LUDOWICI™

DRIVEN BY INNOVATION

INNOVATION since 1858 LUDOWICI

2009
Annual Report

Our Vision

To build an international business by innovating for our customers, sharing the knowledge of our people and developing our own technology.

Our Purpose

Since its establishment in 1858 the purpose of the Company has been to increase the value of its Shareholders' investment by the generation of profits. The Company, through its employees, achieves this purpose by meeting the needs of customers for the products and services it offers.

Our Strategy

The constant challenge in business is to adapt, both to prevailing opportunities and changes in economics. In recent years the growth in international trade requires that we now also be internationally competitive. To meet this challenge Ludowici has emphasised a clear business strategy of development and ownership of world class technology as the essential backbone of our business. We believe technical superiority improves our competitive position and allows us to participate in the global market for manufactured goods.


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NOTICE OF MEETING

The 118th annual general meeting of Shareholders of Ludowici Limited will be held at the Head Office of Ludowici Limited, 67 Randle Road, Pinkenba QLD on Wednesday 21 April 2010 at 3.30pm.

A formal notice of meeting stating the business to be dealt with, and a form for appointment of a proxy are enclosed with this report.

Chairman's Report

Despite the turmoil created by the global financial crisis and the tough market conditions, Ludowici recorded an increase in revenue and a strong improvement in operating profit in 2009. These results highlight the benefits of the change program initiated by Patrick Largier in 2007 and the maturing of Ludowici into global supplier to the mineral processing industry.

In addition to the strengthening operational performance of the company, two significant strategic portfolio initiatives were implemented in 2009:

- In July the Company sold the New Zealand Packaging business. This business was the last significant "non core" entity in Ludowici's portfolio of businesses. The sale of this business was flagged a number of years ago and triggered a large asset write-down which resulted in Ludowici booking an after tax loss of $3.5m from discontinued operations in 2009.
- The more significant strategic initiative was the acquisition of the global Johnson Screens Mining (JS Mining) businesses (excluding South Africa) in December 2009. These businesses sell a range of consumable products to the global mineral processing industry and complement our position as a predominantly capital equipment supplier to that segment. This acquisition was completed on 31 December 2009 and is expected to increase Ludowici's sales by about 30% in 2010. This acquisition is discussed in more detail in the Managing Director's report.

For 2009, revenue from continuing operations grew by 8.5% which was very similar to the revenue growth in 2008 albeit in a much tougher market place. Most of the Ludowici businesses performed well, but special mention needs to made of the North American business which delivered an improved result in an extraordinarily difficult marketplace. The Seals business in Australia struggled with widespread decreased demand driven by the GFC. I am pleased to report that we are seeing demand return for the Seals business.

As reported in our earlier release, after tax profit from continuing operations (predominantly the core mineral processing businesses) increased significantly on 2008 rising by 286% to $5.4m. Reported overall after tax earnings at $1.9m were 59% less than the equivalent 2008 figure of $4.6m. This difference was largely driven by the $3.7m asset write-down of the NZ Packaging business as a result of the sale of the business (versus the $2.3m surplus over asset value by the sale of the Plastics business in 2008).

In my report last year I identified four priorities for business development in 2009. I would like to briefly comment on progress in each of these areas:

- *Bring the new Pinkenba site to full production:* The buildings are now fully occupied and the site is at full production. During 2009 we moved two additional businesses onto the Pinkenba site. The improved productivity and work flow through the Pinkenba site has made a material contribution to the improved margins that Ludowici delivered in 2009.
- *Deliver significant improvement in operational efficiency across the company:* As can be seen by the vastly improved results from continuing operations, the operational efficiency of your Company has improved markedly in 2009. This improvement is driven not only from the Pinkenba site but also by much improved operations at Ludowici's global sites and increased communication and interaction between the various Ludowici operations around the world.
- *Complete the implementation of the new Vantage computer system:* The Vantage system is in place in most major locations around the world. The final implementation of Vantage into the residual Ludowici sites has been delayed by a few months to allow the transition of the newly acquired JS Mining businesses onto Vantage.
- *Continue the development of Ludowici's international operations:* Ludowici's offshore businesses have developed strongly in 2009 and have made a major contribution to Ludowici's improved profitability.

Dividends

Ludowici's operations have become more global over the last few years with a greater proportion of profits being earned outside of Australia. In addition Ludowici has received substantial tax credits for the extensive R&D work undertaken by the company in Australia. These factors have had the consequence of reducing the amount of franking credits available for distribution. The final dividend for 2009 will be unfranked but it is planned to start paying partly franked dividends as soon as sufficient franking credits have been accumulated.

Your directors have declared an unfranked final dividend of 6 cents per share payable on 7 May 2010. This brings the dividend for the year to 12 cps.

The dividend reinvestment plan will continue for the final 2009 dividend at a discount of 3%.

Funding

Net cash inflow from operating activities improved by 8% in 2009 to $5.2m compared to $4.8m for 2008.

With the completion of construction of Ludowici's new site at Pinkenba in 2008, the Company's capital investment in new property, plant and equipment dropped sharply in 2009 to A$2.8m (2008: A$18.9m).

The most significant investment activity during the year was the acquisition of the JS Mining businesses in December. The payment for this business is divided into two tranches with the first tranche paid on 31 December 2009. The December payment consisted of a net cash payment of $5.1m and a share issue to the vendor of $2.6m. The second tranche payment will occur in March 2010 and consists of part cash ($11.4m) and part shares ($4.7m). The share issue to the vendor occurred at $3.00 per share.

The cash component of the purchase price for the acquisition of the JS Mining businesses has been raised by a combination of additional debt and new equity. In December 2009 a placement of 1.65 million Ludowici shares at $2.65 per share was executed. The funds raised by this placement were used for partial payment of the first tranche payment in December for buying the JS Mining businesses (with the balance being funded by debt).

A Share Purchase Plan and a further placement of 1.35m shares at $2.65 per share have been implemented in early 2010 to raise further equity to fund this acquisition. The balance of the purchase price and the funding of working capital for the acquired businesses will be provided by debt.

Overall net cash out-flow from investing activities amounted to $5.7m with the funds received for the sale of the New Zealand Packaging business partially offsetting the capital investment in plant and equipment and the first tranche payment for the JS Mining acquisition.

As indicated a year ago, one of the priorities of the Company was to reduce debt during 2009. This was successfully achieved with a decrease of net debt for the Company (debt less cash) of $4.4m or 11% to $35.6m (net debt at the end of 2008 was $40.0m). At the conclusion of the JS Mining acquisition we anticipate net debt levels of approximately $47m and have secured bank agreement for additional debt facilities.

Business Development

The key business development initiatives for 2010 will be:

- Integration of the recently acquired JS Mining businesses to deliver the expected synergies and to ensure that these businesses continue to run well and deliver full value.
- Ongoing improvement in operational efficiency across the Company.
- Continue the development of Ludowici's international operations.
- Continue to look for and develop suitable opportunities to acquire complementary businesses.

People

During 2009 Ludowici continued to grow and mature into a well functioning, small multinational company. The operational improvement and growth delivered by the Company is only possible because of the dedication and contribution of the Company's employees. A notable achievement was the acquisition of the JS Mining businesses. This complex transaction involved acquiring businesses in four continents and was executed from beginning to end in five weeks (which included the holiday period over Christmas). This is an achievement that many much larger companies would be proud of.

I would like to make a special mention of the improved safety performance at Ludowici. In 2009 the Company delivered a record safety performance and is demonstrating a significant and sustained improvement in safety. Over the past two years the Lost Time Injury frequency rate has improved by 60% and the broader Recordable Case Rate has declined nearly 70% since 2007. This is an extraordinary achievement and I would like to thank all Ludowici employees for delivering this improvement.

In November 2009, Guy Cowan joined the Ludowici Limited Board. Guy brings a wealth of global corporate experience and specific financial expertise to the Ludowici Board. I would like to welcome Guy to Ludowici and look forward to working with him in the future.

I would like to extend my appreciation to all Ludowici's employees for their efforts during the year and for the improvements they have delivered for your Company. My personal thanks go to Patrick and the Board for their contribution during the year.

Phil Arnall
Chairman

Managing Director's Review of Operations

Ludowici delivered a strong operational performance in 2009 despite challenging market conditions. The combination of Ludowici's organic growth and the acquisition of Johnsons Screens Mining (JS Mining) businesses continues to enhance the Company's ability to service our global customer base.

Ludowici was fortunate to enter 2009 with a strong order book for capital equipment which kept our major factories well loaded for the first five months of the year. While market conditions were very challenging, the Company was successful in winning a number of significant orders during the second quarter of 2009. The most significant of these orders was for a large new coal preparation plant in China.

Contrary to earlier expectations, the performance of Ludowici in the second half of 2009 proved to be significantly stronger than in the first half of the year. The revenue from continuing operations for the second half of 2009 was 17% higher than for the first six months of the year (and 3% higher than for the second half of 2008). Profit for the second half of 2009 grew much more strongly as the effects of the improving manufacturing efficiencies and global supply chain benefits started to flow through to improved gross margins. EBIT (Earnings before Interest & Tax) from continuing operations (excluding the one off transaction costs for the JS Mining acquisition) was 70% higher in the second half of 2009 compared to the first half of 2009 (and 48% more than the corresponding period in 2008).

Overall the 2009 EBIT from continuing operations (excluding the one off transaction costs for the JS Mining acquisition) was $11.4m which is a record for Ludowici. The net profit (after interest and tax) from continuing operations (excluding the one off transaction costs for the JS Mining acquisition) was $6.5m which is also a record performance for the Company. The reported net profit after interest and tax is $1.9m and incorporates an after tax loss of $3.5m from the sale of the New Zealand Packaging business and $1.6m of transaction costs for purchasing the JS Mining businesses. There is no tax deduction for these transaction costs.

The increased profitability from continuing business was generated by the following factors:

- Sales increased by 8.5% over the previous year. External sales increased in Latin America, China and Africa with the other regions broadly stable in terms of revenue.
- Gross margin was increased by reducing manufacturing costs, increasing manufacturing efficiency and focussing on reducing supply chain costs. This improvement was achieved in spite of pricing pressure generated by the weak economic conditions in 2009. While the gross margin percentage has increased from the low gross margins experienced in 2008, the gross margins generated by the Company are still slightly lower than has been the historical norm for the Company. Ludowici demonstrated in 2009 that it is capable of extracting additional value from the Company's global supply chain and we expect the benefit of the JS Mining acquisition to drive higher margins overall.
- Holding increases in General and Administration costs to less than increased sales. These costs increased by 5% in 2009 (excluding transaction costs for JS Mining acquisition) while sales grew by 8.5%. General & Administration costs have increased by $3.5m since 2006 which represents an average 3% per annum cost increase over a three year period.

Highlights from our operations around the world include:

- Australia
  - Successfully maintained constant sales in a depressed market.
  - First sales of new design of reflux classifier 2020 model.
  - Challenging year for the Seals business as demand dropped with the GFC.
  - Transition into new site at Pinkenba completed and site brought to full productive capacity.
  - Three leased sites vacated (end 2008 and in 2009) as businesses moved to Pinkenba.
  - Project undertaken to review and improve the core business processes used in the business.
  - Manufacturing efficiency improved and costs lowered.
  - On-time deliveries improved for capital equipment but still further work required for consumables deliveries.
  - Focus on procurement and supply chain has delivered significant benefits.
- China
  - Beijing sales office fully established and generating repeat business.
  - Good growth in sales revenue and profitability.
  - Expanded sales team.
  - Yantai manufacturing facility has built first locally assembled vibrating screens for the Chinese market.

- Africa
  - Final delivery of the Moatize project delayed resulting in lower than expected profitability.
  - Pipe lining business growing.
  - First sales of screen panels by Ludowici in the African market.
- India
  - First sales of locally manufactured vibrating screens to the Indian market.
  - Indian engineering office providing increased services to the Ludowici group.
- USA
  - Market for coal processing capital equipment effectively ceased for the first nine months of 2009.
  - Spares and repair business performed strongly.
  - Costs tightly controlled.
  - Increasing business servicing the copper industry in Arizona.
- Latin America
  - 20% sales increase (over 2008).
  - Peruvian company set up.
  - Sampling system product line introduced and first sales orders received.
  - High enquiry levels.
  - Business development activities across the Latin American market.

In addition to the activities undertaken to improve Ludowici's operational performance in 2009, significant progress was made implementing the Company's strategy to increase focus on the global mineral processing industry. As indicated in the Chairman's Report the New Zealand Packaging business was sold in July 2009 and this completes Ludowici's disposal program of significant non-core businesses. The disappointing consequence of the sale of this business is that this triggered a large asset write-off due to historical overinvestment in this business and resulted in a loss of $3.5m being booked in the 2009 accounts. The sale of this business did not include the land and this is currently rented to the new business owners. It is planned to sell this property as soon as some strength returns to the New Zealand property market.

The major strategic initiative implemented in 2009 was the acquisition of the JS Mining businesses in Australia, North America, Latin America and India. These acquired businesses service similar customers to Ludowici and are very complementary to Ludowici's businesses. The particular strengths of this acquisition in each region are:

- Australia: The acquired business brings a number of new product lines (such as woven wire and polyurethane woven wire combinations) and much greater exposure to the sand and aggregate markets. There should be opportunities to both cross sell between these businesses and to deliver cost synergies as the new business is integrated.

- Latin America: Ludowici has historically been a supplier of capital equipment to the Latin American mineral processing industry. This acquisition effectively doubles the size of the Latin American business and enables Ludowici to provide a full range of mineral processing consumables to our customer base. The acquired business has particular strengths in rubber products for the mining industry.
- North America: Similar to Latin America, Ludowici's existing business focuses mostly on capital equipment, spares and repairs to capital equipment. The acquired business has a full range wire consumable products and a reasonable range of polyurethane consumables.
- India: Ludowici's Indian business is currently small and so is the acquired JS Mining business. The existing Ludowici business is focussed on capital equipment and the acquired business is focused on consumables. A new factory will be leased to accommodate the manufacturing equipment acquired in this deal.

The businesses acquired from Johnsons Screens are expected to add approximately 30% to Ludowici's global revenue and approximately $6 million of additional EBIT in 2010. The process of integrating these new businesses with Ludowici is well underway.

The funding of the acquisition of the JS Mining businesses is well covered in the Chairman's Report and elsewhere in the annual report so I do not plan to repeat these details. As part of the funding for acquisition 5.5 million Ludowici shares were placed to largely new investors to the Company. I would like to welcome these new investors to the Ludowici share register.

Over the past couple of years a particular focus of the Company has been to improve our safety performance. As mentioned in the 2007 Annual Report, Ludowici adopted the internationally recognised OSHA standards for measuring our safety performance. The key measure of safety performance is the Recordable Case Rate (RCR) which is a broad measure of frequency of Medically Treated Injuries. The RCR for Ludowici for 2009 improved by 28% on the 2008 result (which itself was a 56% improvement on the 2007 RCR). The Lost Time Injury frequency rate has improved by 60% since 2007 and was 1.3 in 2009 (1.3 Lost Time injuries per 200,000 hours worked). This ongoing improvement in safety performance is a credit to all Ludowici employees and is a fundamental element to the changing of the Company's culture.

The evolution of the Company's culture from a predominantly Australian based company to a small multinational company is continuing and is yielding noticeable benefits to the organisation. One indication of this is increasing communication and cooperation between the businesses in different countries. An example of the real business benefits of this increased cooperation is the recent USD750k order that Ludowici received for a sampling system in Colorado in the USA. This technology has recently been introduced to Ludowici by our Latin American business and this business working in tandem with the USA business developed this prospect and the businesses jointly won the order. This whole activity was undertaken without any direct involvement from Brisbane. The joint initiative shown by these two businesses would not have occurred as little as a year ago.

