject to the vesting conditions detailed below in respect of the 2013 financial performance of the Company; and

(ii) 100,000 in February 2015 subject to the vesting conditions detailed below in respect of the 2014 financial performance of the Company;

The Vesting Conditions will be determined by dividing the rights which may be subject to vesting that year into two tranches, 50% of which will be subject to a Earnings Per Share (EPS) vesting condition, and 50% of which will be subject to a Total Shareholder Return (TSR) vesting condition as follows:

EPS vesting condition

Performance Level	Ludowici's EPS Growth	Vesting %
<Threshold	<5% p.a	0%
Threshold	5% p.a.	25%
	>5% p.a. & <10% p.a.	Pro rata
Target	10% p.a.	50%
	>10% p.a. & <15% p.a.	Pro rata
Stretch	>15% p.a.	100%

Relative TSR vesting condition

Performance Level	Ludowici's EPS Growth	Vesting %
<Threshold	<P50	0%
Threshold	P50	25%
	>P50&<P62.5	Pro rata
Target	P62.5	50%
	>P62.5&<P75	Pro rata
Stretch	P75	100%

In the event of a takeover of the Company (acquisition of more than 50% of issued shares or control of more than 50% of the votes that may be cast at an AGM), the rights will vest automatically in the amount which is the greater:

(i) in the proportion of any increase in share price of the Shares compared to the price at ASX closing of trade on the date of the Shareholder's approval of the grant, or

(ii) but in any event not less than 50% of the rights that have not yet vested at the date of the announcement of the takeover offer or bid.

The value of all granted rights and options as at 31 December 2011 was $1,683,649.

Other Executives

Remuneration and other terms of employment for the other key management personnel are formalised in employment agreements. Each of these agreements provide for the provision of performance related cash bonuses and other benefits such as motor vehicle benefits and participation, when eligible, in the Ludowici employee long term incentive plan. Other major provisions are noted in the table below:

All contracts with executives may be terminated early by either party with a range of three to six months notice.

Name	Term of Agreement	Base Salary Including Superannuation *	Termination Benefit **
E McKerr	None specified	249,729	6 months base salary
C Wilson	None specified	232,825	3 months base salary
D Ricketts	None specified	233,200	3 months base salary
S Gaffney	None specified	260,000	4 months base salary
D Barber	None specified	300,000	3 months base salary

* Annual base salaries quoted are for the year ended 31 December 2011; they are reviewed annually by the remuneration and nomination committee.

** Termination benefits are payable on early termination by the Company, other than for gross misconduct .

Remuneration report (audited) (continued)

Share-based compensation

Remuneration options : granted during the year

(i) Directors

250,000 rights were granted to Mr Largier on 20 April 2011 as approved at the Annual General Meeting held on 20 April 2011 (2010: 150,000 options granted).

The value of rights granted during the year as at 31 December 2011 was $1,247,876.

(ii) Other key management personnel

No rights were granted to other key management personnel or executives during the year (2010: nil).

Remuneration options: There were no options exercised by Directors and key management personnel in the 12 months ended 31 December 2011 (2010: nil).

(iii) Details of remuneration

For each cash bonus and grant of options or IPP shares , the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below:

	Cash Bonus		Share Based compensation benefits IPP and options				
	Paid %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial Year in which IPP/Options may vest	Maximum total value of grant yet to vest $
P Largier	33%	67%	2011			31/12/2014	935,112
			2010			31/12/2013	59,280
			2009			31/12/2012	-
			2008	100		31/12/2011	-
IPP SHARES							
E McKerr	32%	68%	2011			31/12/2014	20,038
			2010			31/12/2013	27,199
			2009			31/12/2012	-
			2008	100		-	-
C Wilson	41%	59%	2011			31/12/2013	30,532
			2010			31/12/2013	19,001
			2009			31/12/2012	-
			2008	100		-	-
D Ricketts	36%	64%	2011			31/12/2014	22,568
			2010			-	-
S Gaffney	34%	66%	2011			-	-
D Barber	12%	88%	2011			-	-

(iv) IPP Shares issued, vested and forfeited

Year issued	Issued	Forfeited	Vested	Balance	Issue Price
2006	34,635	(6,392)	(28,243)	-	$ 6.91
2007	41,604	(14,679)	(26,283)	-	$ 7.80
2008	23,341	(6,473)	(13,517)	642	$ 3.93
2010	54,597	(3,027)	(5,805)	45,765	$ 2.61
2011	34,294	(2,320)	-	31,974	$ 5.05
Unallocated shares				7,142	
Total	188,471	(32,891)	(73,848)	85,523	

Directors' Interests

The interests of each Director in shares in Ludowici Limited or in a related body corporate as contained in the register of Directors' shareholdings of Ludowici Limited are set out in note 32(b) (iii) of the financial statements.

People

Group employees at the end of 2011 totaled 1,012 compared to 817 in 2010.

Employment Policy and Employee Development

The Company is an equal opportunity employer. Policies on employment, training and development, advancement and promotion are merit-based and do not discriminate in favour of or against any person on any ground.

The Company encourages our people to undertake further education and training. By doing so, they have the opportunity to develop their abilities and so reach their full potential. Training programmes all have as a key objective the development of a genuine quality and service culture, seen as an essential element in the achievement of the Company's business objectives.

Non-Audit Services

Fees in respect of taxation and other services totalling $352,132 (2010:$324,041) were paid to the external auditors (refer note 27). The Directors are satisfied the provision of these services by the auditor is compatible with the general standard of independence for auditors imposed by The Corporations Act 2001. This statement has been made in accordance with advice from the Audit Committee.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 13.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

Other Information

(a) Future operations

Ludowici is well exposed to the improving mineral processing capital cycle and currently expects that 2012 EBITDA will be stronger than 2011.

(b) State of affairs of consolidated entity during financial year

The Directors are not aware of any significant change in the state of affairs of the consolidated entity that occurred during the financial year under review not elsewhere disclosed in this report and in the consolidated financial statements.

(c) Share options

No share options were issued during the year under the Executive Share and Option Plan, however 250,000 rights were granted to Mr Largier as approved at the Annual General Meeting held on 20 April 2011. Details of existing options are disclosed in note 33.

(d) Insurance of officers

The consolidated entity has not, during or since the end of the financial year, indemnified against a liability any person who is or has been an officer or auditor of Ludowici Limited or of any of its related bodies corporate.

Ludowici Limited has paid premiums of $40,000 (2010:$40,000) in respect to a contract insuring the Directors and officers of Ludowici Limited and its controlled entities against liabilities incurred while acting as Directors and officers. The terms and conditions of the insurance policies prohibit the Company from disclosing details of the premiums and the nature of the liabilities covered by the policies.

Other Information (continued)

(e) Tax

Effective 1 July 2003 for the purposes of income taxation, Ludowici Limited and its 100% Australian owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

This report is made in accordance with a resolution of Directors.

P J Arnall
Director
Brisbane 24 February 2012

P J Largier
Director

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Ludowici Limited for the year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Ludowici Limited and the entities it controlled during the year.

Simon Neill
Partner
PricewaterhouseCoopers

Brisbane
24 February 2012

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Consolidated income statement
For the year ended 31 December 2011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Revenue from continuing operations	5	220,313	221,726
Cost of sales		(145,170)	(148,675)
Gross Profit		75,143	73,051
Other income	6	512	965
Selling and distribution expenses		(26,164)	(24,457)
Administration expenses		(15,591)	(14,858)
Engineering and product specialist expenses		(10,663)	(10,636)
Business acquisition expenses	31	(408)	(242)
Research and development expenses		(3,229)	(4,358)
Results from operating activities		19,600	19,465
Finance costs	7	(4,577)	(4,201)
Profit (loss) before income tax		15,023	15,264
Income tax (expense) benefit	8	(4,330)	(3,653)
Net profit (loss) from continuing operations		10,693	11,611
Profit attributable to owners of Ludowici Limited		10,693	11,611
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share	37	38.4	44.8
Diluted profit for the year	37	38.1	44.7
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	37	38.4	44.8
Diluted profit for the year	37	38.1	44.7

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

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	Consolidated 2011 $'000	2010 $'000
Profit for the year		10,693	11,611
Other comprehensive income			
Net movement in hedge reserve		-	169
Exchange differences on translation of foreign operations	25	(454)	(1,694)
Other comprehensive income net of tax		(454)	(1,525)
Total comprehensive income for the year attributable to owners of Ludowici Limited		10,239	10,086

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

Consolidated balance sheet

As at 31 December 2011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	15,981	20,230
Trade and other receivables	11	53,485	34,580
Inventories	12	50,785	55,548
Current tax assets		170	1,002
Assets classified as held for sale	9	1,804	1,794
Total current assets		122,225	113,154
Non-current assets			
Receivables	13	56	18
Property, plant and equipment	16	59,482	58,471
Deferred income tax assets	17	6,026	5,270
Intangible assets	18	38,493	32,959
Total non-current assets		104,057	96,718
Total assets		226,282	209,872
LIABILITIES			
Current liabilities			
Trade and other payables	19	35,557	38,045
Deferred consideration		3,991	1,700
Borrowings	20	9,069	29,310
Current tax payable		1,144	4,855
Provisions	21	7,904	8,317
Total current liabilities		57,665	82,227
Non-current liabilities			
Deferred consideration		590	437
Borrowings	22	59,908	36,250
Deferred income tax liabilities	17	3,837	2,849
Provisions	23	834	558
Total non-current liabilities		65,169	40,094
Total liabilities		122,834	122,321
Net assets		103,448	87,551
EQUITY			
Contributed equity	24	58,840	47,963
Reserves	25	(4,572)	(4,499)
Retained earnings		49,180	44,087
Total equity		103,448	87,551