The outlook for 2010 is positive for Ludowici. As mentioned earlier the acquisition of the JS Mining businesses is expected to lift revenue by 30% in 2010. The order book for Ludowici capital equipment is strong for the first half of the year. The size of the order book for the second half of 2010 will become apparent over the next few months. The drive to increase operating efficiency is continuing and should deliver further benefits to the Company.

The changes and improvements that have been made in Ludowici during the year have only been possible by the hard work and dedication of many of Ludowici's employees, often in challenging circumstances. I would like to thank the whole Ludowici team for their contribution during the year and the Ludowici Board for its support and guidance during 2009.

Patrick Largier
Managing Director

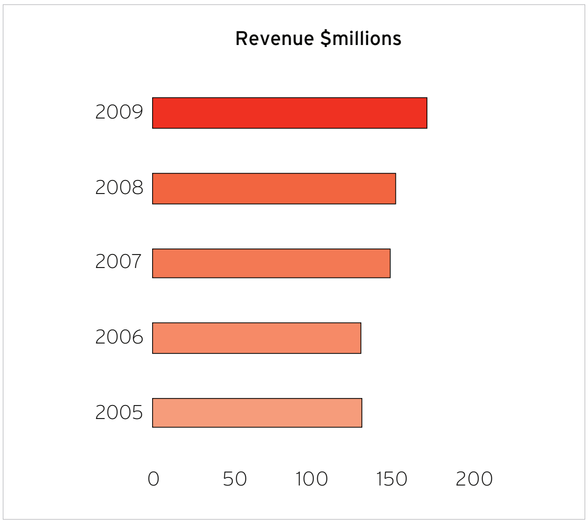
Financial Summary

5 Year Financial Summary

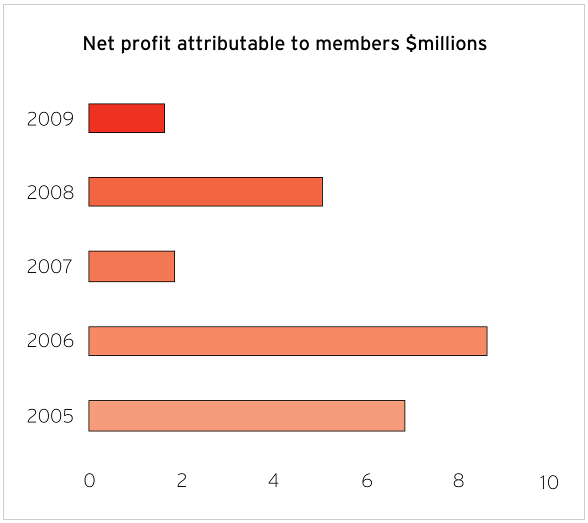
	Graph	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Revenue from continuing operations	**1**	**163,245**	**150,438**	**148,751**	**134,847**	**132,427**
Underlying after tax earnings^		**6,713**	**3,217**	**3,118**	**3,899**	**2,713**
- as a % of shareholders equity		9.0%	5.1%	5.3%	6.4%	5.0%
Net Profit (after tax) attributable to members of Ludowici Limited	**2**	**1,871**	**4,571**	**1,881**	**8,470**	**6,926**
- as a % of shareholders equity		2.5%	7.2%	3.2%	13.8%	12.80%
Depreciation, impairment and amortisation		(4,337)	(3,714)	(15,183)	(3,318)	(3,787)
Finance costs		(3,097)	(3,433)	(2,034)	(2,322)	(932)
Income tax (expense)/benefit		(1,349)	(811)	1,932	(1,622)	(2,283)
Equity		74,427	63,344	59,279	61,327	54,217
Total dividends per share - cents	**3**	**12.0**	**8.0**	**32.0**	**37.5**	**34.0**
Earnings per share - cents		9.7	24.7	10.5	49.1	42.3
Underlying after tax earnings^ per share - cents	**4**	**34.7**	**17.3**	**17.3**	**22.6**	**16.3**
Net tangible asset backing per ordinary share*		$1.97	$2.44	$2.37	$2.19	$2.25
Employees at year end		698	586	551	586	578

^ Excludes impairment items, FX gains/losses, insurance claim proceeds, capitalized R&D and profits on the sale of discontinued operations and surplus property (Castle Hill NSW)

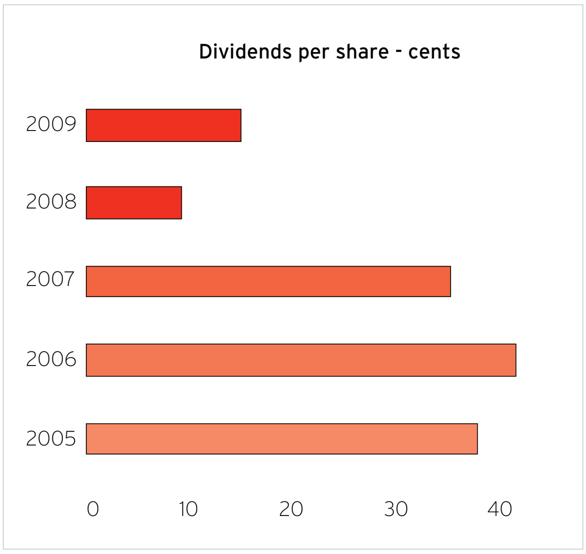
* Calculation as per ASX Appendix 4E



Graph 1



Graph 2



Graph 3

Graph 4

Directors

Phil J Arnall

BCom. *Chairman – Independent non-executive.*

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.

Patrick J Largier

BSc Chem Eng with Honours (University of Cape Town); Advanced Management Program (Harvard University). *Managing Director.*

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.

Julian K Ludowici

BCom. *Non-independent non-executive.*

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 30 June 2005. Mr. Ludowici is a founding Director and Chairman of Rey Resources Ltd, a coal development company. He has wide experience in capital markets and is a Director of Ludowici Investments, the largest shareholder in Ludowici Limited.

Guy Cowan

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

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 has recently retired from New Zealand-based dairy group Fonterra, at which he had been Chief Financial Officer since 2005.

Colin W Ravenhall

Dip App Chem. *Independent non-executive.*

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.

Hugh K R Rhodes-White.

Non-independent non-executive

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

Nick W Stump

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

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

Additional information on the Directors is available in the Directors' Report.

Company Secretary

Jim D MacDonald

BBus, CPA, FAICD.

Mr MacDonald was appointed Company Secretary on 31 January 2008. He has had extensive experience as a CFO and Company Secretary for public companies and "Not for Profit" organizations having previously held similar roles at Grow Force Australia Limited, Endeavour Foundation and Metal Storm Limited.

Mr MacDonald is a Director of Ludowici Limited's subsidiary companies.

Corporate Governance Statement

Introduction

This statement sets out the Company's commitment to business practices and corporate governance. It also describes the Company's approach to corporate governance and summarises the main policies and procedures that the Company has in place.

The Board is committed to consistently delivering strong financial performance and maximising long-term shareholder value. The Board believes the implementation of appropriate and relevant corporate governance practices contributes to enhancing the performance of the Company and the creation of shareholder value whilst also promoting market confidence and the confidence of the Shareholders, investment community and other relevant stakeholders. This statement outlines the main corporate governance practices in place throughout the Company.

The Board monitors the Company's governance framework, related practices and overall culture. The Board implements governance policies it considers are appropriate to the operation of the Company, whilst also considering the expectations of Shareholders, market guidance and the interests of other relevant stakeholders.

In August 2007, the ASX Corporate Governance Council released the revised "Corporate Governance Principles and Recommendations Second Edition" ("ASX Recommendations") which may be considered by ASX-listed companies regarding their corporate governance framework and policies. The ASX Listing Rules require listed entities to include a statement in their annual report disclosing the extent to which they have followed the ASX Recommendations during the financial year, whilst also identifying recommendations that have not been followed and explaining the reasons for adopting a different approach.

The Board believes that the Company's governance practices are consistent with the ASX Recommendations, subject to any qualifications outlined in this statement.

Principle 1: Lay solid foundations for management and oversight

ASX recommends recognising and publishing the respective roles and responsibilities of Board and management. The Company addresses this recommendation as follows:

The Board's primary role is the protection and enhancement of long-term Shareholder value. The key responsibilities of the Board are to:

- Establish, monitor and drive the corporate strategies of the Company;
- Ensure proper corporate governance and monitor the performance of management of the Company;
- Ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- Assess the necessary and desirable competencies of Board members, review Board succession plans, evaluate its own performance and consider the appointment and removal of Directors;
- Approve executive remuneration and incentive policies, the Company's recruitment, retention and termination policies and procedures for senior management and the remuneration framework for non-executive Directors;

- Monitor financial results;
- Approve decisions concerning the capital, including capital restructures, and dividend policy of the Company; and
- Comply with the reporting and other requirements of the law.

A statement of these matters reserved for the Board is located on the company web site.

The Board meets at least 10 times each year. Additional meetings are convened as necessary.

Subject to certain conditions, the Board delegates responsibility for day-to-day management of the Company to the Managing Director/Chief Executive Officer (CEO), who provides a monthly report to the Board. The responsibilities of the CEO are outlined in his employment agreement. The CEO operates within authorities delegated by the Board and must consult the Board on matters that are sensitive, extraordinary, of a strategic nature or on other matters outside this delegation

The Board undertakes a process for evaluating the performance of the senior executives. This consists of annual reviews of the key performance indicators for the company. The review is undertaken by the CEO and reported to the Board.

A performance evaluation for the CEO has taken place in the reporting period.

Principle 2:
Structure the Board to add value

ASX recommends having a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. The Company addresses this recommendation as follows:

2.1 Board composition and independence

The Company's Constitution states that the number of Directors (not counting alternate Directors of the Company) not being less than three, is determined by the Directors from time to time. The Board currently comprises seven Directors, six being non-executive Directors (including the Chairman) plus the Managing Director. The Directors come from a variety of business and professional backgrounds and bring to the Board a range of skills and experience relevant to the Company. Details of Directors' experience, expertise and terms in office are set out in the Directors' Report under the heading "Information on Directors".

Of the six non-executive Directors, four are independent and two are non-independent. Messrs JK Ludowici and HK Rhodes-White are considered non-independent primarily because they are associates of major Ludowici shareholders. In assessing independence, the Board considers Directors to be independent when they are independent of management and free from any business that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

The Board is of the opinion that its size and composition is effective for the adequate discharge of its responsibilities and duties.

The Board believes that the first priority in the selection of Directors is their ability to add value to the Board and enhance the Company's performance whilst safeguarding shareholders' interests. Accordingly, relevant expertise and competence is considered as important as technical independence.

All Directors have unrestricted access to company records, information and personnel and the Board has a policy of allowing the Board or individual Directors to seek independent professional advice at the Company's expense, subject to the approval of cost by the Chairman. Such approval shall not be unreasonably withheld.

Board operations

The Board meets regularly, usually monthly as well as to approve annual and half yearly reports. The Directors' attendance at those meetings is set out in the Directors' Report of the 2009 Annual Report under the heading "Directors' Meetings". The Directors receive a comprehensive Board pack before each meeting. Senior executives meet regularly and present to Board and committee meetings on particular issues.

2.2 The role of Chairman

The Board believes that the role of Chairman should be filled by the person with relevant skills and experience and who adds value to the Board and to the Company. The responsibilities of the Chairman include:

- Ensuring that the Board provides leadership and vision to the Company;
- Assessing and implementing a balanced board membership;
- Ensuring that the Board is participating in setting the aims strategies and policies of the Company;
- Ensuring that the Company is appropriately assessing and monitoring risk in accordance with best practice
- Ensuring that there is adequate monitoring of the goals of the Company;
- Ensuring that the Board reviews the human resources policies of the Company;

- Making certain that the Board has the necessary information to ensure effective decision making;
- Directing Board discussions so that there is an effective use of time and that critical issues are discussed;
- Developing an ongoing and healthy relationship with the Managing Director;
- Guiding the ongoing development of the Board as a whole and Directors individually; and
- Be available to offer guidance to other Directors where required.

The Chairman, Mr PJ Arnall is considered an independent Director in accordance with ASX recommendation 2.2.

2.3 The role of Chairman and Managing Director

The role of Chairman and Managing Director are exercised by different individuals, in accordance with ASX recommendation 2.3.

2.4 Nomination and Remuneration Committee

The Board has established the Nomination and Remuneration Committee. Details of Committee membership and attendance at those meetings are set out in the Directors' Report under the headings "Information on Directors" and "Directors' Meetings".

The Nomination and Remuneration Committee considers the Board succession planning, the selection of new Directors, and the suitability of the Director's skills and qualifications. The Company's Constitution requires Directors, with the exception of the Managing Director, to stand for re-election every three years. Retiring Directors are eligible for re-election. When a vacancy is filled by the Board during the year, the new Director must stand for election at the next general meeting.

All Directors with the exception of the Managing Director are members of this Committee, and as such the Committee does have a majority of independent directors. The Managing Director attends Committee meetings by invitation and is not present during discussion on the Managing Director's remuneration. The responsibilities of the Committee in respect of selecting Board members are:

- Review from time to time the required range of skills and experience of the Board;
- Identify suitable candidates for prospective new appointments; and
- Review the time requirements of the Directors to ensure non-executive Directors have sufficient time to dedicate to the role.

Each Director's performance is reviewed against appropriate measures considering the individual skills that Director brings to the Company. The process for this evaluation is:-

- Responding to a written questionnaire prepared by the Chairman by each director to the Chairman on the functioning of the Board. The Chairman also completes the questionnaire. The questionnaire is wide ranging and covers how well the Board fulfils its role, the people, procedures and practices; and
- The responses to this questionnaire are collated by the Chairman and the outcomes are discussed by the Board. If appropriate improvement actions are undertaken.

Committee membership and meeting attendances are set out in the Directors' Report under the headings "Information on Directors" and "Directors' Meetings".

Principle 3:
Promote ethical and responsible decision-making

In Principle 3, ASX recommends actively promoting ethical and responsible decision-making. Ludowici address this recommendation as follows.

3.1 Company commitment to ethical business practices

While the Board has adopted the ASX principles of corporate governance and implemented most of the ASX recommendations, it believes that these types of rules and regulations are of limited value unless supported by a foundation of honesty and integrity which has been a foundation of the Company's business practice.

The Company has previously adopted a Code of Conduct to include "whistle blowing". The code of conduct is a guide all of the Company's employees, including Directors, the Chief Financial Officer (CFO) and other senior executives, in respect of ethical behaviour and has been designed to maintain confidence in the Company's integrity and the responsibility and accountability of all individuals within the Company for reporting unlawful and unethical practices. A copy of the Code of Conduct is available to Shareholders on request and is available for inspection on the Company's website.

3.2 Share dealings by Directors and officers

The Board has previously adopted a Securities Dealing Policy that specifically precludes Directors and nominated employees (and their associates) from buying or selling shares except in the following circumstances:

- In the period of 30 business days commencing one day after the announcement of the Company's half yearly results to the ASX;
- The period commencing one day after the announcement of the Company's annual results to 31 December to the ASX, to 30 days after the Company's annual general meeting;
- At any time the Company has a prospectus open;
- At any other time the Board declares trading permissible in a written notice to all staff and the ASX; and
- Specific clearance from the Chairman (for Directors) or Managing Director (for employees).

and except where the Director or employee is in possession of price sensitive information.

Details of Directors' individual shareholdings are set out in the Notes to Financial Statements of the 2009 Annual Report (Note 32 – "Key management personnel disclosures").

A copy of the Securities Dealing Policy is available to Shareholders on request and is available for inspection on the Company's website.

Principle 4: Safeguard integrity in financial reporting

In Principle 4, ASX recommends having a structure to independently verify and safeguard the integrity of the Company's financial reporting. The Company addresses this recommendation as follows:

4.1 Audit Committee (to be renamed Audit and Risk Committee)

The Audit and Risk Committee is responsible for reviewing the financial accounts and other financial information distributed externally, monitoring the adequacy of risk management and internal control systems and monitoring procedures in place to ensure compliance with statutory responsibilities. In addition it monitors compliance with applicable policies and laws and provides a forum of communication between the Board and external auditors and Senior Management. The Audit and Risk Committee reviews the independence and performance of external auditors and considers any other matter the Board may refer to the Committee for consideration

4.2 Structure of Audit Committee

The Committee consists of three non-executive Directors, the majority of whom are independent. The Chairman of the Committee is an independent Director who is not the Chairman of the Board. The Company Secretary and external auditors are invited to attend the committee meetings. Other staff including the Managing Director may be invited to Committee meetings as deemed necessary by the Committee. The members of the Audit Committee each hold the necessary technical expertise to satisfy the obligations of the committee.

4.3 Audit Committee Charter (to be renamed Audit and Risk Committee)

The Committee has a Board approved Charter setting out its role, responsibilities, structure and membership requirements.

In performing its responsibilities, the Committee shall, amongst other things:

- Where a vacancy arises, recommend to the Board the appointment of the external auditors;
- Review the terms of engagement of the external auditor and prepare a recommendation to the Board including recommendation on the level of the external auditor's annual fee;
- Review the adequacy of the Financial Reports presented to the Board;
- Review Board Policies in regards to financial matters;
- Monitor and evaluate to ensure the overall effectiveness of both the internal controls and external audit, and the independence of the external auditors
- Ensure that no management restrictions are being placed upon the external audit;
- Review all financial reports to be made to members and the public and assess their adequacy for shareholder needs;
- Monitor the standard of corporate conduct in areas such as related-party dealings and any likely conflicts of interest;
- Require reports from management, and the external auditors on any significant proposed regulatory, accounting or reporting issue, to assess the potential impact upon the company;

- Review and recommend to the Board accounting policy changes;
- Identify and direct any special projects or investigations deemed necessary; and
- Review for completeness and accuracy the reporting of the entities main corporate governance practices as required by ASX.
- The Board has determined that the Audit Committee will be responsible for further development and monitoring of the Risk Management Framework in accordance with ASX guidelines and this will be incorporated into the Charter in 2010

A copy of the Audit Committee Charter is available on request and is also available for inspection on the Company's website.

Details of the amounts paid for both audit and non-audit services are set out in the Notes to Financial Statements of the 2009 Annual Report (Note 27 –"Auditors' Remuneration").

4.4 Audit Committee Information

Details of the names and qualifications of Audit Committee Members, their attendance at Meetings and the number of meetings of the Audit Committee held during 2009 are set out in the Directors' Report of the 2009 Annual Report.

Principle 5:
Make timely and balanced disclosure

In Principle 5, ASX recommends promoting timely and balanced disclosure of all material matters concerning the Company. The Company addresses this recommendation as follows:

The Board recognises that the Company as a publicly listed entity has an obligation to make timely and balanced disclosure in accordance with the requirements of the ASX Listing Rules and the Corporations Act 2001. The Board also is of the view that an appropriately informed shareholder base, and market in general, is essential to an efficient market for the Company's securities.

The Board is committed to ensuring that Shareholders and the market have timely and balanced disclosure of matters concerning the Company and has adopted a Continuous Disclosure Policy.

A copy of this policy is available on request and is also available for inspection on the Company's website.

All information disclosed to ASX is promptly placed on the Company's website following receipt of confirmation from ASX and, if deemed desirable, released to the wider media.

Principle 6:
Respect the rights of shareholders

In Principle 6, ASX recommends respecting the rights of Shareholders and facilitating the effective exercise of those rights. Ludowici address this recommendation as follows.

6.1 Communications with shareholders

The Board recognises that the Shareholders are the beneficial owners of the Company and respects their rights and is continually seeking ways to assist shareholders in the exercise of those rights.

The Board also recognises that as owners of the Company, the Shareholders may best contribute to the Company's growth, value and prosperity if they are informed. To this end, the Board seeks to empower Shareholders by:

- Communicating effectively with Shareholders;
- Enabling Shareholders access to balanced and understandable information about the Company, its operations and proposals; and
- Assisting Shareholders' participation in general meetings.

The Company provides a website (www.ludowici.com.au) in order to provide opportunities for Shareholders to access Company announcements, media releases and financial reports through electronic means.

Principle 7:
Recognise and manage risk

In Principle 7, ASX recommends establishing a sound framework of risk oversight, risk management and management and internal control. The Company addresses this recommendation as follows:

7.1 The identification and effective management of risk, including calculated risk taking, is viewed as an essential part of the Company's approach to creating long-term shareholder value. The Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Board has determined that the Audit Committee will be responsible for the further development and monitoring of a Risk Management Framework in accordance with ASX guidelines and will report to the Board on this matter.

The Company has in place a combination of formal and informal policies and procedures for risk management and internal controls to manage the Company's material business risks and intends to adopt a formal Risk Management policy. The policy will be available to shareholders on request and will be available for inspection on the Company's website by May 2010

7.2 Internal control system

The Company continues to develop internal control procedures to provide assurance on the adequacy of these to manage risk. The Managing Director is charged with implementing appropriate internal control framework within the Company and includes in his regular internal reports to the Board details of any issues or concerns. This is supplemented by Chief Financial Officer visits to key locations to ensure compliance with policy.

The Board reviews all major strategies for their impact on the risks facing Ludowici and takes appropriate action. An updated risk analysis report reviewing all aspects of the Company's operations was completed in late 2009 and will be submitted to Audit and Risk Committee and the Board by April 2010.

7.3 CEO and CFO certification.

Consistent with Principle 7.3 and section 295A of the Corporations Act 2001, the CEO and CFO have provided a written statement to the Board that, in their opinion:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies by the Board; and
- The Company's risk management and internal compliance and control system is operating efficiently in all material risks.

The Board notes that due to its nature, internal control, the assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Principle 8: Remunerate fairly and responsibly

In Principle 8, ASX recommends ensuring that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined. The Company addresses these recommendations as follows:

8.1 Remuneration Committee

As mentioned above, the Nomination and Remuneration Committee has been established and has a Charter including objectives to ensure the level and composition of remuneration of both the non-executive Directors as well as the executives are sufficient and reasonable to compensate the individuals and to motivate desired outcomes for the Company.

The responsibilities of this Committee include reviewing, separately, the remuneration of Directors and key executives. The Committee's responsibilities are to:-

- Review non-executive Directors' fees and recommend adjustments of the aggregate amount for consideration by the Shareholders;
- Review senior executive remuneration policy and ensure the mix of base salary, performance pay and other benefits is adequate to attract, retain and motivate talented people;
- Determine the remuneration of the Managing Director (the Managing Director does not participate in this function); and
- Approve the Managing Director's recommendations on senior executive remuneration.

In undertaking its duties the Committee gives due consideration to the Remuneration Policy.

Remuneration Policy

The Board believes that it is in the interest of all stakeholders in the Company for there to be in place a remuneration policy that:

- Attracts and retains talented and motivated Directors, executives and employees so as to encourage enhanced performance of the Company;
- Recognises and rewards superior performance by any individual who has made a significant contribution to the Company;
- Payment of equity-based executive remuneration should only be made in accordance with such schemes that have been approved by shareholders;
- Enables the Company's stakeholders and the investment community to understand:
  - (i) The costs and benefits of that policy; and
  - (ii) The link between remuneration paid to Directors and key executives and the Company's performance.
- Distinguishes the structure of non-executive Directors' remuneration from that of executives using the following guidelines.

For non-executive Directors' remuneration:

- Non-executive Directors should not be provided with retirement benefits other than statutory superannuation; and
- Non-executive Directors ought to receive equity-based remuneration only under strict controls and subject to shareholder approval.

To this end, the Board has established a process of transparency in remuneration matters that relates remuneration to performance and clearly communicates the policy underlying executive remuneration to stakeholders.

Structure

The Board has determined that executive remuneration may comprise any of the following:

- Cash salary;
- Shares in the Company and/or options to acquire shares in the Company;
- Other incentive schemes;
- Allowances;
- Holiday and sick leave;
- Long service leave (Australian employees);
- Superannuation;
- Any other component that the Company can lawfully provide to an officer to salary sacrifice;
- Any other component that the Board considers relevant and desirable; and
- Fringe benefits tax (howsoever called) associated with components of remuneration requested by the Officer to be salary sacrificed.

The remuneration, and its elements, paid to Directors and Key Management Personnel is set out in the Directors' Report of the Financial Report.

Indemnity and insurance of Directors

In accordance with the Company's Constitution and to the extent permitted by law, the Company indemnifies every person who is, or has been, a Director or secretary and may agree to indemnify a person who is or has been an officer of a group company against a liability incurred by that person in his or her capacity as such a Director, secretary or officer, to another person (other than the company or a related body corporate of the company) provided that the liability does not arise out of conduct involving a lack of good faith. In addition, the Company has Directors and officers insurance against claims and expenses that the Company may be liable to pay under these indemnities.

8.2 Distinguishing between executive and non-executive Directors' remuneration.

The Company's policy set out above clearly distinguishes between the executive and non-executive Directors' remuneration and structure for remuneration.

Back row left to right: Wayne Dixon, David Ricketts, Alan Muntz, Brett Cason, Neil Tindle, Front row : Rob Angus, Jim MacDonald, Patrick Largier, Eddie McKerr, Craig Wilson

Executive Management team

Rob Angus – General Manager, Engineering

Rob joined Ludowici in 2005 following 20 years in consulting engineering where he specialized in machine dynamics and vibrations. Rob has extensive experience working on mining machinery, process equipment and rail vehicles. Prior to joining Ludowici Rob worked for 13 years at WBM Consulting Engineers, where as an Associate, he was a member of the management team responsible for the Machinery Group. Rob has several qualifications including a Bachelor of Engineering (Mechanical) and a Masters in Business Administration.

Brett Cason – General Manager, Engineered Consumable Products

Brett joined Ludowici in 2001. Brett's career spans more than 20 years in the mining industry including 15 years at Linatex Australia Pty Ltd as manager for various business units before becoming the Commercial Sales Director in 1998. Prior to his current role, Brett's most recent role in Ludowici was General Manager, Metals & Minerals.

Wayne Dixon – General Manager, Operations

Wayne joined Ludowici in 2007 bringing with him extensive experience in manufacturing, most recently as General Manager Production for Riviera Marine where he was instrumental in reinvigorating production performance. Prior to Riviera, Wayne worked for Volvo Trucks, ran his own business and headed up manufacturing at a variety of plants in the Chargeurs SA Group.

Eddie McKerr – General Manager, Vibrating Equipment

Eddie joined the company (then Malco Engineering) in 1991 and has held a variety of senior roles including National Sales Manager & Product Manager. Prior to working with Ludowici he spent 5 years with Metso Minerals and before that successfully completed a Mechanical Engineering Apprenticeship with British Leyland in his native Scotland, during which time he attained an ONC in Mechanical Engineering.

In 2003 Eddie temporarily re-located to Santiago, Chile where as General Manager, he led the successful establishment and development of Ludowici's Latin American operations before returning to Australia in 2007. He speaks fluent Spanish.

Alan Muntz – Manager, Human Resources

Alan comes to Ludowici with over 20 years senior Human Resource Management experience developed with well recognized food and beverage companies (Fosters and George Weston Foods), large health care organizations and consulting. Joining Ludowici in late 2008 Alan brings to us expertise in Human Resource strategy development, generalist HR as well as experience in organizational development and employee relations.

David Ricketts – General Manager, Global Business Development

Dave joined Ludowici in 1985 and during his 25 years with the company has held a variety of roles.

In 1989 Dave moved to Newcastle to establish Ludowici in the Hunter Valley region. Returning to Brisbane in 1996 he assumed the role of National Sales Manager. With the international growth of Ludowici, Dave moved away from the domestic role becoming International General Manager in 2000. In this role he successfully established Ludowici in South America, Joint Ventures in North America and South Africa and also secured a number of agents in South East Asia. In 2006 Ludowici established a manufacturing center in West Virginia. Dave relocated to the USA where he held the position of General Manager before returning to Australia in 2009.

Neil Tindle – General Manager, Seals

Neil joined the company in 2001 after emigrating from the UK and has held a variety of senior roles including National Sales Manager & Operations Manager.

Prior to working with Ludowici he spent 7 years with DLI Seals in the UK, in roles which covered many areas of the Sealing Industry. Neil has a Diploma in Mechanical Engineering and is a qualified Polymer Technologist.

Craig Wilson – General Manager, Australian Sales & South East Asia

Craig joined Ludowici in January 2000 as Product Manager for Wedge Wire Products and Magnetic Separators based in Brisbane. In 2002 Craig was seconded to Perth to grow Ludowici's WA operation. In 2007 Craig was appointed GM of Ludowici Coal, however through the restructure of the business this position was made redundant. In 2008 Craig and family moved back to Brisbane and took on the role of Business Development with key customers. Craig's career spans more than 25 years in the mining industry including a role as Managing Director for 13 years of a family owned business in South Africa supplying similar product/services to Ludowici (however on a smaller scale) and in 1996 successfully introduced the VM and FC range of centrifuges into the South African market.

Craig holds a Higher National Diploma in Mechanical Engineering from Witwatersrand Technical College in South Africa.

Directors' Report

Your Directors submit their report for the year ended 31 December 2009.

Directors

The following persons were Directors of the Company during the financial year 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 Cowan - appointed 20 November 2009

Principal Activities

The principal activities of the consolidated entity are:

(a) Manufacture of :

– *Equipment for the mineral processing industry;*
– *Fluid seals for hydraulic and pneumatic systems; and*
– *Rubber products.*

(b) Marketing of these products, and other merchandised lines.

Review of operations

In 2009 Ludowici made significant progress on the Company's twin goals of improving operational performance and delivering its strategy of focussing and growing the Company in the global mineral processing industry. Despite the turmoil created by the global financial crisis, the Company recorded an increase in revenue and a strong improvement in operating profit in 2009 as well as a significant strengthening of the Company's balance sheet. These results highlight the benefits of the change program that has been underway in Ludowici for the past few years. We expect that further improvement to Ludowici's performance will be delivered in the future.

Revenue from continuing operations grew by 8.5% in 2009 which was very similar to the revenue growth in 2008 albeit in a much tougher market place.

Operating profit (before tax and finance charges) from continuing operations grew strongly by 74% in 2009 due to savings realised by the Pinkenba consolidation and some margin improvements. In December 2009 the transaction costs of $1.6m associated with the acquisition of Johnsons Screens Mining (JS Mining) business were expensed (as required under accounting standards). The underlying operating profit (before tax and finance charges) from continuing operations excluding these one off transaction costs was $11.4m an increase of 103% over 2008 and a record operating profit for Ludowici.