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 31 December 2011

Consolidated	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance as at 1 January 2010	40,751	(3,128)	36,804	74,427
Profit for the year	-	-	11,611	11,611
Other comprehensive income	-	(1,525)	-	(1,525)
Total comprehensive income for the year	**-**	**(1,525)**	**11,611**	**10,086**
Transactions with owners in their capacity as owners:				
Retained earnings held in reserve - China	-	127	(127)	-
Employee share options and shares – value of employee services	-	184	-	184
Transfer to share capital upon vesting of shares to employees - (IPP)	157	(157)	-	-
Contribution of equity net of transaction costs	7,055	-	-	7,055
Dividends provided or paid	-	-	(4,201)	(4,201)
Balance as at 31 December 2010	47,963	(4,499)	44,087	87,551
Balance as at 1 January 2011	47,963	(4,499)	44,087	87,551
Profit for the year	-	-	10,693	10,693
Other comprehensive income	-	(454)	-	(454)
Total comprehensive income for the year	-	**(454)**	**10,693**	**10,239**
Transactions with owners in their capacity as owners:				
Employee share options and shares – value of employee services	-	428	-	428
Transfer to share capital upon vesting of shares to employees - (IPP)	47	(47)	-	-
Contribution of equity net of transaction costs	10,830	-	-	10,830
Dividends provided or paid	-	-	(5,600)	(5,600)
Balance as at 31 December 2011	**58,840**	**(4,572)**	**49,180**	**103,448**

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

Consolidated statement of cash flow

For the year ended 31 December 2011

	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		223,510	241,351
Payments to suppliers and employees (inclusive of GST)		(208,610)	(226,589)
Interest paid		(4,309)	(4,159)
Interest received		59	93
Income tax paid		(6,149)	(1,772)
Net cash inflow from operating activities	34	4,501	8,924
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment, excluding sale of businesses.		-	9
Purchase of business net of cash acquired	31	(11,481)	(15,824)
Purchase of property, plant and equipment		(5,019)	(4,591)
Loans to controlled entities & employees		(52)	(14)
Net cash outflow from investing activities		(16,552)	(20,420)
Cash flows from financing activities			
Proceeds from issues of shares		10,270	6,232
Proceeds from borrowings (net)		2,981	16,373
Equity dividends paid		(5,150)	(3,479)
Net cash inflow from financing activities		8,101	19,126
Net (decrease) / increase in cash and cash equivalents		(3,950)	7,630
Cash and cash equivalents at beginning of year		20,230	12,596
Effects of exchange rate changes on cash and cash equivalents		(850)	4
Cash and cash equivalents at end of year	10	15,430	20,230

Refer to note 20 for financing arrangements and note 35 for non-cash financing and investing activities.

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

Contents of the notes to the financial statements

Notes to the Financial Statements

for the Year Ended 31 December 2011 (continued)

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Ludowici Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

The consolidated financial statements of the Ludowici Limited group and the separate financial statements of Ludowici Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Adoption of standards

The Group has elected to apply the amendments to *AASB 8 Operating Segments* as disclosed in note 1(c).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Ludowici Limited ("company" or "parent entity") as at 31 December 2011 and the results of all subsidiaries for the year then ended. Ludowici Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the 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 Group controls another entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity.

Investments in subsidiaries are accounted for at cost less any impairment in the individual financial statements of Ludowici Limited.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

(ii) *Joint Ventures*

The accounting treatment for the recognition of the results from joint venture operations is based on the proportionate consolidation method. Details relating to the joint ventures are set out in note 15.

The application of proportionate consolidation means that the balance sheet on the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The income statement of the venturer includes its share of the income and expenses of the jointly controlled entities.

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

1 Summary of significant accounting policies (continued)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources, assessing the performance of the operating segments and making strategic decisions, has been identified as the Managing Director and the Board.

(d) Foreign currency translation

Functional and presentation currency

(i) Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Ludowici Limited's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as attributable to part of the net investment in a foreign operation.

Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(iii) *Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) *Sale of goods*

Revenue from the sale of goods is recognised when the consolidated entity has passed significant risks and rewards of ownership of the goods or other assets to the buyer. Risks and rewards are considered passed to the buyer at the time of delivering goods to the customer.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ii) *Contract revenue*

Revenue from certain projects is recognised by reference to the stage of completion of the contract. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract.

(iii) *Royalties*

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

(iv) *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(v) *Dividends*

Dividends are recognised as revenue when the right to receive payment is established.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances are recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1 Summary of significant accounting policies (continued)

(h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 29 (b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.
Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are
less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheets.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 to 60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against selling expenses in the income statement.

1 Summary of significant accounting policies (continued)

(m) Inventories

Raw materials, work in progress and finished goods

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on first in first out basis. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(n) Current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(o) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (notes 11 & 13) in the balance sheet.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in note 2.

1 Summary of significant accounting policies (continued)

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a loss event) and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings – over 40 years
- Plant and equipment – over 2.5 to 10 years

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

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 (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(q) Intangible assets

(i) *Goodwill*

Goodwill is measured as described in note 1(i). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(ii) *Trademarks, Patents and licences*

Trademarks, Patents and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives.

(iii) *Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 10 to 15 years.

(iv) *Customer relationships*

Customer relationships acquired as part of business combinations are recognised separately from goodwill. The customer relationships are carried at fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cashflows of the relationships over their estimated useful lives.

1 Summary of significant accounting policies (continued)

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(u) Provisions

Provisions for warranties and restructuring are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(v) Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) *Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contributions plans are recognised as a personnel expense on profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction on future payments is available.

(iv) *Bonus plans*

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(v) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(vi) *Share-based payments*

Share-based compensation benefits are provided to employees via the Ludowici Limited Executive Share and Option Plan and an Employee Share Plan. Information relating to these schemes is set out in note 33.

The fair value of options or rights granted under the Ludowici Limited Executive Share and Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or rights.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the employee share scheme, shares issued by the Ludowici Limited Executive Share and Option Plan and an Employee Share Plan Employee Share Trust to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

(w) Contributed equity

Ordinary shares are classified as equity (note 24).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Treasury shares are ordinary shares under the control of the Group. These shares are deducted from consolidated capital at their issue price (refer to note 24).

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(y) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares (note 37(d)).

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares (note 37(d)).

(z) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

1 Summary of significant accounting policies (continued)

(z) Goods and Services Tax (GST) (continued)

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(aa) Rounding of amounts

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013).
In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. *AASB 11* also provides guidance for parties that participate in joint arrangements but do not share joint control. As the group is party to a joint venture, this standard will have impact on its financial statements. The group is still assessing the impact of these amendments.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, *AASB 10 and AASB 11*, and replaces the disclosure requirements currently found in *AASB 128*. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

Amendments to *AASB 128* provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 31 December 2013.

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)
AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.
AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012) .
In September 2011, the AASB made an amendment to *AASB 101 Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 January 2013.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013). In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation and AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements.
AASB 2011-5 and AASB 2011-6 provide relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances . They will not affect the financial statements of the group. The amendments apply from 1 July 2011 and 1 July 2013 respectively.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively) In December 2011*, the IASB made amendments to the application guidance in IAS 32 Financial Instruments:* Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the group's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into *IFRS 7* which will apply from 1 January 2013. The AASB is expected to make equivalent changes to *IAS 32 and AASB 7* shortly. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 January 2013.

Other new standards and interpretations issued were not relevant and applicable to the Group.

(ac) Parent entity financial information

The financial information for the parent entity, Ludowici Limited, disclosed in note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Ludowici Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Ludowici Limited and its wholly‑owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Ludowici Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Ludowici Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly‑owned entities fully compensate Ludowici Limited for any current tax payable assumed and are compensated by Ludowici Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Ludowici Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly‑owned entities' financial statements.

1 Summary of significant accounting policies (continued)

(ac) Parent entity financial information (continued)

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and ageing analysis for credit risk.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering liquidity, funding, Interest rates, foreign currency use of derivative and non-derivative financial instruments and the treasury related aspects of counter party, commodity and operational risks.

The Group and the parent entity hold the following financial instruments:

	Consolidated	
	2011	**2010**
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	15,981	20,230
Trade and other receivables	53,541	34,598
	69,522	54,828
Financial liabilities		
Trade and other payables	35,557	38,045
Borrowings	68,977	65,560
	104,534	103,605

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, including the US Dollar, New Zealand Dollar, Chilean Peso, Peruvian Nuevo Sol, South African Rand, Chinese Renminbi and Indian Rupee as set out in the table below.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

Management has a policy of continuously reviewing foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities, and uses forward contracts as considered appropriate.

The Group's exposure to foreign currency risk at the reporting date is detailed in the tables below. An additional exposure is the Group's net investment in foreign operations which amounted to $18,715,000 (2010: $6,361,000).

The group did not enter into foreign exchange contracts during the financial year.

Group sensitivity

The Group's exposure to foreign currency risk at the reporting date, expressed in Australian dollar, was as follows:

	USD	**NZD**	**CLP**	**PEN**	**ZAR**	**CNY**	**INR**
	'000	**'000**	**'000**	**'000**	**'000**	**'000**	**'000**
2011							
Cash and cash equivalents	1,875	203	5,089	28	728	2,382	524
Trade and other receivables	5,762	-	5,239	924	6,010	5,725	1,821
Trade and other payables	(3,422)	(22)	(4,015)	(729)	(6,105)	(6,297)	(4,339)
Borrowings	(16,217)	(288)	(98)	-	(8,858)	-	-
2010							
Cash and cash equivalents	2,531	468	4,837	321	1,839	901	412
Trade and other receivables	5,451	-	4,801	339	1,171	1,558	-
Trade and other payables	(3,707)	(10)	(2,556)	(900)	(467)	(1,128)	978
Borrowings	(16,542)	(286)	(705)	-	-	-	-

2 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Group sensitivity (continued)

Group

Forward exchange contracts.

The group did not enter into foreign exchange contracts during the financial year (2010:nil).

Based on the financial instruments held at 31 December 2011, had the Australian dollar weakened/strengthened by 10% against the above currencies, with all other variables held constant, the Group's post-tax profit for the year would have been $323,000 lower/$264,000 higher (2010 – $34,000 lower/$28,000 higher), mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial instruments as detailed in the above table.

(ii) Cash flow and fair value interest rate risk (continued)

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2011 and 2010, the Group's borrowings at variable rate were denominated in Australian Dollars, US Dollars, Chilean Pesos and South African Rand.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	2011		2010	
Group	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank overdrafts and bank loans	6.30%	68,977	6.62%	65,560

An analysis by maturities is provided in (c) below.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Group sensitivity

At 31 December 2011, if interest rates had changed by -/+ 100 basis points from the weighted average rates with all other variables held constant, post-tax profit for the year would have been $469,000 lower/higher (2010 – change of 100 bps: $411,000 lower/higher), mainly as a result of higher/lower interest expense on borrowings.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For customers, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The compliance with credit limits by customers is regularly monitored by line management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised above. Goods are generally sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

Credit risk further arises in relation to financial guarantees given to certain parties (see note 38(b) for details). Such guarantees are provided in relation to performance guarantees associated with project sales of capital equipment and as considered necessary for other operational matters.