The biggest strategic development for Ludowici in 2009 occurred at the end of the year with the acquisition of JS Mining businesses in Australia, South America, North America and India. These businesses sell a range of consumable products to the global mineral processing industry. This acquisition was completed on 31 December 2009 and is expected to increase Ludowici's sales by about 30% in 2010 with an even larger increase in profitability. The strategic significance of this acquisition is that it positions Ludowici as a significant player in the mineral processing consumables markets in North and South America as well as India. Previously Ludowici has been a predominantly capital equipment focussed business in these markets. In addition, this acquisition has added new product lines and customers to Ludowici's existing Australian mineral processing consumables business. One of the strategic goals of the Company has been to increase the percentage of sales into the mineral processing consumables market to over 50%. This greater portion of sales into the more predictable mining consumables market helps to reduce business volatility that is sometimes associated with large orders for capital equipment. The acquisition of the JS Mining businesses should result in Ludowici achieving this strategic goal.

The purchase consideration for the acquisition of JS Mining consists of a mix of cash and the issue of ordinary shares in Ludowici Limited where settlement has/will be made pre and post 31 December 2009.

The first instalment payment made on 31 December 2009 consisted of $5.1m in cash plus the issue of 900,000 shares to JS Mining at a deemed issue price of $3.00 per share. The Company also issued 1,650,000 to institutions (Institution Placement) at $2.65 per share to partially fund the transaction.

The second and final instalment payment is expected to be completed in March 2010 and will consist of cash amounting to $11.4m and the issue of 1,600,000 shares to JS Mining at a deemed issue price of $3.00 per share. In addition to the shares issued to JS Mining, 1,350,000 shares will be issued to institutions (Institution Placement) at $2.65 per share to raise a further $3.6m in cash. The residual liability will be settled by debt financing that has been approved by the Company's bankers.

Further information on the operations of the Company during the financial year is provided in the letter to shareholders appended to this report.

Dividends

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

	2009 $'000	2008 $'000
(a) Referred to in the report of the previous year: Final ordinary dividend paid 29 May 2009: 2.0 cents per fully paid share (2008 - 8.0 cents)	383	1,470
(b) Ordinary dividend paid – interim dividend paid 25 September 2009 6.0 cents per fully paid share (2008 - 6.0 cents)	1,146	1,116
(c) Preference dividend – paid 5 June 2009	6	6
	1,535	2,592

Matters subsequent to the end of the financial year

Share Purchase Plan

On 1 February, the Company opened its 2010 Share Purchase Plan (SPP). Eligible shareholders have each been given the opportunity to purchase up to $14,999 worth of new shares at an issue price of $2.65. The purpose of the SPP is to partially fund the acquisition of the JS Mining business. The SPP is planned to close at 5pm (Brisbane time) on 26 February 2010.

Dividend

On the date of approval of this report the Directors have declared a final dividend of 6.0 cents per fully paid ordinary share, unfranked and payable on 7 May 2010.

Capital raise

At the shareholder meeting held on 25 February 2010, approval was given to issue:

- 1,600,000 shares to JS Mining at a deemed price of $3.00 as part of the second instalment payment due to JS Mining; and
- 1,350,000 shares to institutions at an issue price of $2.65 per share to raise a further $3.6m in cash.

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
Capral Limited – Chairman
Bradken Limited – Director

Former directorships in last 3 years
None

Special responsibilities
Chairman of the Board
Member of the Audit Committee
Chairman of the Nomination and Remuneration Committee to 20 November 2009

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 30 June 2005. Mr. Ludowici is a founding Director and Chairman of Rey Resources Ltd, a coal development company. He has wide experience in capital markets and is a director of Ludowici Investments, the largest shareholder in Ludowici Limited.

Other current directorships
Rey Resources Limited – Chairman

Former directorships in last 3 years
None

Special responsibilities
Member of the Audit 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
Chairman of the Audit Committee to 20 November 2009

Member of the Audit Committee

Chairman of the Nomination and Remuneration Committee from 20 November 2009

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

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

Guy 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 has recently retired from New Zealand-based dairy group Fonterra, at which he had been Chief Financial Officer since 2005.

Other current directorships
UGL Limited, Queensland Sugar Limited, Soprole S.A.I.C. (Chile)

Former directorships in last three years
None

Special responsibilities
Chairman of the Audit Committee from 20 November 2009

Company Secretary

Jim D MacDonald BBus, CPA, FAICD

Mr MacDonald was appointed Company Secretary on 31 January 2008. He has had extensive experience as a CFO and Company Secretary for public companies and "Not for Profit" organizations having previously held similar roles at Grow Force Australia Limited, Endeavour Foundation and Metal Storm Limited. Mr MacDonald is a director of Ludowici Limited's subsidiary companies.

Meetings of Directors

The following table sets out the number of the Directors' meetings (including Committee meetings) held during the year ended 31 December 2009 and the number of meetings attended by each Director.

			Meetings of Committees			
	Directors' Meetings		Audit		Nomination & Remuneration	
	A	B	A	B	A	B
P J Arnall	14	14	3	3	2	2
P J Largier	14	14	*	*	*	*
J K Ludowici	14	14	3	3	2	2
C W Ravenhall	14	14	3	3	2	2
H K R Rhodes-White	14	14	*	*	2	2
N W Stump	13	14	*	*	2	2
G Cowan	3	4	*	*	1	1

A = Number of meetings attended
B = Number of meetings held during the time the director held office or was a member of the committee during the year
* = 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; that is, the Chief Executive Officer 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 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 2006 when an aggregate remuneration of $370,000 was approved.

Executive Remuneration Structure:

Total remuneration for senior executives has two elements:

- Total fixed remuneration (TFR)
- Bonuses comprising a cash short-term incentive (STI) and a longer term incentive performance plan (IPP).

TFR:

Comprises base salary, superannuation and vehicle provision. Other permissible benefits may be provided on a salary sacrifice basis.

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 50^{th} percentile of the market range for an equivalent position.

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 80%*
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 – Patrick J Largier.

In addition the Company operates an Executive Share and Option Plan (ESOP) under which participating executives are entitled :

(i) By sacrificing the right to receive salary, salary increases and/or bonuses as cash, to receive shares in Ludowici Limited in lieu of the sacrificed amount. The price of the shares is calculated at 95% of the weighted average share price over a five day trading 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 options is 100% of the weighted average share price over the five-day trading period determined by the Directors in (i) above i.e. the 5% discount does not apply.

Company Performance:

The performance of the Company is reflected in the movement of the Company's earnings per share, which for the past five years has been as follows:

	Earnings per share* Cents per share
2009	34.71
2008	17.36
2007	17.32
2006	22.61
2005	16.33

* Earnings per share excludes impairment items, FX gains/losses, insurance claim proceeds, capitalized R&D and profits (losses) on the sale of discontinued operations and surplus property.

Policy Review:

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

Amounts of remuneration:

2009		Short term			Post Employment			Share-based payment Options $	Total $
		Salary & Fees $	Cash Bonus $	MV Benefits $	IPP Bonus $	Super $	Long service leave $		
Directors									
P J Arnall	Non Executive	85,750	-	-	-	7,717	-	-	93,467
P J Largier ✓	Executive	455,828	315,840	-	-	27,170	5,069	88,729	892,636
J K Ludowici	Non Executive	49,000	-	-	-	4,410	-	-	53,410
C W Ravenhall	Non Executive	60,229	-	-	-	5,421	-	-	65,650
H K Rhodes-White	Non Executive	49,000	-	-	-	4,410	-	-	53,410
N W Stump	Non Executive	49,000	-	-	-	4,410	-	-	53,410
G Cowan	Non Executive	10,208	-	-	-	919	-	-	11,127
Sub-total Directors		759,015	315,840	-	-	54,457	5,069	88,729	1,223,110

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 on 1 January 2009 as approved at the Annual General Meeting held on 28 April 2008.

2009	Short term			Post Employment			Share-based payment Options $	Total $
	Salary & Fees $	Cash Bonus $	MV Benefits $	IPP Bonus $	Super $	Long service leave $		
Other key management personnel								
J D MacDonald ✓	208,557	15,150	-	5,050	19,813	2,124	-	250,694
Sub-total other key management personnel	208,557	15,150	-	5,050	19,813	2,124	-	250,694
Total key management personnel compensation	967,572	330,990	-	5,050	74,270	7,193	88,729	1,473,804
Other Company executives								
B A Cason ✓	184,785	7,900	25,000	10,970	15,498	3,345	-	247,497
W F Dixon ✓	194,097	40,800	-	9,067	17,850	1,650	-	263,464
E McKerr ✓	156,533	47,600	25,000	10,936	14,087	6,118	-	260,274

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

2008		Short term			Post Employment			Share-based payment Options $	Total $
		Salary & Fees $	Cash Bonus $	MV Benefits $	IPP Bonus $	Super $	Long service leave $		
Directors									
P J Arnall	Non Executive	85,750	-	-	-	7,717	-	-	93,467
P J Largier ✓	Executive	443,119	-	-	-	42,364	7,384	30,000	522,867
J K Ludowici	Non Executive	49,000	-	-	-	4,410	-	-	53,410
C W Ravenhall	Non Executive	61,250	-	-	-	5,512	-	-	66,762
H K Rhodes-White	Non Executive	49,000	-	-	-	4,410	-	-	53,410
N W Stump	Non Executive	49,000	-	-	-	4,410	-	-	53,410
Sub-total Directors		737,119	-	-	-	68,823	7,384	30,000	843,326

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 at the Annual General Meeting held on 28 April 2008.

2008	Short term			Post Employment			Share-based payment Options $	Total $
	Salary & Fees $	Cash Bonus $	MV Benefits $	IPP Bonus $	Super $	Long service leave $		
Other key management personnel								
J D MacDonald ✓	203,246	-	-	-	14,645	3,440	-	221,331
Sub-total other key management personnel	203,246	-	-	-	14,645	3,440	-	221,331
Total key management personnel compensation	940,365	-	-	-	83,468	10,824	30,000	1,064,657
Other Company executives								
B A Cason ✓	183,750	-	25,000	11,338	17,437	3,062	-	240,587
W F Dixon * ✓	164,373	-	-	-	12,842	3,210	-	180,425
E McKerr ✓	134,562	-	25,000	6,937	11,677	2,522	-	180,698

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

* Mr Dixon commenced on 25 February 2008.

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 $483,000 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 plus an additional 20% of TFR if stretch targets are achieved.*
- *LTI in form of a share option plan approved at the 2008 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 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 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 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.

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.*

- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to twelve months salary.

Jim D MacDonald, *Chief Financial Officer / Company Secretary*

- *Term of agreement - To continue until terminated in accordance with the agreement.*
- *TFR, inclusive of superannuation is $225,000 per annum.*
- *Bonus: Up to 50% of TFR 50% in cash (STI) and 50% in shares deferred for three years (LTI).*
- *Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to six months salary.*

Share-based compensation

Remuneration options : granted during the year

(i) Directors

150,000 options were granted to Mr Largier on 1 January 2009 as approved at the Annual General Meeting held on 28 April 2008 (2008: 375,000).

(ii) Other key management personnel

No options were granted to other key management personnel or executives during the year (2008: Nil).

Remuneration options: There were no options exercised by Directors and key management personnel in the 12 months ended 31 December 2009 (2008: Nil).

Option holdings of key management personnel

2009		Balance at beginning of period 1 January 2009 No.	Granted as Remuneration No.	Exercised and converted to ordinary shares (or lapsed) No.	Balance at end of period 31 December 2009 No.
(i)	*Directors*				
	P J Largier	375,000	150,000	-	525,000
(ii)	*Other key management personnel*				
	J D MacDonald	-	-	-	-
	Total	375,000	150,000	-	525,000

2008		Balance at beginning of period 1 January 2008 No.	Granted as Remuneration No.	Exercised and converted to ordinary shares (or lapsed) No.	Balance at end of period 31 December 2008 No.
(i)	*Directors*				
	P J Largier	-	375,000	-	375,000
(ii)	*Other key management personnel*				
	J D MacDonald	-	-	-	-
	Total	-	375,000	-	375,000

Shareholdings of directors and key management personnel

2009	Balance 1 January 2009		Shares purchased/(sold)		Balance 31 December 2009	
	Ord No.	Pref No.	Ord No.	Pref No.	Ord No.	Pref No.
(i) *Directors*						
P J Arnall	30,717	-	909	-	31,626	-
P J Largier	15,869	-	12,018	-	27,887	-
J K Ludowici*	196,064	20,250	7,888	-	203,952	20,250
C W Ravenhall	29,156	-	23,650	-	52,806	-
H K R Rhodes-White*	83,808	-	-	-	83,808	-
N W Stump	8,778	-	354	-	9,132	-
G Cowan	-	-	-	-	-	-
Sub-totals	364,392	20,250	44,819	-	409,211	20,250
(ii) *Other key management personnel*						
J D MacDonald	-	-	-	-	-	-
Totals	364,392	20,250	44,819	-	409,211	20,250

2008	Balance 1 January 2008		Shares purchased/(sold)		Balance 31 December 2008	
	Ord No.	Pref No.	Ord No.	Pref No.	Ord No.	Pref No.
(i) *Directors*						
P J Arnall	25,955	-	4,762	-	30,717	-
P J Largier	4,250	-	11,619	-	15,869	-
J K Ludowici*	162,997	20,250	33,067	-	196,064	20,250
C W Ravenhall	25,701	-	3,455	-	29,156	-
H K R Rhodes-White*	81,427	-	2,381	-	83,808	-
N W Stump	1,138	-	7,640	-	8,778	-
Sub-totals	301,468	20,250	62,924	-	364,392	20,250
(ii) *Other key management personnel*						
J D MacDonald	-	-	-	-	-	-
Totals	301,468	20,250	62,924	-	364,392	20,250

* Messrs Ludowici and Rhodes-White are directors of Ludowici Investments Pty Ltd, which holds 5,272,792 (2008: 5,054,185) shares in the company. Mr Ludowici is also a director of Sevlan Pty Ltd which holds 112,545 (2008: 108,192) shares in the Company.

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

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 2009 totalled 698 compared to 586 in 2008.

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 $700,832 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 33.

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

The outlook for 2010 is positive for Ludowici. The acquisition of the JS Mining businesses is expected to lift revenue by 30% in 2010 with at least the equivalent increase in profitability. The order book for Ludowici capital equipment is strong for the first half of the year. The size of the order book for the second half of 2010 will become apparent over the next few months. While it is unlikely that earnings from ongoing operations will increase anywhere near as much as happened in 2009, the drive to increase operating efficiency is continuing and should deliver further benefits to the Company.

(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 150,000 options were granted to Mr Largier on 1 January 2009 as approved at the Annual General Meeting held on 28 April 2008. Details of existing options are disclosed in Note 32.

(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 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.

(e) Tax consolidation

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

P J Largier
Director

Brisbane 25 February 2010

Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Ludowici Limited for the year ended 31 December 2009, 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 period.