2 Financial risk management (continued)

(b) Credit risk (continued)

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(c) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a number of counterparties. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated	
	2011	**2010**
	$'000	**$'000**
Floating rate		
Expiring within one year	10,225	8,527
Expiring beyond one year	17,275	4,573
	27,500	13,100

Refer to Note 20 & 22 for further information on key facility terms and conditions.

The bank overdraft facilities may be drawn at any time and may be terminated by the bank only in specific circumstances where bank covenants are breached. The secured borrowing facility may be drawn at any time and is subject to annual review in April. It is the Group's understanding that these facilities will roll in the ordinary course of business and is not aware of any barriers to this occurring. Subject to the compliance with the facility covenants and conditions, the bank loan facilities may be drawn at any time in either Australian or United States Dollars and have an average maturity of 2 years (2010 – 2 years).

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group at 31 December 2011	**Less than 6 months $'000**	**6 – 12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying amount (assets)/liabilities $'000**
Non-derivatives							
Non-interest bearing	35,557	-	-	-	-	35,557	35,557
Variable rate	8,188	4,779	53,052	10,452	-	76,471	68,977
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	43,745	4,779	53,052	10,452	-	112,028	104,534
Derivatives							
Non-interest bearing	-	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-	-
Total	43,745	4,779	53,052	10,452	-	112,028	104,534

Group at 31 December 2010	**Less than 6 months $'000**	**6 – 12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contractual cash flows $'000**	**Carrying amount (assets)/liabilities $'000**
Non-derivatives							
Non-interest bearing	38,045	-	-	-	-	38,045	38,045
Variable rate	24,306	7,541	2,715	38,788	-	73,350	65,560
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	62,351	7,541	2,715	38,788	-	111,395	103,605
Derivatives							
Non-interest bearing	-	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-	-
Total	62,351	7,541	2,715	38,788	-	111,395	103,605

2 Financial risk management (continued)

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. Under AASB 7 Financial Instruments this forward exchange contract is classed as a Level 2 fair value measurement hierarchy as the market data is not observable. The group did not enter into foreign exchange contracts during the financial year.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 18 for details of these assumptions and the potential impact of changes to the assumptions. Other non-current assets are reviewed annually for impairment using the same methodology as for goodwill. Impairment costs are recognised in the income statement and against the impaired asset.

(ii) Estimated impairment of inventory

Inventory is reviewed continuously for impairment. Management review slow moving and other inventory considered obsolete on at least a quarterly basis and where impairment is identified the policy of lower of cost or net realisable value is applied. Impairment costs are recognised in the income statement and against the impaired inventory.

(iii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities based on the current application of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(iv) Warranty provision

In determining the level of provision required for warranties the Group has made judgments in respect of the expected performance of the product, sales volumes and current information about returns based on the warranty period.

(v) Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment and vehicles), and lease terms (for leased assets).

(b) Critical judgements in applying the entity's accounting policies

(i) Operating lease commitments – Group as lessor

The Group has entered into a commercial lease of certain Plant and equipment, for a 1.5 year period with rentals payable monthly, with a residual value of $218,000. The Group has a commercial lease in respect of its property in New Zealand, for a term of 7 months with rentals paid monthly. The Group has determined that it retains all the significant risks and rewards of ownership of these assets and has thus classified the leases as operating leases. The Group will not be liable for any Leasee's loss of profits, loss of business, economic loss or loss of opportunity or goodwill.

The future minimum lease payments receivable under a non cancellable operating lease for each of the following periods are:

	Consolidated	
	2011 $'000	2010 $'000
Within one year	772	618
Later than one year but not later than five years	315	1,082
Later than five years	-	-
	1,087	1,700

The group has recognised operating lease revenue amounting to $660,381 (2010:$608,000) in the financial year.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black-Scholes Model, using the assumptions detailed in note 33.

(iii) Revenue recognition

The Group makes estimates in the revenue recognised from certain projects, by reference to the stage of completion of the contract. Stage of completion is measured by reference to cost incurred to date as a percentage of total estimated costs for each contract.

4 Segment information

(a) Description of segments

The Managing Director has determined the operating segments based on the internal reports reviewed by the Managing Director and the Board that are used to make strategic decisions.

The Managing Director considers the business from a geographic perspective and has identified the following reportable segment:

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the business. The Group's business segments operate in Australia, North America, Latin America, Asia and other (Africa, India and New Zealand).

(b) Other segment information

Segment revenue

Sales between segments are eliminated on consolidation. The revenue from external parties reported to the Board is measured in a manner consistent with that in the income statement.

Revenues from external customers are derived from the design, manufacture & maintenance of mineral processing equipment and consumables within the mineral processing industry.

Segment revenues are allocated based on the country in which the sale originates.

No revenue greater than 10% (2010 - $25,065,000) was derived from a single external customer. In the previous year $24,976,000 was attributable to the Australian segment and $89,000 was attributable to the Asia segment.

Notes to the Financial Statements

for the Year Ended 31 December 2011 (continued)

4 Segment information (continued)

(c) Segment information provided to the Managing Director

The segment information provided to the Managing Director for the reportable segments for the year ended 31 December 2011 is as follows:

	Australia		North America		Latin America		Asia		Other		Consolidated continuing operations	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue	159,172	173,326	29,227	29,490	25,142	23,863	11,781	8,669	18,642	5,680	243,964	241,028
Intersegment eliminations	(9,094)	(14,376)	(1,927)	-	(3,758)	-	(5,671)	(4,847)	(4,063)	(477)	(24,513)	(19,700)
Revenue from external customers	150,078	158,950	27,300	29,490	21,384	23,863	6,110	3,822	14,579	5,203	219,451	221,328
Interest revenue	54	64	-	26	-	-	5	3	-	-	59	93
Other revenue	850	959	-	(659)	90	13	129	18	246	938	1,315	1,270
Consolidated revenue	150,982	159,973	27,300	28,857	21,474	23,876	6,244	3,843	14,825	6,141	220,825	222,691
EBITDA	18,368	20,816	2,724	1,792	2,986	2,883	902	1,332	1,433	(1,514)	26,413	25,309
Depreciation & amortisation	(5,112)	(4,334)	(537)	(552)	(810)	(740)	(33)	(68)	(321)	(150)	(6,813)	(5,844)
Segment result (EBIT)	13,256	16,482	2,187	1,240	2,176	2,143	869	1,264	1,112	(1,664)	19,600	19,465
Interest expense - unallocated	-	-	-	-	-	-	-	-	-	-	(4,577)	(4,201)
Consolidated profit / (loss) before tax	-	-	-	-	-	-	-	-	-	-	15,023	15,264
Income tax expense - unallocated	-	-	-	-	-	-	-	-	-	-	(4,330)	(3,653)
Consolidated profit / (loss) after tax	-	-	-	-	-	-	-	-	-	-	10,693	11,611

5 Revenue

	Consolidated 2011 $'000	Consolidated 2010 $'000
From continuing operations		
Sales revenue		
Sale of goods	219,451	221,328
Other revenue		
Royalties	573	50
Property rentals received	230	255
Interest received	59	93
	220,313	221,726

6 Other income

	2011 $'000	2010 $'000
Other	512	965
	512	965

7 Expenses

	Consolidated 2011 $'000	Consolidated 2010 $'000
Profit before income tax includes the following specific expenses		
Net foreign exchange loss	175	-
Net loss on disposal of property, plant and equipment	217	19
Amortisation of non-current assets - Intangibles	1,422	1,091
Depreciation on property, plant and equipment	5,391	4,753
Minimum lease payments – operating lease	4,225	4,514
Employee equity benefit expense	494	184
Defined contribution superannuation expense	2,742	3,207

Government grants

During the year grants totaling $28,000 were recognised from the Department of Education, Employment and workplace relations in respect of support for adult Australian apprentices. In the prior year Government grants of $23,000 were recognised from the Department of Employment, Economic Development and Innovation in respect of relocation of businesses. These grants were set-off against administration expenses.

	2011 $'000	2010 $'000
Finance costs		
Interest and finance charges for borrowings	4,577	4,201
Impairment losses – financial assets		
Trade receivables	162	151
Impairment of other assets		
Inventories (Impairment reversal) / expense	(368)	256

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

8 Income tax expense

	Consolidated	
	2011	2010
	$'000	$'000
(a) Income tax expense		
Current tax	3,915	5,455
Deferred tax	4	(983)
Adjustments for current tax of prior periods	411	(819)
	4,330	3,653
Income tax is attributable to:		
Profit from continuing operations	4,330	3,653
Aggregate income tax expense	4,330	3,653
Deferred income tax expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 17)	(152)	287
(Decrease) increase in deferred tax liabilities (note 17)	156	(1,270)
	4	(983)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	2011	2010
	$'000	$'000
Profit from continuing operations before income tax expense	15,023	15,264
	15,023	15,264
Tax at the Australian tax rate of 30% (2010:30%)	4,506	4,579
Adjustments for current tax of prior periods	513	(1,204)
Adjustments for deferred tax of prior periods	276	-
Previously unrecognised losses now recognised	(694)	-
Non-deductible expenses	165	838
Other assessable amounts	95	-
Refundable tax credits	(37)	-
Non-assessable income and capital gains	(34)	-
Expenditure on research and development	(338)	(571)
Tax losses recouped	-	(474)
Tax losses not recognised	23	810
Difference in overseas tax rates	(145)	(325)
Aggregate Income tax expense (benefit)	4,330	3,653

(c) Amounts recognised directly in equity

Net deferred tax - debited (credited) directly to equity	(175)	-

9 Assets classified as held for sale

Group

(i) *Current assets classified as held for sale*

	Consolidated 2011 $'000	Consolidated 2010 $'000
The carrying amount of land and buildings is as follows:		
Freehold land and buildings - Ludowici Packaging Limited	1,804	1,794

Please refer to note 36 for further information on the assets status.