Martin Linz
Partner
PricewaterhouseCoopers

Brisbane
25 February 2010

Income statements

For the year ended 31 December 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Ludowici Limited 2009 $'000	Ludowici Limited 2008 $'000
Revenue from continuing operations	5	163,245	150,438	26,494	468
Cost of sales		(111,252)	(107,965)	-	-
Gross Profit		51,993	42,473	26,494	468
Other income	6	595	1,839	254	-
Selling expenses		(24,850)	(23,516)	-	-
Distribution expenses		(1,096)	(1,481)	-	-
Administration expenses		(14,021)	(13,075)	(10,981)	(10,012)
Business acquisition expenses		(1,622)	-	(1,622)	-
Research and development expenses		(1,173)	(601)	(171)	-
Impairment	7	-	-	(5,096)	-
Results from operating activities		9,826	5,639	8,878	(9,544)
Finance costs	7	(3,097)	(3,433)	(3,139)	(3,799)
Profit (loss) before income tax		6,729	2,206	5,739	(13,343)
Income tax (expense) benefit	8	(1,349)	(811)	5,007	4,089
Net profit (loss) from continuing operations		5,380	1,395	10,746	(9,254)
Profit (loss) from discontinued operations	9	(3,509)	3,176	-	-
Profit attributable to owners of Ludowici Limited		1,871	4,571	10,746	(9,254)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		**Cents**	**Cents**		
Basic earnings per share	37	27.8	7.5		
Diluted earnings per share	37	27.8	7.5		
Earnings per share for profit attributable to the ordinary equity holders of the company:					
Basic earnings per share	37	9.7	24.7		
Diluted earnings per share	37	9.7	24.7		

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

Statements of comprehensive income

For the year ended 31 December 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Ludowici Limited 2009 $'000	Ludowici Limited 2008 $'000
Profit for the year		1,871	4,571	10,746	(9,254)
Other comprehensive income:					
Exchange differences on translation of foreign operations	25	(2,345)	341	-	-
Costs arising from forward exchange contracts		-	(242)	-	(242)
Income tax relating to components of comprehensive income	25	-	73	-	73
Other comprehensive income net of tax		(2,345)	172	-	(169)
Total comprehensive income for the year attributable to the owners of Ludowici Limited		(474)	4,743	10,746	(9,423)

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

Balance sheets

As at 31 December 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Ludowici Limited 2009 $'000	Ludowici Limited 2008 $'000
ASSETS					
Current assets					
Cash and cash equivalents	10	12,596	7,435	1,221	188
Trade and other receivables	11	29,394	30,041	858	377
Inventories	12	35,624	32,435	21	21
Current tax assets		-	1,309	-	1,251
Assets classified as held for sale	9	1,917	-	-	-
Total current assets		79,531	71,220	2,100	1,837
Non-current assets					
Receivables	13	76	108	57,771	28,721
Other financial assets	14	-	-	7,621	7,897
Property, plant and equipment	15	59,054	57,408	35,877	36,504
Deferred income tax assets	16	5,402	4,988	979	294
Intangible assets	17	27,261	16,971	-	-
Total non-current assets		91,793	79,475	102,248	73,416
Total assets		171,324	150,695	104,348	75,253
LIABILITIES					
Current liabilities					
Trade and other payables	18	36,438	29,877	1,607	1,559
Derivatives	19	144	-	144	-
Borrowings	20	8,069	7,297	6,134	-
Current tax payable		1,643	1,318	628	-
Provisions	21	6,447	5,308	367	357
Total current liabilities		52,741	43,800	8,880	1,916
Non-current liabilities					
Derivatives	19	-	242	-	242
Borrowings	22	40,139	40,100	40,100	40,100
Deferred income tax liabilities	16	3,470	2,684	738	660
Provisions	23	547	525	68	76
Total non-current liabilities		44,156	43,551	40,906	41,078
Total liabilities		96,897	87,351	49,786	42,994
Net assets		74,427	63,344	54,562	32,259
EQUITY					
Contributed equity	24	40,751	27,708	40,751	27,708
Reserves	25	(3,128)	(949)	396	353
Retained profits		36,804	36,585	13,415	4,198
Total equity		74,427	63,344	54,562	32,259

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

Statements of changes in equity

For the year ended 31 December 2009

Consolidated	Contributed Equity $'000	Reserves $'000	Retained Profit $'000	Total $'000
Balance as at 1 January 2008	25,804	(1,126)	34,601	59,279
Total comprehensive income	-	172	4,571	4,743
Employee share options and shares – value of employee services	-	5	-	5
Transactions with owners in their capacity as owners:				
Contribution of equity net of transaction costs	1,904	-	-	1,904
Dividends provided or paid	-	-	(2,587)	(2,587)
Balance as at 31 December 2008	27,708	(949)	36,585	63,344
Balance as at 1 January 2009	27,708	(949)	36,585	63,344
Total comprehensive income	-	(2,345)	1,871	(474)
Employee share options and shares – value of employee services	-	301	-	301
Retained earnings held in reserve - China	-	123	(123)	-
Value of vesting of shares previously recognised in Employee Equity Benefits Reserve.	258	(258)	-	-
Transactions with owners in their capacity as owners:				
Contribution of equity net of transaction costs	12,785	-	-	12,785
Dividends provided or paid	-	-	(1,529)	(1,529)
Balance as at 31 December 2009	40,751	(3,128)	36,804	74,427

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

Statements of changes in equity

For the year ended 31 December 2009

Ludowici Limited	Contributed Equity $'000	Reserves $'000	Retained Profit $'000	Total $'000
Balance as at 1 January 2008	25,804	517	16,039	42,360
Total comprehensive income	-	(169)	(9,254)	(9,423)
Employee share options and shares – value of employee services	-	5	-	5
Transactions with owners in their capacity as owners:				
Contribution of equity net of transaction costs	1,904	-	-	1,904
Dividends provided or paid	-	-	(2,587)	(2,587)
Balance as at 31 December 2008	27,708	353	4,198	32,259
Balance as at 1 January 2009	27,708	353	4,198	32,259
Total comprehensive income	-	-	10,746	10,746
Employee share options and shares – value of employee services	-	301	-	301
Vesting of shares previously recognised as share based payments.	258	(258)	-	-
Transactions with owners in their capacity as owners:				
Contribution of equity net of transaction costs	12,785	-	-	12,785
Dividends provided or paid	-	-	(1,529)	(1,529)
Balance as at 31 December 2009	40,751	396	13,415	54,562

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

Statements of cash flow

For the year ended 31 December 2009

	Notes	Consolidated 2009 $'000	Consolidated 2008 $'000	Ludowici Limited 2009 $'000	Ludowici Limited 2008 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		183,526	173,621	901	1,168
Payments to suppliers and employees (inclusive of GST)		(173,774)	(162,870)	(11,236)	(9,943)
Interest paid		(3,298)	(4,433)	(3,292)	(4,433)
Interest received		49	110	46	74
Income tax (paid) refunded		(142)	(952)	1,121	(724)
Research and development expenditure		(1,173)	(641)	(171)	-
Net cash inflow (outflow) from operating activities	34	5,188	4,835	(12,631)	(13,858)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment, excluding sale of businesses.		68	78	306	-
Purchase of JS Mining business net of cash acquired	31(b)	(5,346)	-	(127)	-
Purchase of property, plant and equipment		(2,755)	(18,938)	(598)	(16,260)
Purchase of intangible assets		-	(270)	-	-
Loans from (to) controlled entities & employees		49	-	3,969	12,368
Proceeds from the sale of a business – net of cash disposed	9(iii)	2,307	3,177	-	-
Net cash (outflow) inflow from investing activities		(5,677)	(15,953)	3,550	(3,892)
Cash flows from financing activities					
Proceeds from issues of shares		4,894	1,070	4,894	1,070
Proceeds from (repayment of) borrowings		2,021	14,134	6,134	18,111
Equity dividends paid		(914)	(1,753)	(914)	(1,753)
Net cash (outflow) inflow from financing activities		6,001	13,451	10,114	17,428
Net increase (decrease) in cash and cash equivalents		5,512	2,333	1,033	(322)
Cash and cash equivalents at beginning of year		7,435	4,793	188	510
Effects of exchange rate changes on cash and cash equivalents		(351)	309	-	-
Cash and cash equivalents at end of year	10	12,596	7,435	1,221	188

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2009

Contents of the notes to the financial statements

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 include separate financial statements for Ludowici Limited as an individual entity and 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).

Early 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 AIFRS (Australian International Financial Reporting 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 2009 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.

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)).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

(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.

Change in accounting policy
The group has applied AASB 8 Operating Segments from 1 January 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented.

In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2008 have been restated.

Early adoption of standards
The Managing Director assesses the assets and liabilities of the group on a consolidated basis. Accordingly the Board has made an early adoption of the amended accounting standard AASB 8 Operating Segments which comes into effect from 1 January 2010. This amendment provides relief from reporting asset and liability information by segment.

(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 (none of which has the currency of a hyperinflationary economy) 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 amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. 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.

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.

(ii) *Royalties*
Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

(iii) *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.

(iv) *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 attributable to amounts recognised directly in equity are also recognised directly in equity.

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.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Note 16.

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.

(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). 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 purchase method of accounting is used to account for business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(r)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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.

Change in accounting policy
The group has adopted Revised AASB 3 Business Combinations which became effective on 1 July 2009. The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. In addition to this any costs directly attributable to the acquisition are required to be charged directly to the income statement. The effect of this change in accounting standard has been the recognition of acquisition costs totalling $1,622,000 in the current year income statement which, prior to the application of this standard, would have been capitalised as part of the cost base of the business acquired.

(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 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.

(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.

Impairment
The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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) Derivative and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 19. Movements in the hedging reserve in shareholders' equity are shown in Note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(q) Property, plant and equipment

Land and buildings are measured at fair value, based on periodic (but at least triennial) valuations by external independent valuers, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

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.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to the property, plant and equipment reserve in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

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.

(r) Intangible assets

(i) *Goodwill*
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. 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. Instead, goodwill 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. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (Note 4).

(ii) *Patents and licences*
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.

(s) 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.

(t) 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.

Cumulative preference shares exhibit characteristics of a liability and are recognised as a liability in the balance sheet, net of issue costs. Finance costs on this instrument are recognised as an expense in the income statements, on an effective yield basis.

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.

(u) 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.

(v) 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.

(w) 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.

(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 new Note 33.

The fair value of options 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.

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.

(x) Contributed equity

Ordinary shares are classified as equity. Preference shares are classified as liabilities (Note 22).

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).

(y) 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.

(z) 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)).

(aa) 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.

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.

(ab) 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.

(ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2009 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 January 2010)*
In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards Standards. The Group will apply the revised standards from 1 January 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(ii) *AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective 1 January 2010)*
The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity- or a cash-settled transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 January 2010. However, as the amendments only affect the accounting in the individual entities there will be no impact on the financial statements of the Group.

(iii) *AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132] (effective 1 February 2010)*
In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting policies. The Group will apply the amended standard from 1 February 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's or the parent entity's financial statements.

(iv) *Revised IAS 24 Related Party Disclosures (effective 1 January 2011)*
On 4 November 2009 the IASB issued a revised IAS 24 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 January 2011. It is not expected to have any effect on the Group's or the parent entity's related party disclosures.

(v) *(IFRS 9 Financial Instruments (effective 1 January 2013)*
In November 2009, the IASB issued IFRS 9 Financial Instruments which addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 and the group is yet to assess its full impact.

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. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. 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.

The Group is continuing its review and evaluation of all aspects of financial risk management within the context of a central treasury function. This review is incorporating existing management policies and current practices. Risk management is carried out by the Group's finance department which identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. As part of this review an updated framework of policy is being developed whereby the Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial assets				
Cash and cash equivalents	12,596	7,435	1,221	188
Trade and other receivables	29,470	30,149	54,226	29,098
Other financial assets	-	-	7,621	7,897
	42,066	37,584	63,068	37,183
Financial liabilities				
Trade and other payables	36,438	29,877	1,607	1,559
Derivatives	144	242	144	242
Borrowings	48,208	47,397	46,234	40,100
	84,790	77,516	47,985	41,901

(a) Market risk

(i) *Foreign exchange risk*

The Group and the parent entity operate internationally and are exposed to foreign exchange risk arising from various currency exposures, including the US Dollar, New Zealand Dollar, Chilean Peso, South African Rand and Chinese Yuan Renminbi 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 and parent entity'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 $15,887,000 (2008: $16,792,000). The following table details the forward foreign exchange contracts as at 31 December:

	Average exchange rate 2009	Principal amount 2008	2009 $'000	2008 $'000
Group				
Forward exchange contracts				
– Buy foreign currency				
USD (matures 0 to 6 months)	0.8745	-	(2,287)	-
– Sell foreign currency				
USD (matures 0 to 6 months)	-	0.6900	-	580
ZAR (matures 1 to 2 years)	7.3500	7.3500	1,768	1,768
Ludowici Limited				
Forward exchange contracts				
– Buy foreign currency				
USD (matures 0 to 6 months)	0.8745	-	(2,287)	-
– Sell foreign currency				
USD (matures 0 to 6 months)	-	0.6900	-	580
ZAR (matures 1 to 2 years)	7.3500	7.3500	1,768	1,768

Group and parent entity sensitivity

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

	USD '000	NZD '000	CLP '000	ZAR '000	CNY '000
2009					
Cash and cash equivalents	1,119	322	2,606	2,278	566
Trade and other receivables	3,536	20	3,567	1,806	1,940
Trade and other payables	(13,275)	(65)	(2,773)	(1,406)	(814)
Borrowings	(5,591)	-	(910)	-	-
2008					
Cash and cash equivalents	1,253	27	118	238	227
Trade and other receivables	3,162	1,276	4,133	202	847
Trade and other payables	(10,261)	(4,379)	(5,313)	(1,935)	(3,069)
Borrowings	(5,371)	(1,952)	-	-	-

	USD '000	ZAR '000
2009		
Group		
Forward exchange contracts (expressed in domestic currency)		
– Buy foreign currency		
USD (matures 0 to 6 months)	(6,000)	-
– Sell foreign currency		
USD (matures 0 to 6 months)	-	-
ZAR (matures 0 to 6 months)	-	13,000
Ludowici Limited		
Forward exchange contracts (expressed in domestic currency)		
– Sell foreign currency		
USD (matures 0 to 6 months)	(6,000)	-
ZAR (matures 0 to 6 months)	-	13,000
2008		
Group		
Forward exchange contracts (expressed in domestic currency)		
– Sell foreign currency		
USD (matures 0 to 6 months)	400	-
ZAR (matures 1 to 2 years)	-	13,000
Ludowici Limited		
Forward exchange contracts (expressed in domestic currency)		
– Sell foreign currency		
USD (matures 0 to 6 months)	400	-
ZAR (matures 1 to 2 years)	-	13,000

Based on the financial instruments held at 31 December 2009, 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 $1,022,000 lower/$692,000 higher (2008 –$2,314,000 lower/$1,891,000 higher), mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated financial instruments as detailed in the above table.

The parent entity's only material financial assets and financial liabilities denominated in foreign currency is its USD loan of AUD equivalent $5,572,000 at 31 December 2009.

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. As at balance date the Group policy regarding the percentage of borrowings maintained at a fixed rate was under review including the use of interest rate swaps to achieve this when necessary. During 2009 and 2008, the Group's borrowings at variable rate were denominated in Australian Dollars, New Zealand Dollars, US Dollars and Chilean Pesos.

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

	2009		2008	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Group				
Bank overdrafts and bank loans	5.78 %	48,208	6.18%	47,397
Ludowici Limited				
Bank overdrafts and bank loans	5.48%	46,234	6.12%	40,100

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 2009, 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 $345,000 lower/higher (2008 – change of 100 bps: $295,000 lower/higher), mainly as a result of higher/lower interest expense on borrowings.

Parent entity sensitivity
The parent entity's main interest rate risk arises from cash equivalents and loans and other receivables with variable interest rates. At 31 December 2009, if interest rates had changed by -/+ 100 basis points from the weighted average rates with all other variables held constant, post-tax profit would have been $340,000 lower/higher (2008 - change of 100 bps: $275,000 lower/higher) 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 28 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.

The parent entity and the Group have 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 tradeable in highly liquid markets.

Financing arrangements

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

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Floating rate				
Expiring within one year *	19,406	12,403	7,021	7,882

* Includes undrawn debtor finance facility 2009 $11,952,000, undrawn bank guarantee working capital line 2009 $4,573,000 (2008; $5,882,000), USD finance facility 2009 $2,427,000 and various other undrawn facilities. Refer to Notes 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 bi-annual review. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time in either Australian, New Zealand or United States Dollars and have an average maturity of 2 years (2008 – 2 years).