10 Current assets – Cash and cash equivalents

	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash at bank and in hand	15,981	20,230

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	2011	2010
Balances as above	15,981	20,230
Bank overdrafts	(551)	-
Balances per statement of cash flows	15,430	20,230

(b) Interest rate risk exposure

The Group's exposure to interest rate risk is set out in note 2.

11 Current assets – Trade and other receivables

	Consolidated 2011 $'000	Consolidated 2010 $'000
Trade receivables	48,384	32,233
Provision for impairment of receivables	(543)	(290)
	47,841	31,943
Loans to employees*	5	46
Prepayments and other debtors	5,639	2,591
	53,485	34,580

* Loans to employees are in relation to the employee share plan, are interest free and repayable by monthly/weekly installments over a period of three years. Refer to note 13 for the non-current portion of loans to employees.

11 Current assets – Trade and other receivables (continued)

(a) Impaired trade receivables

As at 31 December 2011 certain current trade receivables were impaired and provided for. The individually impaired receivables mainly relate to customers who are in difficult economic situations.

The ageing of these receivables is as follows:	Consolidated 2011 $'000	Consolidated 2010 $'000
1 month or less	-	-
2 to 3 months	35	19
3 months or more	508	271
	543	290

Movements in the provision for impairment of receivables are as follows:

	2011 $'000	2010 $'000
At 1 January	290	169
Provision for impairment recognised during the year	162	202
Receivables written off during the year as uncollectible	(19)	(110)
Unused amount reversed	(19)	(51)
Exchange differences	129	80
At 31 December	543	290

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired

As of 31 December 2011, certain trade receivables were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

The ageing of past due trade receivables is as follows:

	Consolidated 2011 $'000	Consolidated 2010 $'000
Period in excess of trading terms:		
1 month or less	5,082	5,101
2 to 3 months	2,423	7,259
3 months or more	4,752	2,682
	12,257	15,042

(c) The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(d) Foreign exchange and interest rate risk

Information about the Group's and Ludowici Limited's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 2.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

12 Current assets – Inventories

	Consolidated	
	2011	2010
	$'000	$'000
Raw materials and stores	19,314	15,171
Work in progress	5,166	18,123
Finished goods	26,305	22,254
Total inventories at lower of cost and net realisable value	50,785	55,548

Write-downs of inventories to net realisable value recognised as a reversal to provision during the year ended 31 December 2011 amounted to ($368,000) (2010: $256,000). The reversal of the expense has been included in 'cost of goods sold' in the income statement.

13 Non-current assets – Receivables

	Consolidated	
	2011	2010
	$'000	$'000
Loans to employees*	56	18
	56	18

* Refer to note 11 for the current portion of these loans.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

(b) The carrying values of non-current assets do not differ from their fair values at balance date.

(c) Risk exposure

Information about the Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 2.

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

14 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

		Ownership %		
	Note	**2011**	**2010**	**Place of Incorporation**
J.C. Ludowici & Son Pty Limited *		100	100	Australia
Ludowici Australia Pty Ltd *		100	100	Australia
Ludowici Packaging Australia Pty Limited *		100	100	Australia
Ludowici China Pty Limited *	(a)	100	100	Australia
Ludowici Technologies Pty Ltd *		100	100	Australia
Hicom Technologies Pty Ltd *		100	100	Australia
Rojan Advanced Ceramics Pty Ltd	(a)	100	100	Australia
Ludowici Holdings Inc *	(a)	100	100	USA
Ludowici Mineral Processing Equipment Inc.	(c)	100	100	USA
Ludowici LLC *	(c)	100	100	USA
Ludowici Screens LLC	(c)	100	100	USA
Ludowici India Private Limited *		100	100	India
Ludowici Mining Process India PVT Limited		100	100	India
Ludowici Packaging Limited *	(d)	100	100	NZ
Ludowici Plastics Limited *		100	100	NZ
Ludowici Chile Holdings S.A. *	(a)	100	100	Chile
Ludowici Mineral Processing Equipment S.A. *	(e)	100	100	Chile
ICR Johnson Screens S.A.	(e)	100	100	Chile
ICR Johnson Screens Peru S.A.C.	(e)	100	100	Peru
Ludowici Peru S.A.C.	(e)	100	100	Peru
Yantai Ludowici Mineral Processing Equipment Limited *	(f)	100	100	China
Ludowici (Beijing) Co., Ltd	(b)	100	100	China
Qingdao Ludowici Mining Equipment Ltd	(f)	100	-	China
Ludowici Hong Kong Investments Limited (formerly Ludowici South East Asia Limited)		100	100	Hong Kong
Ludowici Hong Kong Limited *	(b)	100	100	Hong Kong
Ludowici Africa Holdings (Pty) Ltd	(a)	100	100	South Africa
Ludowici Meshcape (Pty) Ltd (formerly Ludowici Africa (Pty) Ltd)	(g)	100	100	South Africa
Ludowici Mauritius Holdings Limited	(a)	100	-	Mauritius

All entities are direct subsidiaries of Ludowici Limited except as noted below:

(a) Controlled entity of Ludowici Australia Pty Ltd
(b) Controlled entity of Ludowici China Pty Limited
(c) Controlled entity of Ludowici Holding Inc
(d) Controlled entity of Ludowici Plastics Limited
(e) Controlled entity of Ludowici Chile Holdings SA
(f) Controlled entity of Ludowici Hong Kong Investments Limited
(g) Controlled entity of Ludowici Africa Holdings (Pty) Ltd

* Companies that are included in a Deed of Cross Guarantee and indemnity (note 38).

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

15 Investments in Joint Ventures

A subsidiary has a joint venture called Euroslot Kdss (South Africa) (Proprietary) Limited which was acquired as part of the Meshcape acquisition. The joint venture manufactures wedge wire. The subsidiary has a 50% participating interest in the joint venture.

Information relating to the joint venture, presented in accordance with the accounting policy described in note 1(b)(ii) is set out below:

	Consolidated	
	2011 $'000	2010 $'000
SHARE OF ENTITIES' ASSETS AND LIABILITIES		
Current assets	409	-
Non-current assets	319	-
Total assets	728	-
Current liabilities	(208)	-
Non-current liabilities	(112)	-
	(320)	
Net assets	408	-
SHARE OF ENTITIES' REVENUE AND EXPENSES		
Sales	186	-
Cost of Sales	(92)	-
Expenses	(74)	-
Profit before income tax	20	-

The group had no other commitments in the joint ventures.
Contingent liabilities in joint ventures are disclosed in note 28.

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

16 Non-current assets - Property, plant and equipment

CONSOLIDATED	Freehold Land and Buildings $'000	Plant and Equipment $'000	Total $'000
Cost			
Balance at 1 January 2010	39,944	52,589	92,533
Prior year adjustments	(2,096)	5,399	3,303
Additions	94	4,497	4,591
Acquisition through business combination	-	772	772
Disposals	-	(286)	(286)
Effect of movement in exchange rates	(59)	(655)	(714)
Balance at 31 December 2010	37,883	62,316	100,199
Balance at 1 January 2011	37,883	62,316	100,199
Additions	-	5,019	5,019
Acquisition through business combination	-	2,399	2,399
Disposals	-	(668)	(668)
Effect of movement in exchange rates	(1)	(1,177)	(1,178)
Balance at 31 December 2011	37,882	67,889	105,771
Depreciation and impairment losses			
Balance at 1 January 2010	(857)	(32,622)	(33,479)
Prior year adjustments	52	(3,978)	(3,926)
Disposals	-	146	146
Depreciation for the year	(859)	(3,894)	(4,753)
Effect of movement in exchange rates	8	276	284
Balance at 31 December 2010	(1,656)	(40,072)	(41,728)
Balance at 1 January 2011	(1,656)	(40,072)	(41,728)
Disposals	-	445	445
Depreciation for the year	(934)	(4,457)	(5,391)
Effect of movement in exchange rates	(1)	386	385
Balance at 31 December 2011	(2,591)	(43,698)	(46,289)
Carrying amounts			
At 1 January 2010	39,087	19,967	59,054
At 31 December 2010	36,227	22,244	58,471
At 1 January 2011	36,227	22,244	58,471
At 31 December 2011	35,291	24,191	59,482

16 Non-current assets - Property, plant and equipment (continued)

(a) Property, plant and equipment under construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated	
	2011	2010
	$'000	$'000
Plant and equipment	1,251	2,860
	1,251	2,860

(b) Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by Ludowici Limited and its controlled entities.

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

17 Non-current assets – Deferred income tax assets and liabilities

Deferred tax assets are recognised where management have assessed, based on projected earnings, that it is probable that the asset will be realised from generation of future taxable profits.

		Consolidated 2011 $'000	Consolidated 2010 $'000
(a)	Deferred income taxes		
	Deferred income tax assets	6,026	5,270
	Deferred income tax liabilities	(3,837)	(2,849)
	Net deferred tax assets	2,189	2,421
(b)	Movement in net deferred income tax assets/(liabilities) for the financial year		
	Balance at the beginning of the financial year	2,421	1,932
	Charged to the income statement as deferred income tax benefit/(expense)		
	Current period	(200)	983
	Adjustments of prior periods	(473)	-
	Recognition of prior year losses previously unrecognise	669	-
		(4)	983
	Net deferred tax balances arising from business		
	Balances arising from Meshcape acquisition	77	-
	Balances arising from Amseal acquisition	10	-
	Balances arising on Rojan acquisition	(490)	157
	Balances arising on JS Mining acquisition	-	(651)
		(403)	(494)
	Charge to equity	175	-
	Balance at the end of the financial year	2,189	2,421
(c)	Deferred income tax assets and liabilities at the end of the financial year (prior to offsetting balances within the same tax jurisdiction) are attributable to :		
	Deferred tax assets		
	Trade receivables	133	85
	Inventories	1,360	1,570
	Other current assets	387	-
	Accrued charges	705	940
	Employee benefits provision – current	1,831	1,682
	Employee benefits provision – long term	251	186
	Warranty provision	255	523
	Share issue expenses	158	-
	Deferred Tax on Other Expenditure	337	258
	Tax losses available for offset against future taxable income	609	26
	Total deferred tax assets	6,026	5,270
	Deferred tax liabilities		
	Other current assets	193	102
	Property, plant and equipment	1,389	885
	Intangibles	2,255	1,862
	Total deferred tax liabilities	3,837	2,849
	Net deferred tax assets	**2,189**	**2,421**

17 Non-current assets – Deferred income tax assets and liabilities (continued)

(d) Tax losses not brought to account, as the realisation of the benefits represented by these balances is not considered to be probable.

	Consolidated	
	2011	2010
	$'000	$'000
Income tax	127	2,650
Total tax losses not brought to account	127	2,650

(e) Unrecognised temporary differences

As at 31 December 2011, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries, associates or joint venture, as the Group has no liability for additional taxation should unremitted earnings be remitted (2010:$nil).

Notes to the Financial Statements

for the Year Ended 31 December 2011 (continued)

18 Non-current assets – Intangible assets

CONSOLIDATED	Other Intangibles * $'000	Goodwill $'000	Total $'000
Cost			
Balance at 1 January 2010	9,370	28,026	37,396
Additions - Rojan acquisition	-	5,086	5,086
Additions - JS mining acquisition adjustment	4,345	(1,899)	2,446
Effect of movement in exchange rates	-	(806)	(806)
Balance at 31 December 2010	13,715	30,407	44,122
Balance at 1 January 2011	13,715	30,407	44,122
Additions - Meschape acquisition	1,105	6,293	7,398
Additions - Other	18	-	18
Reclass - Other intangibles Rojan	1,633	(1,633)	-
Disposals	-	-	-
Effect of movement in exchange rates	224	(656)	(432)
Balance at 31 December 2011	16,695	34,411	51,106
Accumulated amortisation and impairment losses			
Balance at 1 January 2010	(6,194)	(3,941)	(10,135)
Amortisation for the year**	(1,091)	-	(1,091)
Effect of movement in exchange rates	20	43	63
Balance at 31 December 2010	(7,265)	(3,898)	(11,163)
Balance at 1 January 2011	(7,265)	(3,898)	(11,163)
Amortisation for the year**	(1,422)	-	(1,422)
Effect of movement in exchange rates	(28)	-	(28)
Balance at 31 December 2011	(8,715)	(3,898)	(12,613)
Carrying amounts			
At 1 January 2010	3,176	24,085	27,261
At 31 December 2010	6,450	26,509	32,959
At 1 January 2011	6,450	26,509	32,959
At 31 December 2011	7,980	30,513	38,493

Development costs are capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight-line method over a period of 10 to 15 years. Patents and licences are depreciated in a straight-line over patent or licence life.

* Other intangibles includes development costs, patents, licences and customer relationships.

** Amortisation of $1,422,0000 (2010: $1,091,000) is included in depreciation and amortisation expense in the income statement.

Internally generated intangible assets include development costs, patents and licenses.

18 Non-current assets – Intangible assets (continued)

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGU) identified according to business operations and are assessed by impairment testing and the recoverable amount is based on the value in use method.

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the cash generating units.

The recoverable amount of a CGU is determined based on value-in-use calculations.

These calculations use cash flow projections based on financial budgets approved by senior management covering a one year period. The pre-tax discount rate applied to cash flow projections is 11.09% (2010: 12.8%) and cash flows beyond the one year period are extrapolated using a 3.0% growth rate (2010: 3.0%). The pre-tax discount rate of 12.8% (2010: 12.8%) is considered to be the maximum rate applicable to each CGU while the growth rate of 3% (2010: 3%) is considered to be the minimum likely for each CGU beyond the first year.

Impairment charge

No impairment charges arose during the year (2010: nil) following the reassessment of the expected cash flows to be generated by the cash generating units within the Group.

Impact of possible changes in key assumptions

An increase of 1 percentage point in the discount rate used would not result in an impairment loss.

Carrying amount of goodwill by CGU **Consolidated**

As at 31 December 2011:

CGU:	Australia	North America	Latin America	Africa	Asia	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Mineral Processing Equipment & Consumables	17,805	4,751	2,320	5,637	-	30,513

As at 31 December 2010: **Consolidated**

CGU:	Australia	North America	Latin America	Africa	Asia	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Mineral Processing Equipment & Consumables	18,874	4,791	2,844	-	-	26,509

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

19 Current liabilities – Trade and other payables

	Consolidated	
	2011	2010
	$'000	$'000
Trade payables and accruals	35,557	38,045

Trade payables are non interest bearing and normally settled on 30 to 60 day terms.

(a) Risk exposure
Information about the Group's exposure to foreign exchange risk is provided in note 2.

20 Current liabilities – Borrowings

	Consolidated	
	2011	2010
	$'000	$'000
Secured		
Bank loans	8,188	29,310
Other Loans	881	-
	9,069	29,310

(a) Bank loans are subject to a weighted average interest rate of 6.3% (2010: 6.62%).

(b) Other loans are subject to a weighted average interest rate of 9.3% (2010: n/a).

As at 31 December 2011, the total banking loan facility was $103.1 million (2010: $82.1 million).

As at 31 December 2011, $27.5 million (2010: $13.1 million) of the total banking facility was unused.

Other loans are secured by related assets for which the loan is taken out.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

During 2011 financial year the Group has met its loan facility covenants.

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 2.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2011	2010
	$'000	$'000
Current		
Floating charge		
Cash and cash equivalents	15,257	18,400
Receivables	47,475	33,409
Inventory	47,311	44,896
Total current assets pledged as security	110,043	96,705
Non-current		
First mortgage		
Freehold land and buildings	35,284	36,227
Floating charge		
Plant and equipment	21,949	21,932
Total non-current assets pledged as security	57,233	58,159
Total assets pledged as security	167,276	154,864

21 Current liabilities – Provisions

	Consolidated	
	2011	**2010**
	$'000	**$'000**
Employee entitlements	7,089	6,495
Warranty provision (a)	800	1,770
Other	15	52
	7,904	8,317
Movements in provision for warranty:		
Carrying amount at the beginning of the financial year	1,770	1,566
Additional provision	(455)	2,223
Amounts utilised during the year	(498)	(2,072)
Net foreign exchange difference on translation to foreign entity	(17)	53
Carrying amount at the end of the financial year	800	1,770

(a) Warranty provision

A provision is recognised for expected warranty claims on products sold based on past experience of the level of repairs and returns. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the one year warranty period for products sold.

22 Non-current liabilities - Borrowings

	Consolidated	
	2011	**2010**
	$'000	**$'000**
Secured		
Bank loans	59,847	36,250
Other Loans	61	-
Total non-current borrowings	59,908	36,250

Refer to note 20 for further details of secured borrowings.

23 Non-current liabilities – Provisions

	Consolidated	
	2011	**2010**
	$'000	**$'000**
Employee entitlements	834	558

24 Contributed equity

	Consolidated 2011 $'000	Consolidated 2010 $'000
Issued and fully paid ordinary shares, refer to note (a)	58,840	47,963

(a) Movements in ordinary share capital

2011

Date	Details	Note	Number of shares	Issue Price ($)	$'000
1/01/2011	Opening balance		26,629,562		47,963
21/01/2011	Incentive performance plan	(b)	12,723	4.90	63
29/04/2011	Incentive performance plan	(b)	29,831	-	-
31/05/2011	Employee Share plan	(b)	12,400	3.91	48
30/06/2011	Share issue - Institutional component of equity		766,577	4.00	3,066
29/07/2011	Share issue - Retail component of equity raising		1,902,261	4.00	7,609
23/09/2011	Dividend Reinvestment plan	(c)	119,849	3.75	450
31/12/2011	Balance		29,473,203		59,199
	Transaction costs arising on share issue		-		(406)
	Treasury Shares		(85,523)		-
	Value of vesting shares transferred from the Employee Equity Benefits Reserve.		-		47
			29,387,680		58,840

2010

Date	Details	Note	Number of shares	Issue Price ($)	$'000
1/01/2010	Opening balance		23,932,845		40,751
3/03/2010	Shares issued - Placement for acquisition		1,350,000	2.65	3,578
5/03/2010	Employee Share plan	(b)	522,188	2.65	1,384
30/04/2010	Incentive Performance plan	(b)	25,134	-	-
7/05/2010	Shares issued - Placement for underwriter		438,518	2.75	1,206
7/05/2010	Dividend Reinvestment plan	(c)	124,669	2.75	343
26/05/2010	Conversion of Preference shares		100,000	2.75	275
31/05/2010	Employee Share plan	(b)	24,600	2.21	54
24/09/2010	Dividend Reinvestment plan	(c)	111,608	3.40	379
31/12/2010	Balance		26,629,562		47,970
	Transaction costs arising on share issue		-		(164)
	Treasury Shares		(68,997)		
	Value of vesting shares transferred from the Employee Equity Benefits Reserve.		-		157
			26,560,565		47,963

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

24 Contributed equity (continued)

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 33.

(c) Dividend reinvestment plan

The company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at no discount to the market price (2010: 2%) .

(d) Treasury shares

The movement in Treasury Shares is disclosed as follows:

	Consolidated	
	2011 Number of shares	**2010 Number of shares**
Balance at 1 January	68,997	63,990
Shares issued to controlled entity under the Incentive Performance	34,294	25,134
Vesting shares issue to employees	(17,768)	(20,127)
Balance at 31 December	85,523	68,997

Treasury Shares are shares in Ludowici Limited that are held by Ludosuper Pty Limited for the purpose of issuing shares under the Ludowici Incentive Performance Plan.

(e) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group and the parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet (including any minority interest) plus net debt.

The Group's guideline is to maintain a Group gearing ratio under 40%. The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

	Consolidated	
	2011 $'000	**2010 $'000**
Total borrowings	68,977	65,560
Less: cash and cash equivalents	(15,981)	(20,230)
Net debt	52,996	45,330
Total equity	103,448	87,551
Total capital	156,444	132,881
Gearing ratio	34%	34%

Notes to the Financial Statements

for the Year Ended 31 December 2011 (continued)

25 Reserves

	Consolidated 2011 $'000	Consolidated 2010 $'000
Reserves		
Foreign currency translation	(5,795)	(5,341)
Employee equity benefits	973	592
Other	250	250
	(4,572)	(4,499)
Movements:		
Foreign currency translation		
Balance 1 January	(5,341)	(3,647)
Translation of foreign operations	(454)	(1,694)
Balance 31 December	(5,795)	(5,341)
Employee equity benefits		
Balance 1 January	592	565
Executive share and option plan expense	456	128
Employee share plan expense	(28)	56
Transfer to share capital upon vesting of shares to employees - (IPP)	(47)	(157)
Balance 31 December	973	592
Hedging reserve		
Balance 1 January	-	(169)
Forward exchange contract settled	-	241
Deferred tax arising on hedge	-	(72)
Balance 31 December	-	-
Other		
Balance 1 January	250	123
Transfer from retained profits	-	127
Balance 31 December	250	250

(a) Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(b) Employee equity benefits reserve. The employee share plan reserve is used to record the value of existing benefits provided to employees and directors as part of their remuneration. Refer to note 33 for further details of these plans.