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity'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 2009	Carrying amount $'000	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
Non-derivatives						
Non-interest bearing	36,438	36,438	-	-	-	-
Variable rate	48,108	-	8,108	-	40,000	-
Fixed rate	100	-	-	-	-	100
Total non-derivatives	84,646	36,438	8,108	-	40,000	100
Derivatives						
Non-interest bearing	144	144	-	-	-	-
Total derivatives	144	144	-	-	-	-
Total	84,790	36,582	8,108	-	40,000	100

Group at 31 December 2008	Carrying amount $'000	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
Non-derivatives						
Non-interest bearing	29,877	29,877	-	-	-	-
Variable rate	47,297	1,945	5,352	40,000	-	-
Fixed rate	100	-	-	-	-	100
Total non-derivatives	77,274	31,822	5,352	40,000	-	100
Derivatives						
Non-interest bearing	242	-	-	242	-	-
Total derivatives	242	-	-	242	-	-
Total	77,516	31,822	5,352	40,242	-	100

Ludowici Limited at 31 December 2009	Carrying amount $'000	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
Non-derivatives						
Non-interest bearing	1,607	1,607	-	-	-	-
Variable rate	46,134	-	6,134	-	40,000	-
Fixed rate	100	-	-	-	-	100
Total non-derivatives	47,841	1,607	6,134	-	40,000	100
Derivatives						
Non-interest bearing	144	144	-	-	-	-
Total derivatives	144	144	-	-	-	-
Total	47,985	1,751	6,134	-	40,000	100

Ludowici Limited at 31 December 2008	Carrying amount $'000	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
Non-derivatives						
Non-interest bearing	1,559	1,559	-	-	-	-
Variable rate	40,000	-	-	40,000	-	-
Fixed rate	100	-	-	-	-	100
Total non-derivatives	41,659	1,559	-	40,000	-	100
Derivatives						
Non-interest bearing	242	-	-	242	-	-
Total derivatives	242	-	-	242	-	-
Total	41,901	1,559	-	40,242	-	100

(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 3 fair value measurement hierarchy as the market data is not observable.

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

(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 17(a) 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 any 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 for anticipated tax audit issues based on the Group's current understanding 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 utilize those temporary differences.

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

(i) *Operating lease commitments – Group as lessor*
The Group has entered into commercial leases of certain plant and equipment. 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.

(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) *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.

(iv) *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).

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 that are used to make strategic decisions.

The Managing Director considers the business from both a geographic and product 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, New Zealand, Asia and other (Africa). During the year the Group discontinued its operations in New Zealand (Note 9).

(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.

The entity is domiciled in Australia. 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.

Revenues of approximately $22,141,000 (2008 - $19,169,000) are derived from a single external customer. Of these revenues $21,413,000 (2008: $15,225,000) were attributable to the Australian segment and $728,000 (2008: $665,000) were attributable to the Asia segment.

(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 2009 is as follows:

	Australia		North America		Latin America		Asia		Other		Consolidated continuing operations	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Segment revenue	135,249	124,791	18,531	19,161	13,002	10,809	8,643	4,080	7,849	1,362	183,274	160,203
Intersegment eliminations	(17,866)	(7,737)	-	-	-	-	(2,660)	(2,748)	-	-	(20,526)	(10,485)
Revenue from external customers	117,383	117,054	18,531	19,161	13,002	10,809	5,983	1,332	7,849	1,362	162,748	149,718
Interest revenue	44	101	-	-	-	-	5	2	-	7	49	110
Other revenue	448	610	-	-	-	-	-	-	-	-	448	610
Consolidated revenue	117,875	117,765	18,531	19,161	13,002	10,809	5,988	1,334	7,849	1,369	163,245	150,438
EBITDA	7,744	4,575	1,949	1,158	2,604	3,134	1,176	1,001	690	(515)	14,163	9,353
Depreciation & amortisation	(3,359)	(3,158)	(438)	(346)	(110)	(87)	(86)	(69)	(344)	(54)	(4,337)	(3,714)
Segment result (EBIT)	4,385	1,417	1,511	812	2,494	3,047	1,090	932	346	(569)	9,826	5,639
Interest expense	(3,794)	(2,974)	183	(269)	264	-	(20)	-	270	(190)	(3,097)	(3,433)
Consolidated profit before tax	591	(1,557)	1,694	543	2,758	3,047	1,070	932	616	(759)	6,729	2,206
Income tax expense	249	543	(658)	(33)	(463)	(937)	(208)	(272)	(269)	(112)	(1,349)	(811)
Consolidated profit after tax	840	(1,014)	1,036	510	2,295	2,110	862	660	347	(871)	5,380	1,395

5. Revenue

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
From continuing operations				
Sales revenue				
Sale of goods	162,748	149,718	-	-
Other revenue				
Dividends	-	-	26,000	-
Royalties	448	246	448	246
Property rentals received	-	364	-	148
Interest received	49	110	46	74
	163,245	150,438	26,494	468
From discontinued operations (Note 9)				
Sale of goods	6,855	9,626	-	-

6. Other income

	Consolidated 2009 $'000	Consolidated 2008 $'000	Ludowici Limited 2009 $'000	Ludowici Limited 2008 $'000
Net foreign exchange profit	98	1,389	89	-
Other	497	450	165	-
	595	1,839	254	-

7. Expenses

	Consolidated 2009 $'000	Consolidated 2008 $'000	Ludowici Limited 2009 $'000	Ludowici Limited 2008 $'000
Profit before income tax includes the following specific expenses				
Net loss on disposal of property, plant and equipment	37	97	-	-
Amortisation of non-current assets - Intangibles	582	437	-	-
Depreciation on property, plant and equipment	3,755	3,277	919	700
Minimum lease payments – operating lease	4,176	4,581	19	45
Employee equity benefit expense	302	5	302	5
Defined contribution superannuation expense	2,983	3,372	442	685

Government grants

During the year grants totalling $85,000 were recognised from the Department of Employment, Economic Development and Innovation in respect of relocation of businesses. In the prior year a Government grant of $23,000 was recognised as receivable from the Queensland Investment Incentives Scheme, in respect of relocation of businesses. These grants were set-off against administration expenses.

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Finance costs				
- Interest and finance charges for borrowings	3,097	4,274	3,139	4,640
- Finance costs capitalised at the groups weighted average cost of borrowings (7.90%)	-	(841)	-	(841)
Finance costs expensed	3,097	3,433	3,139	3,799
Impairment losses – financial assets				
Trade receivables	(120)	117	-	-
Investment in subsidiary	-	-	403	-
Loan to subsidiary	-	-	4,693	-
	(120)	117	5,096	-
Impairment of other assets				
Inventories	311	734	-	-

8. Income tax expense

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Income tax expense				
Current tax	1,652	1,832	(4,399)	(4,297)
Deferred tax	132	(281)	(608)	77
Adjustments for current tax of prior periods	-	136	-	131
	1,784	1,687	(5,007)	(4,089)
Income tax is attributable to:				
Profit from continuing operations	1,349	811	(5,007)	(4,089)
Profit from discontinued operations	435	876	-	-
Aggregate income tax expense	1,784	1,687	(5,007)	(4,089)
Deferred income tax expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 16)	(44)	(982)	(686)	(48)
(Decrease) increase in deferred tax liabilities (Note 16)	176	701	78	125
	132	(281)	(608)	77

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
(Loss) profit from continuing operations before income tax expense	6,729	2,206	5,739	(13,343)
Profit from discontinuing operations before income tax expense	(3,074)	4,052	-	-
	3,655	6,258	5,739	(13,343)
Tax at the Australian tax rate of 30% (2008:30%)	1,097	1,877	1,722	(4,003)
Adjustments for current tax of prior periods	-	136	-	131
Adjustments for deferred tax prior periods	-	(299)	-	(292)
Previously unrecognised losses now recognised	(163)	-	-	-
Non-deductible expenses	867	317	140	75
Non-assessable income and capital gains	851	-	-	-
Exempt dividends received	-	-	(7,800)	-
Intercompany debt forgiveness	-	-	1,408	-
Write-down of investment in subsidiary	-	-	121	-
Expenditure on research and development	(596)	(5)	(584)	-
Capital losses recognised	(26)	-	(14)	-
Difference in overseas tax rates	(246)	(339)	-	-
Aggregate Income tax expense (benefit)	1,784	1,687	(5,007)	(4,089)

(c) Amounts recognised directly in equity

No tax amounts have been recognised directly in equity during the current or prior year.

9. Discontinued operations and non-current assets held for sale

Group

(i) *Description*

On 30 June 2009 the Group entered into a contract to sell the New Zealand Packaging business. The sale of the business was completed on 31 July 2009 and has been reported in this financial report as a discontinued operation.

Financial information relating to the discontinued operation for the period to the date of disposal and remaining non-current assets held for sale are set out below.

(ii) *Financial performance and cash flow information*

The 2009 financial performance and cash flow information presented in the 2009 column relates to 7 months ended 31 July 2009 for the New Zealand Packaging business sold in this financial year. The 2008 column includes the New Zealand Packaging business and the Australian Plastics business sold in 2008.

	2009 $'000	2008 $'000
Financial:		
Revenue (Note 5)	6,724	9,281
Cost of sales	(4,795)	(6,254)
Gross profit	1,929	3,027
Other income	131	345
Selling expenses	(664)	(1,458)
Administration expenses	(8)	-
Finance costs	(48)	(158)
Foreign currency gain	27	-
Recognition of foreign exchange loss arising on sale from virtual equity/ long term debt becoming repayable	(690)	-
Profit before income tax	677	1,756
Income tax expense	(435)	(187)
Profit after income tax from discontinued operations.	242	1,569
Gain / (loss) on sale of operations before income tax	(3,751)	2,296
Income tax expense	-	(689)
Gain / (loss) on sale of operations after income tax	(3,751)	1,607
Profit (loss) from discontinued operations	(3,509)	3,176
Cash flow:		
Net cash inflow from operating activities	2,965	2,018
Net cash inflow from investing activities (includes an inflow of $2,307,000 from the sale of the business)	2,071	3,177
Net increase in cash generated by discontinued operation	5,036	5,195

	2009 $'000 Total	2008 $'000 Total
(iii) *Details of sale of business*		
Consideration received or receivable		
Cash (net of disposal cost)	2,307	3,177
Total disposal consideration	2,307	3,177
Carrying amount of net assets sold	(5,143)	(881)
Foreign currency translation reserve written off on disposal	(915)	-
Gain / (loss) on sale before income tax	(3,751)	2,296
Income tax expense	-	(689)
Gain / (loss) on sale after income tax	(3,751)	1,607
Cash proceeds on disposal (net of disposal cost)	2,307	3,177
Proceeds from sale of business net of cash	2,307	3,177

The sale agreement contains an "earn out" clause based on the Purchaser achieving certain financial performance criteria over the next two financial years. The management of Ludowici have assessed the financial performance criteria and concluded not to recognise any contingent consideration based on their assessment of the achievability of the "earn out" criteria.

The carrying amount of assets and liabilities at date of sale (31 July 2009) were:

	2009 $'000
Current assets	
Inventories	1,155
Property, plant and equipment	4,100
Total Assets	5,255
Liabilities	
Provisions	(112)
Total Liabilities	(112)
Net Assets	5,143

(vi) Current assets classified as held for sale

The New Zealand Packaging business land and buildings were not part of the sale, and are currently being leased by Ludowici to the new owners of the New Zealand Packaging business. It is the company's intention to sell this land and buildings.

	2009 $'000	2008 $'000
The carrying amount of land and buildings is as follows:		
Freehold land and buildings	1,917	-

10. Current assets – Cash and cash equivalents

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash at bank and in hand	12,596	7,435	1,221	188
(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:				
Balances as above	12,596	7,435	1,221	188
Bank overdrafts	-	-	-	-
Balances per statement of cash flows	12,596	7,435	1,221	188

(b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is set out in Note 2.

11. Current assets – Trade and other receivables

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade receivables	26,557	27,807	-	-
Provision for impairment of receivables	(169)	(396)	-	-
	26,388	27,411	-	-
Loans to key management personnel*	-	3	-	3
Loans to employees**	33	64	33	64
Prepayments and other debtors	2,973	2,563	825	310
	29,394	30,041	858	377

* Refer to Note 13 for the non-current portions of loans to key management personnel. Further information relating to loans to key management personnel is set out in Note 32.

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

(a) Impaired trade receivables

As at 31 December 2009 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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
1 month or less	-	119	-	-
2 to 3 months	95	1	-	-
3 months or more	74	276	-	-
	169	396	-	-
Movements in the provision for impairment of receivables are as follows:				
At 1 January	396	299	-	-
Provision for impairment recognised during the year	-	153	-	-
Receivables written off during the year as uncollectible	(93)	(25)	-	-
Unused amount reversed	(120)	(36)	-	-
Exchange differences	(14)	5	-	-
At 31 December	169	396	-	-

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 2009, 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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Period in excess of trading terms; 1 month or less	6,953	6,942	-	-
2 to 3 months	1,353	1,664	-	-
3 months or more	1,894	1,501	-	-
	10,200	10,107	-	-

(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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Raw materials and stores	15,125	9,834	-	-
Work in progress	2,816	5,963	-	-
Finished goods	17,683	16,638	21	21
Total inventories at lower of cost and net realisable value	35,624	32,435	21	21

Write-downs of inventories to net realisable value recognised as an expense during the year ended 31 December 2009 amounted to $311,000 (2008: $734,000) for the Group and $nil (2008: $nil) for Ludowici Limited. The expense has been included in 'cost of goods sold' in the income statement.

13. Non-current assets – Receivables

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Loans to related parties	-	-	57,753	28,688
Customer retentions	-	75	-	-
Loans to key management personnel*	-	3	-	3
Loans to employees*	18	30	18	30
Prepayments and other debtors	58	-	-	-
	76	108	57,771	28,721

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

Loans to related parties are non interest bearing with no specific repayment terms.

Further information relating to loans to related parties and key management personnel is set out in Notes 30 and 32 respectively.

(a) Impaired receivables and receivables past due

During the financial year it was found that the carrying value of a subsidiary's loan from the parent entity was impaired. As a result the loan, totalling $4,693,000 was written off. None of the other 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 and Ludowici Limited's exposure to credit risk, foreign exchange and interest rate risk is provided in Note 2.

14. Non-current assets – Other financial assets

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Shares in subsidiaries	-	-	7,621	7,897

These financial assets are carried at cost.

During the financial year it was found that the carrying value of a subsidiary was impaired. As a result the investments in a subsidiary was written down by $403,000.

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):

	Note	Ownership %		Place of Incorporation
		2009	2008	
J.C. Ludowici & Son Pty Limited *		100	100	Australia
Ludowici Australia Pty Limited *		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
Ludowici Holdings Inc *	(a)	100	100	USA
Ludowici Mineral Processing Equipment Inc.	(c)	100	100	USA
Ludowici LLC (formerly Ludowici Innovative LLC)*	(c)	100	100	USA
Ludowici Screens LLC	(c)	100	-	USA
Ludowici India Private Limited *		100	100	India
Ludowici Mining Process India PVT Limited		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	-	Chile
ICR Johnson Screens Peru S.A.C.	(e)	100	-	Peru
Yantai Ludowici Mineral Processing Equipment Limited *	(f)	100	100	China
Ludowici (Beijing) Co., Ltd	(f)	100	-	China
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 Africa (Pty) Ltd	(g)	100	100	South Africa

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 Ltd

(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 Limited

(g) Controlled entity of Ludowici Africa Holdings (Pty) Ltd

* Companies that are included in a Deed of Cross Guarantee and indemnity (Note 28).

15. Non-current assets - Property, plant and equipment

CONSOLIDATED	Freehold Land and Buildings $'000	Plant and Equipment $'000	Total $'000
Cost or fair value			
Balance at 1 January 2008	20,760	56,715	77,475
Additions	16,552	3,229	19,781
Disposals	-	(2,008)	(2,008)
Effect of movement in exchange rates	(133)	(114)	(247)
Balance at 31 December 2008	37,179	57,822	95,001
Balance at 1 January 2009	37,179	57,822	95,001
Additions	-	2,755	2,755
Acquisition through business combination	4,884	4,735	9,619
Disposals	55	(179)	(124)
Disposals – discontinued operation	-	(11,166)	(11,166)
Assets classified as held for sale	(2,123)	16	(2,107)
Effect of movement in exchange rates	(51)	(1,394)	(1,445)
Balance at 31 December 2009	39,944	52,589	92,533
Depreciation and impairment losses			
Balance at 1 January 2008	(134)	(35,722)	(35,856)
Disposals	-	1,753	1,753
Depreciation for the year	(338)	(3,416)	(3,754)
Effect of movement in exchange rates	9	255	264
Balance at 31 December 2008	(463)	(37,130)	(37,593)
Balance at 1 January 2009	(463)	(37,130)	(37,593)
Disposals	-	109	109
Disposals – discontinued operation	-	6,971	6,971
Assets classified as held for sale	206	(78)	128
Depreciation for the year	(604)	(3,151)	(3,755)
Effect of movement in exchange rates	4	657	661
Balance at 31 December 2009	(857)	(32,622)	(33,479)
Carrying amounts			
At 1 January 2008	20,626	20,993	41,619
At 31 December 2008	36,716	20,692	57,408
At 1 January 2009	36,716	20,692	57,408
At 31 December 2009	39,087	19,967	59,054

LUDOWICI LIMITED	Freehold Land and Buildings $'000	Plant and Equipment $'000	Total $'000
Cost or fair value			
Balance at 1 January 2008	18,465	4,918	23,383
Additions	16,544	557	17,101
Disposals	-	(3)	(3)
Balance at 31 December 2008	35,009	5,472	40,481
Balance at 1 January 2009	35,009	5,472	40,481
Additions	-	598	598
Disposals	(306)	-	(306)
Balance at 31 December 2009	34,703	6,070	40,773
Depreciation and impairment losses			
Balance at 1 January 2008	-	(3,280)	(3,280)
Disposals	-	3	3
Depreciation for the year	(288)	(412)	(700)
Balance at 31 December 2008	(288)	(3,689)	(3,977)
Balance at 1 January 2009	(288)	(3,689)	(3,977)
Depreciation for the year	(569)	(350)	(919)
Balance at 31 December 2009	(857)	(4,039)	(4,896)
Carrying amounts			
At 1 January 2008	18,465	1,638	20,103
At 31 December 2008	34,721	1,783	36,504
At 1 January 2009	34,721	1,783	36,504
At 31 December 2009	33,846	2,031	35,877

(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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Plant and equipment	2,835	1,879	915	775
	2,835	1,879	915	775

(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.

(c) Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Freehold land				
Cost	15,202	12,114	11,948	11,948
Accumulated depreciation	-	-	-	-
Net book amount	15,202	12,114	11,948	11,948
Buildings				
Cost	24,742	25,065	22,755	23,061
Accumulated depreciation	(857)	(463)	(857)	(288)
Net book amount	23,885	24,602	21,898	22,773

(d) Valuations of land and buildings

The valuation basis of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition.

16. 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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Deferred income taxes -				
Deferred income tax assets	5,402	4,988	979	294
Deferred income tax liabilities	(3,470)	(2,684)	(738)	(660)
Net deferred tax assets	1,932	2,304	241	(366)
(b) Movement in net deferred income tax assets/(liabilities) for the financial year -				
Balance at the beginning of the financial year	2,304	1,956	(366)	(362)
Charged to the income statements as deferred income tax benefit/(expense)	(130)	281	607	(77)
Balances arising on JS Mining acquisition	(242)	-	-	-
Movement in foreign exchange rates	-	(6)	-	-
Charged to equity	-	73	-	73
Balance at the end of the financial year	1,932	2,304	241	(366)

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(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	49	149	-	-
Inventories	1,135	1,077	-	-
Property, plant and equipment and Intangibles	3	119	-	-
Accrued charges	1,449	294	804	91
Employee benefits provision – current	1,072	1,219	112	107
Employee benefits provision – long term	165	158	20	23
Employee benefits provision – JS Mining acquisition	369	-	-	-
Warranty provision	439	324	-	-
Deferred tax on Forward Exchange Contract cash flow hedge	43	73	43	73
Tax losses available for offset against future taxable income	678	1,575	-	-
Total deferred tax assets	5,402	4,988	979	294
Deferred tax liabilities				
Other current assets	647	115	32	9
Property, plant and equipment	866	1,199	706	651
Property, plant and equipment - JS Mining acquisition	611	-	-	-
Intangibles	1,346	1,370	-	-
Total deferred tax liabilities	3,470	2,684	738	660
Net deferred tax assets	1,932	2,304	241	(366)
(d) Tax losses not brought to account, as the realisation of the benefits represented by these balances is not considered to be probable -				
Income tax	194	736	-	-
Capital gains tax	-	-	-	-
Total tax losses not brought to account	194	736	-	-
Potential tax benefit at respective tax rates	58	221	-	-

(e) Unrecognised temporary differences

As at 31 December 2009, 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 (2008:$nil).

(f) 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.

17. Non-current assets – Intangible assets

CONSOLIDATED	Development costs, patents and licenses $'000	Goodwill $'000	Total $'000
Cost			
Balance at 1 January 2008	10,506	16,235	26,741
Additions	270	-	270
Disposals	(258)	-	(258)
Effect of movement in exchange rates	(68)	958	890
Balance at 31 December 2008	10,450	17,193	27,643
Balance at 1 January 2009	10,450	17,193	27,643
Additions	-	12,184	12,184
Disposals	(1,034)	23	(1,011)
Effect of movement in exchange rates	(46)	(1,374)	(1,420)
Balance at 31 December 2009	9,370	28,026	37,396

CONSOLIDATED	Development costs, patents and licenses $'000	Goodwill $'000	Total $'000
Accumulated amortisation and impairment losses			
Balance at 1 January 2008	(6,583)	(4,148)	(10,731)
Disposals	258	-	258
Amortisation for the year*	(437)	-	(437)
Effect of movement in exchange rates	72	166	238
Balance at 31 December 2008	(6,690)	(3,982)	(10,672)
Balance at 1 January 2009	(6,690)	(3,982)	(10,672)
Disposals	1,034	(23)	1,011
Amortisation for the year*	(582)	-	(582)
Effect of movement in exchange rates	44	64	108
Balance at 31 December 2009	(6,194)	(3,941)	(10,135)
Carrying amounts			
At 1 January 2008	3,923	12,087	16,010
At 31 December 2008	3,760	13,211	16,971
At 1 January 2009	3,760	13,211	16,971
At 31 December 2009	3,176	24,085	27,261

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.

* Amortisation of $582,000 (2008: $437,000) is included in depreciation and amortisation expense in the income statement.

The parent entity, Ludowici Limited does not have any intangible assets.

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

Impairment tests for goodwill

Cash generating units identified according to business operations are assessed by impairment testing and the recoverable amount is based on the value in use method.

The recoverable amounts have been determined based on value in use.

To calculate this cash flow projections are based on financial budgets approved by senior management covering a one year period. The pre-tax discount rate applied to cash flow projections is 12.9% (2008: 11.0%) and cash flows beyond the one year period are extrapolated using a 3.0% growth rate (2008: 3.0%) that is the same as the long-term average growth rate for the business.

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.

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Carrying amount of goodwill by segment				
Australia	17,065	6,047	-	-
North America	4,325	5,581	-	-
Latin America	2,695	1,583	-	-
Total goodwill	24,085	13,211	-	-

Impairment charge

No impairment charges arose during the year (2008: 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.

18. Current liabilities – Trade and other payables

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade payables and accruals	36,438	29,877	1,607	1,559

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

19. Current and non-current liabilities - Derivatives

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Forward foreign exchange contracts – cash flow hedges	144	-	144	-
Non-current				
Forward foreign exchange contracts – cash flow hedges	-	242	-	242

Forward exchange contracts - cash flow hedges

The Group's cash flows are exposed to foreign currency exchange fluctuations on a large contract denominated in South African Rand. In order to protect against exchange rate movements between the ZAR and AUD, the Group has entered into forward exchange contracts to sell Rand to hedge possible losses.

This contract is hedging cash flows for the ensuing financial year. The hedge contract is timed to mature with the profit associated with the contract.

During the financial year the hedge was reassessed and deemed to be ineffective. The forward exchange contract was revalued and the resulting gain of $98,000 was recognised in the income statement with a corresponding reduction in the liability.

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in Note 2.

20. Current liabilities – Borrowings

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Secured				
Bank loans	8,069	7,297	6,134	-

Bank loans are provided by major financial institutions and are carried at the principal amount. The Group utilises various finance facilities including bank overdrafts, debtor financing, fixed term loans and bank bills. The Group's fixed term loans are non-amortising within the term of the respective financing. The facilities are subject to review on an annual cycle. Interest is charged as an expense as it accrues at the agreed fixed and variable rates. The effective interest rate of funds during the financial year was 5.79% (2008: 7.61%).

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

During the 2008 financial year the Company was able to amend its HSBC loan facilities agreement to alleviate potential breaches that may arise through the construction of the Pinkenba facility. For the 2009 financial year the Company has met its loan facility covenants.

Under the terms of the 30 December 2008 facility agreement, the following covenants are applicable:

- Leverage ratio ((total debt less cash held in HSBC bank accounts)/earnings before interest, tax, depreciation and amortisation (EBITDA)), measured semi-annually on a rolling basis;
- Interest Cover ratio (EBITDA/Interest), measured semi-annually on a rolling basis; and
- Tangible Net Worth of the Company is to be maintained at a set minimum level.

Management has recently completed revised financial forecasts for the period through to June 2011 in response to recent changes in global economic outlooks. The forecasts reflect management's estimates of revenues and proposed cost saving measures to be implemented along with the contribution that the Johnson Screens (Note 31) will make to the Group. These forecasts indicate that the Company will continue to satisfy its debt covenant requirements during this period. The carrying amount of the loans at balance date was $46.6 million (2008: $47.3 million); refer to Notes 20 and 22 for additional detail.

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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Floating charge				
Cash and cash equivalents	10,327	6,805	1,221	188
Receivables	27,588	25,297	-	310
Inventory	33,913	26,945	21	21
Total current assets pledged as security	71,828	59,047	1,242	519
Non-current				
First mortgage				
Freehold land and buildings	39,087	36,550	33,846	34,721
Floating charge				
Plant and equipment	19,622	19,643	2,031	1,783
Total non-current assets pledged as security	58,709	56,193	35,877	36,504
Total assets pledged as security	130,537	115,240	37,119	37,023

21. Current liabilities – Provisions

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee entitlements	4,794	4,083	363	357
Warranty provision (a)	1,566	1,225	-	-
Other	87	-	4	-
	6,447	5,308	367	357
Movements in provision for warranty:				
Carrying amount at the beginning of the financial year	1,225	1,195	-	-
Additional provision	409	494	-	-
Amounts utilised during the year	(37)	(475)	-	-
Net foreign exchange difference on translation to foreign entity	(31)	11	-	-
Carrying amount at the end of the financial year	1,566	1,225	-	-

(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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Secured				
Bank loans	40,039	40,000	40,000	40,000
Unsecured				
Preference shares				
– 50,000 5% cumulative first preference shares	50	50	50	50
– 50,000 6% cumulative second preference shares	50	50	50	50
	100	100	100	100
Total non-current borrowings	40,139	40,100	40,100	40,100

Refer to Note 20 for further details of secured borrowings.

All preference shares are non participating and non redeemable.

23. Non-current liabilities – Provisions

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee entitlements	547	525	68	76

24. Contributed equity

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Issued and fully paid ordinary shares (a)	40,751	27,708	40,751	27,708

As at 31 December 2009 issued share capital of 63,990 (2008: 85,208) ordinary shares were held by a controlled entity.

(a) Movements in ordinary share capital

2009 Date	Details	Note	Number of shares	Issue Price ($)	$'000
01/01/09	Opening balance		19,120,353		27,708
29/05/09	Dividend Reinvestment plan	(e)	80,886	1.93	156
29/05/09	Employee Share plan	(d)	15,600	1.52	24
25/09/09	Shares issued		339,665	2.03	689
30/09/09	Dividend Reinvestment plan	(e)	226,341	2.03	459
31/12/09	Shares issued - Placement for acquisition		1,650,000	2.65	4,373
31/12/09	Shares issued as part of JS Mining Tranche 1 initial consideration	31	900,000	2.91	2,619
31/12/09	Balance		22,332,845		36,028
	Transaction costs arising on share issue		-		(192)
	Treasury Shares held by controlled entity		(63,990)		-
	Value of vesting shares transferred from the Employee Equity Benefits Reserve.		-		259
	Balance		22,268,855		36,095
31/12/09	Shares to be issued as part of JS Mining Tranche 2 deferred consideration	31	1,600,000	2.91	4,656
	Balance		23,868,855		40,781

2008 Date	Details	Note	Number of shares	Issue Price ($)	$'000
01/01/08	Opening balance		18,374,552		25,804
08/05/08	Incentive performance plan	(c)	23,341	-	-
12/05/08	Dividend Reinvestment plan	(e)	163,550	3.94	645
30/05/08	Exercise of options	(c)	7,584	3.09	23
30/05/08	Employee share plan	(d)	23,800	3.28	78
24/10/08	Dividend Reinvestment plan	(e)	66,456	2.86	190
30/12/08	Share Purchase Plan		461,070	2.10	968
31/12/08	Balance		19,120,353		27,708
	Treasury Shares held by controlled entity		(85,208)		-
	Balance		19,035,145		27,708

(b) 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.

(c) Employee share scheme

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

(d) 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 a 3% (2008: 5%) discount to the market price.

(e) Equity settled share based payments

In 2008 prior year share based payments previously not recognised were charged as an expense to the income statement and appropriately adjusted from share capital to employee equity benefits reserve.

(f) 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.

Consistently 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 strategy is to maintain a Group gearing ratio under 40%. The gearing ratios at 31 December 2009 and 31 December 2008 were as follows:

	Consolidated	
	2009 $'000	**2008 $'000**
Total borrowings	48,208	47,397
Less: cash and cash equivalents	(12,596)	(7,435)
Net debt	35,612	39,962
Total equity	74,427	63,344
Total capital	110,039	103,306
Gearing ratio	32%	39%

25. Reserves

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Reserves				
Foreign currency translation	(3,647)	(1,302)	-	-
Employee equity benefits	565	522	565	522
Hedging reserve	(169)	(169)	(169)	(169)
Other	123	-	-	-
	(3,128)	(949)	396	353
Movements				
Foreign currency translation				
Balance 1 January	(1,302)	(1,643)	-	-
Translation of foreign operations	(2,345)	341	-	-
Balance 31 December	(3,647)	(1,302)	-	-
Employee equity benefits				
Balance 1 January	522	517	522	517
Option expense	-	5	-	5
Employee incentive performance plan expense	184	-	184	-
Executive service contract option expense	118	-	118	-
Transfer to share capital upon vesting of shares to employees	(259)	-	(259)	-
Balance 31 December	565	522	565	522
Hedging reserve				
Balance 1 January	(169)	-	(169)	-
Forward exchange contract	-	(242)	-	(242)
Deferred tax arising on hedge	-	73	-	73
Balance 31 December	(169)	(169)	(169)	(169)
Other				
Balance 1 January	-	-	-	-
Transfer from retained profits	123	-	-	-
Balance 31 December	123	-	-	-

(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. Refer to Note 19 for further details.