(c) The hedging reserve relates to cash flow hedges designated to equity.

(d) Other reserve is used to record amounts transferred from retained earnings due to statutory requirement for a subsidiary within the group.

26 Dividends

Dividends recognised in the current year by the Group are:

		2011		2010	
		Cents per share	Total $'000	Cents per share	Total $'000
(a)	**Fully Paid Ordinary Shares**				
	Prior year final dividend – fully franked (2010: unfranked)	10	2,665	6	1,549
	Interim dividend – fully franked (2010: unfranked)	10	2,935	10	2,652
			5,600		4,201
(b)	**Cumulative Preference Shares**				
	5% first preference annual interest – franked to 100%	n/a	-	5%	3
	6% second preference annual interest – franked to 100%	n/a	-	6%	3
			-		6

(c) Cumulative preference shares

Cumulative preference shares were converted to ordinary shares in 2010. Prior dividends paid on these shares have been charged to the income statement as finance charges due to the nature of the shares classified as liabilities.

(d) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 11 cents per fully paid ordinary share (2010:10 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 9 May 2012 out of retained earnings at 31 December 2011, but not recognised as a liability at year end, is $3.242,052 (2010: $2,664,028).

(e) Franking credits

The franked portions of the final dividends recommended after 31 December 2011 will be franked out of existing franking credits or arising from the payment of income tax in the year ending 31 December 2012.

	Ludowici Limited	
	2011 $'000	2010 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	6,873	2,980

The above amounts represent the balance of the franking account as at the end of the reporting periods, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax, and

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date.

The impact of the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account of $1,389,450 (2010: $1,142,143).

27 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated 2011 $	Consolidated 2010 $
Amounts received or due and receivable by PricewaterhouseCoopers for :		
Audit and review of financial reports	437,987	435,879
Taxation services/advice		
• Compliance matters	312,867	87,515
• Non-recurring consultancy services	4,567	40,295
	317,434	127,810
Other services/advice		
• R&D claims	34,698	81,672
• Acquisition of JS Mining	-	46,590
• Sale of New Zealand Packaging	-	10,750
• Other	-	57,220
	34,698	196,232
	790,119	759,921
Amounts received or due and receivable by auditors other than PricewaterhouseCoopers for :		
Audit and review of financial reports	123,009	99,588
Taxation services – overseas subsidiaries	622	18,304
Acquisition of Meshcape Business	15,000	-
Other	-	298
	138,631	118,190
	928,750	878,111

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

28 Contingencies

Contingent liabilities

	Consolidated	
	2011	**2010**
	$'000	**$'000**
(a) Guarantees		
The Group is, in the normal course of business, required to provide guarantees and letters of credit on behalf of controlled entities in respect of their contractual performance related obligations. These guarantees and indemnities only give rise to a liability where the entity concerned fails to perform its contractual obligations.		
Bank guarantees outstanding at balance date	7,604	7,323

(b) Litigation

In December 2011, a statement of claim was lodged against one of the Group's wholly owned subsidiaries. The claim relates to loss of profits and cost of construction for plant that the plaintiff claims was unsuitable for their use. Ludowici will be defending the claim.

29 Commitments

		Consolidated	
		2011	**2010**
		$'000	**$'000**
(a)	**Capital commitments**		
	Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
	Within one year	1,707	929
(b)	**Lease expenditure commitments – Group as lessee**		
	Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
	Within one year	4,315	4,467
	Later than one year but not later than five years	6,820	7,564
	Later than five years	1,051	1,262
		12,186	13,293

Operating leases relate to three or four year term motor vehicle leases and warehouse facilities with leased terms of between three to eight years, with an option to extend for further periods. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

Notes to the Financial Statements
for the Year Ended 31 December 2011 (continued)

30 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 14.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 32.

	Consolidated 2011 $	Consolidated 2010 $
(c) Loans to related parties		
Loans to subsidiaries		
- Beginning of the year	68,800,536	57,753,110
- Loans advanced	20,668,290	11,047,426
- End of year	89,468,826	68,800,536

Transactions within the wholly owned group include the sale and purchase of goods, the provision of administrative services, rent of premises and the provision of loans. All transactions within the consolidated entity have been eliminated on consolidation.

Sales to and purchases from related parties are made on an arm's length transaction at both normal market prices and normal commercial terms.

Information on controlled entities is disclosed at note 14.

Transactions with related parties:

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

There were no transactions with director related entities in 2011 (2010: nil).

31 Business combinations

(a) Meshcape Industries Pty Ltd - acquisition

On 19 August, 2011 the Company purchased the business assets of Meshcape Industries Pty Ltd (Meshcape) for cash. The acquisition includes Meshcape's manufacturing assets based in Johannesburg, its established branch and distribution network thoughout the major centres of South Africa and a 50% interest in a joint venture with French company Euroslot France SAS (wedge wire manufacturer). The Meshcape business manufactures, imports and distributes predominantly screens consumables and supports its customers with a high level of technical advice and customer service. The Meshcape acquisition is in line with Ludowici's strategy to develop world leading positions by bringing a strong business presence in Africa's consumable market.

Purchase consideration	**Recognised fair value 2011 $'000**
Cash paid	8,880
Deferred consideration	2,590
Total purchase consideration	11,470
Fair value of net identifiable assets acquired	(5,177)
Goodwill	6,293

Fair value of the assets and liabilities

Cash	65
Accounts receivable	2,691
Inventory	3,504
Deferred tax asset	385
Property, plant & equipment	2,268
Identifiable intangible assets	1,105
Total identified assets being acquired	10,018
Trade and other payables	(3,567)
Employee benefits provision	(680)
Other liabilities	(284)
Deferred tax liability	(310)
Total liabilities being assumed:	(4,841)
Net identified assets being acquired	5,177

(i) Acquisition-related costs

Acquisition-related costs of $386,000 are included in other expenes in profit or loss.

(ii) Deferred consideration

The deferred consideration arrangement requires the group to pay the former owners of Meshcape $2,589,994

(iii) Acquired receivables

The fair value of trade and other receivables is $2,690,742. The gross contractual amount for trade and other receivables due is $2,788,451 of which $97,709 is expected to be uncollectable.

(iv) Revenue and profit contribution

The acquired business contributed revenues of $7,824,000 and net profit of $601,000 to the group for the period from 19 August 2011 to 31 December 2011. If the acquisition had ocurred on 1 January 2011, based on Vendor's management accounts, consolidated revenue and consolidated profit for the year ended 31 December 2011 would have been $19,111,000 and $1,843,000 respectively.

31 Business combinations (Continued)

(b) Amseal Australia Pty Ltd - acquisition

On 1 April, 2011 the Company purchased the business assets of Amseal Australia Pty Ltd (Amseal) for cash. Amseal is a wholesaler and manufacturer of Seals and Sealing Products. Amseal will complement Ludowici's existing Seals business well, delivering a product range to different market segments. Amseal also manufactures liquid silicone components, which is new to the Company and has potential to grow under the Company's guidance.

Purchase consideration	**Recognised fair value 2011 $'000**
Cash paid	1,290
Total purchase consideration	1,290
Fair value of net identifiable assets acquired	1,290
Goodwill	-
Fair value of the assets and liabilities	
Accounts receivable	190
Inventory	987
Deferred tax asset	8
Property, plant & equipment	131
Total identified assets being acquired	1,316
Employee benefits provision	(26)
Total liabilities being assumed:	(26)
Net identified assets being acquired	1,290

(i) Acquisition-related costs

Acquisition-related costs of $22,057 are included in other expenes in profit or loss.

(ii) Acquired receivables

The fair value of trade and other receivables is $190,253. The gross contractual amount for trade receivables due is $194,600 of which $4,347 is expected to be uncollectable.

(iii) Revenue and profit contribution

The acquired business contributed revenues of $604,713 and net profit of $241,885 to the group for the period from 1 April 2011 to 31 December 2011. If the acquisition had ocurred on 1 January 2011, based on Vendor's management accounts, the consolidated revenue and consolidated profit for the year ended 31 December 2011 would have been $748,309 and $299,323 respectively.

31 Business combinations (Continued)

(c) Business combination in 2010

On 7 December 2010 the Group acquired 100% of the shares in Rojan Advanced Ceramics Pty Ltd for cash.

Rojan, established in 1991, is a fully integrated manufacturer and supplier of innovative solutions for wear, thermal and corrosion problems to the minerals processing and industrial markets. The industries Rojan supplies include hard rock mineral processing, heavy clay bricks and pavers, chemical and fertilizer plants as well as the power generation industry.

The company is based in Western Australia and has a strong presence in the local market and exports its products globally.

This acquisition continues the implementation of Ludowici's strategy to develop world leading positions in niche global markets servicing the mineral processing industry.

The Rojan business sells predominantly consumable items to the mineral processing and industrial markets and this acquisition will further increase the proportion of Ludowici revenue derived from sales of consumable items.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	Consolidated 2010 $'000
Purchase consideration	
Cash paid/payable	4,892
Net Asset Adjustment	1,376
Contingent Consideration	2,137
Total purchase consideration	8,405
Fair value of net identifiable assets acquired	(4,461)
Goodwill	3,944

31 Business combinations (Continued)

(c) Business combination in 2010 (continued)

Purchase consideration

The purchase consideration for the acquisition of Rojan consists of cash upon completion, with two additional earnout payments if the subsequent EBITDA of Rojan reach a specified target in 2011 and 2012.

The fair-value adjustment reflects the differences between the carrying amounts of the assets and liabilities in the acquiree's statement of financial position prior to their acquisition and the fair values in the acquirer's statement of financial position at the acquisition date.

	Completion Amount Dec-10 $'000	Net Asset Adjustment Jan-11 $'000	First Earn out Payment Dec-11 $'000	Second Earn out Payment Dec-12 $'000	Total $'000
Outflow of cash to acquire subsidiary, net of cash acquired					
Cash consideration	4,892	1,376	1,700	437	8,405
Less: Balances acquired:					
Cash	(2,169)	-	-	-	(2,169)
Total consideration net of cash acquired	2,723	1,376	1,700	437	6,236

In the event that specified EBITDA is achieved by Rojan, for the year ended 31/12/2011 additional consideration of up to $1,818,853 will be payable in cash.The potential undiscounted amount payable under the agreement for 2011 is between $0 for EBITDA below $1,477,713 and $1,818,853 for EBITDA above $1,677,713 .The potential undiscounted amount payable under the agreement for 2012 is between $0 for EBITDA below $1,677,713 and $500,000 for EBITDA above $1,802,713. The fair value of the contingent consideration of $2,136,582 was estimated by applying the income approach.The fair value estimates are based on the discount rate of 7% and assumed 100% probability that EBITDA targets will be achieved.

The assets and liabilities recognised as a result of the acquisition are as follows:

Assets and liabilities acquired	**Fair value $'000**
Cash	2,169
Accounts receivable	1,006
Inventory	601
Deferred tax asset	160
Property, plant & equipment	772
Identifiable intangible assets	1,633
Total identified assets being acquired	6,341
Accounts payable	(730)
Current Tax Provision	(128)
Deferred tax liability	(490)
Employee Entitlements	(532)
Total liabilities being assumed:	(1,880)
Net identified assets being acquired	4,461

(i) Acquired receivables

The fair value of acquired trade receivables is $1,006,000. The gross contractual amount for trade receivable due is $1,032,000, of which $26,000 is expected to be uncollectable.

Notes to the Financial Statements

for the Year Ended 31 December 2011 (continued)

32 Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated 2011 $	2010 $
Short-term employee benefits	1,122,358	1,192,901
Long term benefits	15,886	5,958
Post-employment benefits	50,487	59,538
Share-based payments	456,494	128,442
Termination benefits	-	123,654
	1,645,225	1,510,493

Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report

(b) Equity instrument disclosures relating to key management personnel

(i) *Rights and Options provided as remuneration and shares issued on exercise of such options*

Details of rights and options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Remuneration Report section of the Directors' Report.

(ii) *Rights and Option holdings*

The numbers of rights and options over ordinary shares in the company held during the financial year by each director of Ludowici Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011	Balance at start of the year	Granted as compen-sation	Exercised (or lapsed)	Balance at end of the year	Vested and exercisable	Unvested
Directors of Ludowici Limited						
P J Largier	675,000	250,000	-	925,000	375,000	550,000

All vested options are immediately exercisable.

2010	Balance at start of the year	Granted as compen-sation	Exercised (or lapsed)	Balance at end of the year	Vested and exercisable	Unvested
Directors of Ludowici Limited						
P J Largier	525,000	150,000	-	675,000	-	675,000

32 Key management personnel disclosures (continued)

(b) Equity instrument disclosures relating to key management personnel (continued)

(iii) *Share holdings*

The numbers of shares in the company held during the financial year by each director of Ludowici Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2011	Balance at the start of year	Received during the year on exercise of options	Purchases during the year	Balance at the end of the year
Directors of Ludowici Limited				
Ordinary shares				
P J Arnall	43,381	-	53,693	97,074
G Cowan	5,000	-	-	5,000
P J Largier	44,808	-	8,753	53,561
J K Ludowici	247,030	-	189,746	436,776
C W Ravenhall	58,810	-	6,087	64,897
H K R Rhodes-White	89,468	-	8,947	98,415
N W Stump	15,561	-	12,015	27,576

2010	Balance at the start of year	Received during the year on exercise of options	Purchases / (sales) during the year	Balance at the end of the year
Directors of Ludowici Limited				
Ordinary shares				
P J Arnall	31,626	-	11,755	43,381
G Cowan	-	-	5,000	5,000
P J Largier	27,887	-	16,921	44,808
J K Ludowici	203,952	-	43,078	247,030
C W Ravenhall	52,806	-	6,004	58,810
H K R Rhodes-White	83,808	-	5,660	89,468
N W Stump	9,132	-	6,429	15,561
Preference shares				
J K Ludowici	20,250	-	(20,250)	-
Other key management personnel of the group				
J D MacDonald	-	-	-	-

* Messrs Ludowici and Rhodes-White are directors of Ludowici Investments Pty Ltd, which holds 5,244,956 (2010: 5,244,956) shares in the company. Mr Ludowici is also a director of Sevlan Pty Ltd which holds 121,541 (2010: 118,384) shares in the company.

Dividends were received by the above directors in the same manner as other shareholders.

32 Key management personnel disclosures (continued)

(c) Loans to key management personnel

Details of loans made to directors of Ludowici Limited and other key management personnel of the Group, including their personally related parties, are disclosed under current and non-current receivables.

Loans to employees are in relation to the employee share plan, are interest free and repayable by monthly/weekly instalments over a period of 3 years. None of these loans relate to directors or any key management personnel.

There were no loans to individuals that exceeded $100,000 at any time during the years ended 31 December 2011 and 31 December 2010.

(d) Other transactions with key management personnel

Other transactions with key management personnel are disclosed under the related party transactions note.

33 Share based payments

(a) Employee Share Plan & Executive Share and Option Plan incorporating Incentive Performance Plan

Employee Share Plan (ESP)

In accordance with the provisions of the plan, as approved by the directors, employees with more than two years of service with the Group are entitled to purchase from 400 to a maximum of 1,000 ordinary shares at an issue price calculated at 80% of the weighted average price of shares traded over a five day period determined by directors.

The total number of ordinary shares purchased by an employee under the plan shall not exceed 1,000 shares.

Employees (at their option) were granted interest free loans to a limit of $5,000 for a maximum of three years repayable from salary and wage deductions. Loans are at full recourse. The value of the loans to employees outstanding at 31 December 2011 is as detailed in notes 11 and 13.

	Consolidated	
	2011	**2010**
Number of shares issued under the plans to participating employees.	294,331	264,500
Weighted average issue price	$3.49	$3.31

Refer to note 33(c) for details related to expenses arising from share-base payment transactions recognised in the financial year.

33 Share based payments (continued)

(b) Executive Share and Option Plan (ESOP) incorporating Incentive Performance Plan (IPP)

Executive Share and Option Plan (ESOP)

In accordance with the provisions of the plan, as approved by the directors, executives determined by the directors may be invited to participate in the ESOP. Executives invited to participate are entitled:

(i) By sacrificing the right to receive salary, salary increases or bonuses as cash to receive shares in Ludowici Limited in lieu of that sacrificed amount. The price of the shares is calculated at 95% of the weighted average price of shares traded over a five day period determined by the directors;

(ii) To purchase, using their own funds, up to an additional 25% in number of shares purchased in (i) above at the same price; and

(iii) To be granted share options equivalent to the number of shares they are entitled to receive in (i) above regardless of whether they elect to receive shares or not. The options are only exercisable after three and before five years from the date of grant and only if earnings of the company meet or exceed prescribed earnings targets set by the directors. The exercise price of the shares is 100% of the weighted average price of shares traded over the 5 day period determined by the directors in (i) above i.e. the 5% discount does not apply. Currently the target earnings figures have been set by applying a 15% (2010: 15%) compound growth factor to the earnings per share for the year ended 31 December 2011. The financial impact has been reflected in the financial report.

Incentive Performance Plan (IPP)

Executives determined by the directors may be invited to participate in the IPP. Executives invited to participate are eligible to be awarded shares in the company in the following manner :

(i) The Key Performance Criteria for each executive for the ensuing financial year (the Relevant Financial Year) are to be agreed in writing with the Managing Director and ratified by the Board prior to the commencement of the Relevant Financial Year.

(ii) The maximum IPP Bonus an employee can earn is determined by multiplying Gross Base Salary (total fixed remuneration) by an IPP Bonus %, determined by the board prior to the commencement of the Relevant Salary Year.

(iii) Achievement or partial achievement of the Key Performance Criteria results in the payment of a bonus to the executive in the year following the Relevant Financial Year, after completion of audited accounts where this is necessary.

(iv) The actual IP Bonus awarded to the employee is determined by multiplying the maximum IP Bonus by a Performance Rating which is a % achievement against Key Performance Criteria.

(v) IPP Bonus earned is derived by multiplying Gross Base Salary x IP Bonus % x Performance Rating %.

(vi) The IPP Bonus is awarded to the executive as immediate cash (taxable) and fully paid shares (taxable, but deferred) in proportions also determined by the board prior to the commencement of the Relevant Salary Year. Shares may be purchased on market or issued as new shares.

(vii) The fully paid shares whilst beneficially owned by the employee are held by a Plan Administrator on the employee's behalf. The Plan Administrator receives dividends on the shares on the employee's behalf and passes these through to the employee on an ongoing basis.

(viii) The legal ownership of the shares vests in the employee on the 3rd anniversary of 1 January of the year following the Relevant Salary Year.

(ix) The legal ownership of the shares in three years is a "cliff event" i.e. the shares do not legally vest at all until the 3rd anniversary and vest only if the employee is still employed by the Group.

(x) The shares are forfeited if the employee leaves the company of his own accord or is terminated for any reason. If the employee is terminated as a result of redundancy then at the board's discretion the shares can be legally transferred to the employee.

33 Share based payments (continued)

(b) Executive Share and Option Plan (ESOP) incorporating Incentive Performance Plan (IPP) (Continued)

Set out below are summaries of options and rights granted under the above plans:

Grant date	Vesting date	Expiry date	Exercise price $	Balance at start of year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of year
Consolidated - 2011								
28/04/2008	26/02/2011	25/02/2012	6.70	375,000	-	-	-	375,000
1/01/2009	24/02/2012	23/02/2013	2.40	150,000	-	-	-	150,000
29/01/2010	28/02/2013	27/02/2014	2.63	150,000	-	-	-	150,000
20/04/2011	31/12/2012	30/04/2016	0.00	-	150,000	-	-	150,000
20/04/2011	31/12/2012	30/04/2017	0.00	-	100,000	-	-	100,000
				675,000	250,000	-	-	925,000
Weighted average exercise price $				$4.84	$ -	$ -	$ -	$3.53

Grant date	Vesting date	Expiry date	Exercise price $	Balance at start of year	Granted during the year	Exercised during the year	Cancelled during the year	Balance at end of year
Consolidated - 2010								
28/04/2008	26/02/2011	25/02/2012	6.70	375,000	-	-	-	375,000
1/01/2009	24/02/2012	23/02/2013	2.40	150,000	-	-	-	150,000
29/01/2010	28/02/2013	27/02/2014	2.63	-	150,000	-	-	150,000
				525,000	150,000	-	-	675,000
Weighted average exercise price $				$5.47	$2.63	$ -	$ -	$4.84

There were 375,000 vested and exercisable shares at year end.

There were no options exercised during the year ended 31 December 2011 (2010: nil).

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.9 years (2010 – 1.67 years);

Fair value of rights and options granted

The fair value of the rights and options are estimated at the date of grant using the Black-Scholes Model. There were 250,000 rights granted during the year ended 31 December 2011 (2010: 150,000).

The amount of rights and options that will vest depends on the satisfaction of vesting conditions, including Earnings Per Share and Total Shareholders Return thresholds. Vesting conditions also apply in the event of a takeover.

The assessed fair value at grant date of rights granted during the year ended 31 December 2011 was $4.99 per rights. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for rights and options granted during the year ended 31 December 2011 included:

(a) options are granted for no consideration. Vested options are exercisable for a period of 12 months of the announcement to the Australian Securities Exchange of the Company's yearly financial results
(b) exercise price: $nil (2010: $2.63)
(c) grant date: 20 April 2011 (2010: 29 January 2010)
(d) expiry dates: tranche 150,000 31 December 2016 and tranche 100,000 31 December 2017
(e) share price at grant date: $4.96 (2010: $2.7)
(f) expected price volatility of the company's shares: 33% (2010: 40.5%)
(g) expected dividend yield: 5% (2010- 3%)
(h) risk-free interest rate: 6% (2010: 6%).

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

33 Share based payments (continued)

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2011 $'000	2010 $'000
Executive share and option plan expense	456	128
Employee share plan expense	(28)	56
	428	184

34 Reconciliation of profit after income tax to net cash flows from operating activities

	Consolidated	
	2011 $'000	2010 $'000
Profit for the year	10,693	11,611
Depreciation and amortisation	6,813	5,844
Loss on disposal of non-current assets	169	19
Non-cash employee benefit expense	494	184
Net exchange differences	1,614	(1,095)
Changes in assets and liabilities adjusted for effect of sale and acquisition of businesses movements:		
(Increase) in trade and other receivables	(16,022)	(4,032)
Decrease (increase) in inventories	9,255	(9,140)
Decrease (increase) deferred tax asset & tax receivable	469	(710)
(Increase) in non-current assets – other	-	(366)
Increase (decrease) in trade and other payables	(4,823)	2,734
Increase (decrease) in provisions	(1,128)	1,284
Increase (decrease) in income tax payable	(3,711)	3,212
(Decrease) increase in deferred tax liabilities	678	(621)
Net cash inflow from operating activities	4,501	8,924

35 Non-cash investing & financing activities

Shares issued through the dividend reinvestment plan totalling $449,518 (2010: $722,000) have been excluded from the statement of cash flows.

36 Events occurring after the balance sheet date

Dividend

On the date of approval of this report, the directors have declared a final dividend of 11 cents per fully paid ordinary share, fully franked and payable on 9 May 2012 (May 2011: 10 cents per share, fully franked). No provision has been made for the final dividend in this financial report. The dividend is payable on ordinary shares held at the dividend record date.

Other

On 18 January 2012 a fire occurred in the building owned by the Group, located in Hastings, New Zealand. The building was completely demolished in the fire but was comprehensively insured. At the date of signing of this report discussions are still being held with the insurer to determine the value of the claim.

On 23 January 2012, Ludowici Limited announced that FLSmidth & Co. A/S ("FLS") had made a non-binding, indicative and conditional proposal to acquire 100% of Ludowici Limited shares by way of a Scheme of Arrangement at a cash price of $7.20 per share. On 10 February 2012, Ludowici Limited announced that it had received a competing non-binding, indicative and conditional proposal from Weir Group PLC ("Weir") to acquire 100% of Ludowici Limited shares by way of a scheme of arrangement at a cash price of $7.92 per share. On 13 February 2012 Weir lodged an application with the Takeovers Panel in relation to statements made by FLS in relation to its proposal. On 16 February 2012, Ludowici Limited announced that it had received an amended offer from FLS for $10.00 per share and that it had entered into a Scheme Implementation Agreement with FLS which is subject to and will not become binding until the proceedings in the Takeovers Panel are determined (the “Transaction”).

The Board unanimously resolved that subject to the Scheme Implementation Agreement becoming binding the proposed Transaction was in the best interests of shareholders and to recommend that shareholders approve the proposed Transaction, subject to there being no superior offer and an independent expert concluding that the Transaction is in the best interest of shareholders. Refer to the ASX or Ludowici websites for full announcement details and terms & conditions. If the transaction proceeds, the Board expects completion to occur in June 2012.

On 23 February 2012, Ludowici Limited announced that it had received a revised Competing Proposal from Weir at a price of $10.00 cash per Ludowici share, the same price as the FLSmidth proposal announced on 16 February 2012.

Under the proposal, Weir (or a nominee) will acquire all of Ludowici’s shares for $10.00 cash per share (less any dividends declared or paid by Ludowici before the transaction is completed) by way of Scheme of Arrangement (“Weir Proposal”). The Weir Proposal is conditional on the Takeovers Panel making a decision to the effect that FLSmidth cannot offer, or propose to pay, Ludowici shareholders more than $7.20 per share whether for a specified period or otherwise.

The Board of Ludowici acknowledged receipt of the Weir Proposal and noted that it was on similar terms and conditions and at the same price as the recommended offer by FLSmidth but expires at 5.00pm Friday 24 February 2012.

Other than the matter mentioned above and other matters mentioned in this report, no matter or circumstance has arisen since 31 December 2011 that has significantly affected or may significantly affect:

(a) Ludowici's operations in future years;

(b) the results of those operations in future financial years; or

(c) Ludowici's state of affairs in future financial years.

37 Earnings per share

	Consolidated 2011 Cents	Consolidated 2010 Cents
(a) Basic Earnings per Share		
Profit from continuing operations attributable to the ordinary equity holders of the company	38.4	44.8
Profit attributable to the ordinary equity holders of the company	38.4	44.8
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	38.1	44.7
Profit attributable to the ordinary equity holders of the company	38.1	44.7

	2011 $'000	2010 $'000
(c) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Profit from continuing operations	10,693	11,611
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	10,693	11,611
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	10,693	11,611

	2011 Number	2010 Number
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	27,842,237	25,917,808
Adjustments for calculation of diluted earnings per share:		
Shares deemed to be issued for no consideration in respect of options	224,085	55,234
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	28,066,322	25,973,042

37 Earnings per share (continued)

(e) Information concerning the classification of securities

(i) *Partly paid ordinary shares*

There are no partly paid ordinary shares. If there were any partly paid ordinary shares they would carry the right to participate in dividends in proportion to the amount paid relative to the total issue price and to that extent they have been recognised as ordinary share equivalents in the determination of basic earnings per share. Amounts uncalled on partly paid shares and calls in arrears would be treated as the equivalent of options to acquire ordinary shares and would be included as potential ordinary shares in the determination of diluted earnings per share.

(ii) *Options and rights*

Options and rights granted to employees under the Ludowici Limited Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 33.

38 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance sheet		
Current assets	1,501	11,674
Non current assets	133,916	108,834
Total assets	135,417	120,508
Current liabilities	8,624	24,671
Non-current liabilities	54,832	37,041
Total liabilities	63,456	61,712
Net Assets	71,961	58,796
Shareholders' equity		
Issued capital	58,840	47,963
Reserves		
- Employee equity benefits	973	592
Retained earnings	12,148	10,241
Total shareholders' equity	71,961	58,796
Profit for the year	1,906	1,026
Total comprehensive income	1,906	1,026

During the financial year the carrying value of all subsidiaries were not impaired. In the previous year the investment asset of a subsidiary was written down by $1,441,000 and a loan receivable was written down by $3,368,000.

38 Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

	Consolidated 2011 $'000	Consolidated 2010 $'000
Carrying amount in favour of customers and suppliers	6,660	6,882

The parent entity has provided financial guarantees in respect of bank overdrafts and loans of subsidiaries amounting to $6,659,783 (2010 – $6,881,993), secured by registered mortgages over the freehold properties of the subsidiaries.

The parent entity has also given unsecured guarantees in respect of:

(i) A bank facility of the subsidiary amounting to US $1,000,000 from Banco Santander (2010 – US$ 1,000,000).

(ii) Under the terms of a Deed of Cross Guarantee the Company and its wholly owned subsidiaries, have guaranteed the bank facilities in each others' companies. The amounts shown are the bank guarantees. No deficiency in consolidated net assets exists at reporting date.

No liability has been recognised in relation to the financial guarantees.

(c) Contingent liabilities of the parent entity

As at 31 December 2011, the parent entity had contingent liabilities totalling $6,659,783 (31 December 2010:$6,881,993). The directors are of the opinion that provisions are not required in respect of the above matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

(d) Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Members of the group are party to a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

No amounts have been recognised in the financial statements in respect of this agreement on the basis that the probability of default is remote.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under Interpretation 1052 Tax Consolidation Accounting

The head entity and controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner consistent with the broad principles of AASB112 Income Taxes. The nature of the tax funding agreement is discussed below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of tax funding agreement

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

39 Additional information

Ludowici Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The financial report of Ludowici Limited for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 24 February 2012.

The nature of the operations and principal activities of the Group are described in note 4.

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Telephone : (07) 3121 2900

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes of the company set out on pages 14 to 74 are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards and Corporations Regulations 2001 and other mandary professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 14 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 38(b).

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

P J Arnall	P J Largier
Director	Director

Brisbane 24 February 2012

Independent auditor's report to the members of Ludowici Limited

Report on the financial report

We have audited the accompanying financial report of Ludowici Limited (the company), which comprises the consolidated balance sheet as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Ludowici Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Ludowici Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its 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;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 10 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Ludowici Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Simon Neill
Partner

Brisbane
24 February 2012