26. Dividends

Dividends recognised in the current year by the Group are:

	Ludowici Limited 2009		Ludowici Limited 2008	
	Cents per share	Total $'000	Cents per share	Total $'000
(a) Fully Paid Ordinary Shares				
Prior year final dividend – unfranked (2008: franked 100%)	2.0	383	8.0	1,470
Interim dividend – unfranked (2008 unfranked)	6.0	1,146	6.0	1,116
	8.0	1,529	14.0	2,586
(b) Fully Paid Cumulative Preference Shares				
5% first preference annual interest – franked to 100% (2008: 100%)	5%	3	5%	3
6% second preference annual interest – franked to 100% (2008: 100%)	6%	3	6%	3
		6		6

(c) Cumulative preference shares

Dividends on these shares paid during the year ended 31 December have been charged to the income statement as interest and finance charges because the shares are classified as liabilities.

(d) Dividends not recognised at year end

On the date of approval of this report, the directors have declared a final dividend of 6 cents per fully paid ordinary share, unfranked and payable on 7 May 2010 (2009: 2 cents per share, unfranked).

	Ludowici Limited	
	2009 $'000	2008 $'000
(e) Franking credits		
Amount of retained profits which could be distributed as franked dividends out of existing franking credits amounts to :	110	5
Franked dividends paid during the financial year were $nil (2008: $1,470,000). Unfranked dividends paid during the year were $1,529,000 (2008 $1,116,000)		
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
– franking account balance as at the end of the financial year at 30% (2008: 30%)	33	2
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	879
	33	881

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		Ludowici Limited	
	2009 $	2008 $	2009 $	2008 $
Amounts received or due and receivable by PricewaterhouseCoopers for :				
Audit and review of financial reports				
– 2007	-	67,604	-	67,604
– 2008	85,000	359,597	85,000	359,597
– 2009	303,000	-	303,000	-
	388,000	427,201	388,000	427,201
Taxation services/advice				
– Compliance matters	99,824	56,950	99,824	56,950
– Non-recurring consultancy services	261,522	76,300	261,522	76,300
	361,346	133,250	361,346	133,250
Other services/advice				
– R&D claims	257,333	19,750	257,333	19,750
– Acquisition of JS Mining	55,697	-	55,697	-
– Sale of New Zealand Packaging	11,000	-	11,000	-
– Other	15,456	10,400	15,456	10,400
	339,486	30,150	339,486	30,150
	1,088,832	590,601	1,088,832	590,601
Amounts received or due and receivable by auditors other than PricewaterhouseCoopers for :				
Audit and review of financial reports	166,330	208,673	-	15,000
Taxation services – overseas subsidiaries	-	14,998	-	-
Taxation services – Australia	-	-	-	8,350
Acquisition of JS Mining (Chile and US)	74,563	-	-	-
Other	5,000	10,158	-	10,017
	245,893	233,829	-	33,367
	1,334,725	824,430	1,088,832	623,968

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

The directors are of the opinion that provisions are not required in respect of the following 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.

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Contingent liabilities considered remote				
Guarantees				
(i) 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.	-	-	-	-
(ii) Letters of credit established in favour of suppliers/creditors.	731	1,128	731	1,128
(iii) Bank guarantees in favour of customers and suppliers.	9,778	9,762	9,338	8,623

Contingent consideration

There is no contingent consideration due on prior period acquisitions. The directors consider the likelihood of any additional payment arising under acquisitions to be remote.

There are no contingent assets where the probability of future receipts is not considered remote.

29. Commitments

Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Within one year	685	39	9	30
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	4,249	4,114	240	147
Later than one year but not later than five years	8,592	8,485	528	125
Later than five years	2,861	4,033	-	-
	15,702	16,632	768	272

Operating leases relate to three or four year term motor vehicle leases and warehouse facilities with leased terms of between three to twelve 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.

30. Related party transactions

(a) Parent entities

The ultimate parent of the Group is Ludowici Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 14.

(c) Key management personnel

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

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(d) Transactions with related parties				
Tax consolidation				
Current tax payable assumed from wholly-owned tax consolidated entities	-	-	5,157	879
Dividends				
Dividends received from wholly owned subsidiary	-	-	26,000	-
(e) Outstanding balances arising from sale/purchases of goods & services				
The following balances are outstanding at the reporting date in relation to transactions with related parties:				
Wholly-owned consolidated entities	-	-	-	-
(f) Loans to/from related parties				
Loans to subsidiaries				
– Beginning of the year	-	-	28,688	41,074
– Loans received	-	-	29,065	(12,386)
– End of year	-	-	57,753	28,688

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 elsewhere in these financial statements.

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 2009.

31. Business combinations

(a) Acquisitions

On 31 December 2009 the Group acquired the mining division (JS Mining) of Johnson Screens globally (except Africa). This business combination consisted of the acquisition of the Johnson Screens businesses in Australia, North America, India and 100% of the issued capital in its two operating companies in Chile and Peru.

JS Mining designs, manufactures and markets screening products (stainless steel, polyurethane, rubber and woven wire) and wear liners (chute, SAG, ball and impact mills).

The business operates in the same geographic markets as Ludowici and has a complementary product suite and customer base.

The acquisition is an excellent strategic fit for Ludowici:

- Ludowici and JS Mining operate in common regions (Australia, North & South America and India), in common markets (mineral processing) and share many customers,
- Acquisition will enable Ludowici to enter new markets (sand & gravel), sell new but related products (woven wire & rubber screens and wear liners) and improve its product mix (consumable/capital products),
- Significant synergy potential through improving back office efficiencies, increasing sales force effectiveness and manufacturing optimisation given the strong product and geographic alignment,
- JS Mining's strong position in the global mineral processing consumables market complements Ludowici's presence in capital equipment

The acquired businesses did not contribute revenues, profits or cash flows to the Group for the year ended 31 December 2009. The contribution that the acquired business would have had on the Group's results had it been in the Group for the full year have not been included as they are not readily available.

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

	Consolidated 2009 $'000
Purchase consideration (refer (b) below)	
Cash paid/payable	16,425
Shares issued and to be issued to the vendor (Note 24)	7,275
Total purchase consideration	23,700
Fair value of net identifiable assets acquired (refer to (c) below)	11,516
Goodwill (refer to Note 17)	12,184

(b) Purchase consideration

The purchase consideration for the acquisition of JS Mining consists of a mix of cash and the issue of ordinary shares in Ludowici Limited where settlement will be made pre and post 31 December 2009.

	Tranche 1 December 2009 $'000	Tranche 2 March 2010 $'000	Total $'000
Outflow of cash to acquire subsidiary, net of cash acquired			
Cash consideration	5,051	11,374	16,425
Less: Balances acquired:			
Cash	578	-	578
Bank overdraft	(873)	-	(873)
	(295)	-	(295)
Outflow of cash	5,346	11,374	16,720
Share issue at fair value	2,619	4,656	7,275
Total consideration net of cash acquired	7,965	16,030	23,995

Under the sale and purchase agreement there is provision for an adjustment to the final purchase consideration based on the acquired assets, liabilities and net assets of the business acquired. Due to the timing of this transaction and time constraints the final values of these assets, liabilities and net assets are still being finalised and initial adjustments reducing the contract purchase consideration by $1,523,000 have been brought to account. These adjustments reflect management's preliminary assessment of adjustments allowed under the agreement. If there is any further adjustment to consideration it will be brought to account as a component of the goodwill arising on the acquisition when the amount can be reliably measured. There is no contingent consideration associated with the business acquisition.

At the date of this report the identification and quantification of goodwill and other intangibles has not been finalised. As a result the qualitative goodwill disclosure requirements and the tax deductibility of acquired goodwill is not available for disclosure.

The purchase agreement provides a deemed issue price of $3.00 for ordinary shares issued as consideration for the acquisition. In accordance with AASB 3 Business Combinations, Management has determined that the fair value of these shares at the date of acquisition is $2.91 per share. Management has made this fair value determination with reference to the quoted price on the Australian Securities Exchange at acquisition date. The total number of shares issued as purchase consideration is 2,500,000 (Tranche 1: 900,000 and Tranche 2: 1,600,000).

The purchase cash consideration for Tranche 2 is expected to settle in March 2010. This liability has been brought to account as Trade payables and accruals as disclosed in note 18. The remaining liability will be settled through an Institutional Placement of 2,950,000 ordinary shares at an issue price of $2.65 (total consideration $7,817,500) as approved at the shareholder meeting held on 25 February 2010. The residual liability will be settled by debt financing that has been approved by the Company's bankers.

The deferred Tranche 2 share issue has been brought to account as equity as at 31 December 2009 (Note 24).

	Acquiree's carrying amount $'000	Preliminary Fair value $'000
(c) Assets and liabilities acquired		
Cash	578	578
Accounts receivable	1,291	1,291
Inventory	4,389	4,389
Deferred tax asset	-	369
Property, plant & equipment	8,796	9,619
Total identified assets being acquired	15,054	16,246
Overdraft	(873)	(873)
Accounts payable	(2,017)	(2,017)
Employee benefits provision	(1,125)	(1,192)
Deferred tax liability	-	(611)
Borrowings - current	(37)	(37)
Total liabilities being assumed:	(4,052)	(4,730)
Net identified assets being acquired	11,002	11,516

32. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Short-term employee benefits	1,304	940	1,304	940
Post-employment benefits	74	83	74	83
Long term benefits	7	11	7	11
Share-based payments	89	30	89	30
	1,474	1,064	1,474	1,064

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

(b) Equity instrument disclosures relating to key management personnel

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

Details of 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) Option holdings

The numbers of 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.

2009	Balance at start of the year	Granted as compensation	Exercised (or lapsed)	Balance at end of the year	Vested and exercisable	Unvested
Directors of Ludowici Limited						
P J Largier	375,000	150,000	-	525,000	-	525,000
Other key management personnel of the group						
J D MacDonald	-	-	-	-	-	-
All vested options are immediately exercisable.						

2008	Balance at start of the year	Granted as compensation	Exercised (or lapsed)	Balance at end of the year	Vested and exercisable	Unvested
Directors of Ludowici Limited						
P J Largier	-	375,000	-	375,000	-	375,000
Other key management personnel of the group						
J D MacDonald	-	-	-	-	-	-

(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.

2009	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	30,717	-	909	31,626
G Cowan	-	-	-	-
P J Largier	15,869	-	12,018	27,887
J K Ludowici	196,064	-	7,888	203,952
C W Ravenhall	29,156	-	23,650	52,806
H K R Rhodes-White	83,808	-	-	83,808
N W Stump	8,778	-	354	9,132
Preference shares	-	-	-	-
J K Ludowici	20,250	-	-	20,250
Other key management personnel of the group				
J D MacDonald	-	-	-	-

2009	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	25,955	-	4,762	30,717
P J Largier	4,250		11,619	15,869
J K Ludowici	162,997	-	33,067	196,064
C W Ravenhall	25,701	-	3,455	29,156
H K R Rhodes-White	81,427	-	2,381	83,808
N W Stump	1,138	-	7,640	8,778
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 5,272,896 (2008: 5,054,185) shares in the company. Mr. Ludowici is also a director of Sevlan Pty Ltd which holds 112,545 (2008: 108,192) shares in the company.

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

(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.

There were no loans to individuals that exceeded $100,000 at any time during the years ended 31 December 2009 and 31 December 2008.

(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 2009 is as detailed in Notes 11 and 13.

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Number of shares issued under the plan to participating employees during the financial year.	239,100	223,500	239,100	223,500
Weighted average issue price	$3.43	$3.56	$3.43	$3.56

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% (2008: 15%) compound growth factor to the earnings per share for the year ended 31 December 2001. 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.

Set out below are summaries of options 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 and parent entity - 2009								
31/05/04	31/05/08	31/05/09	4.32	38,915	-	-	(38,915)	-
30/09/04	30/09/08	30/09/09	4.83	12,624	-	-	(12,624)	-
28/04/08	31/12/10	24/02/11	6.70	375,000	-	-	-	375,000
01/01/09	31/12/11	23/02/12	2.40	-	150,000	-	-	150,000
				426,539	150,000	-	(51,539)	525,000
Weighted average exercise price $				6.43	2.40	-	4.44	5.47
Consolidated and parent entity – 2008								
31/05/03	31/05/06	31/05/08	3.09	26,682	-	(7,584)	(19,098)	-
30/09/03	30/09/06	30/09/08	3.84	12,599	-	-	(12,599)	-
31/05/04	31/05/08	31/05/09	4.32	38,915	-	-	-	38,915
30/09/04	30/09/08	30/09/09	4.83	12,624	-	-	-	12,624
31/05/05	31/05/08	31/05/10	4.89	40,698	-	-	(40,698)	-
30/09/05	30/09/05	30/09/08	5.66	12,226	-	-	(12,226)	-
28/04/08	31/12/10	24/02/11	6.70	-	375,000	-	-	375,000
				143,744	375,000	(7,584)	(84,621)	426,539
Weighted average exercise price $				4.37	6.70	3.09	4.44	6.43

There were no vested and exercisable shares at year end.

The weighted average share price of at the date of exercise of options exercised during the year ended 31 December 2008 was $4.70. There were no options exercised during the year ended 31 December 2009.

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.29 years (2008 –2.7 years);

Fair value of options granted

The fair value of the options are estimated at the date of grant using the Black-Scholes Model. There were 150,000 options granted during the year ended 31 December 2009 (2008: 375,000).

The assessed fair value at grant date of options granted during the year ended 31 December 2009 was $1.45 per option (2008 : $0.13). 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 options granted during the year ended 31 December 2009 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.

(b) exercise price: $2.40 (2008: $6.70)

(c) grant date: 1 January 2009 (2008: 28 April 2008)

(d) expiry date: 31 December 2010 (2008: 31 December 2010)

(e) share price at grant date: $2.12 (2008: $4.25)

(f) expected price volatility of the company's shares: 48.5% (2008 - 35%)

(g) expected dividend yield: 3% (2008 - 3%)

(h) risk-free interest rate: 4.5% (2008: 6.29%).

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.

(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		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Employee incentive performance plan expense	184	5	184	5
Executive service contract option expense	118	-	118	-
	302	5	302	5

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

	Consolidated		Ludowici Limited	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit (loss) for the year	1,871	4,571	10,746	(9,254)
Depreciation and amortisation	4,337	4,191	919	700
Dividend income	-	-	(26,000)	-
Loss (profit) on disposal of non-current assets	37	97	-	-
Share based payments	302	5	302	5
Loss (profit) on sale of business	3,751	(2,421)	-	-
Gain on revaluation of hedge	(98)	-	(98)	-
Unrealised foreign currency translation loss from virtual equity/ long term debt	690	-	-	-
Impairment of investment in subsidiary	-	-	403	-
Impairment of loans to subsidiary	-	-	4,693	-
Investment income from tax consolidation entities	-	-	-	(4,546)
Capitalised interest	-	(842)	-	(841)
Non-cash intercompany transactions	-	-	(4,403)	-
Changes in assets and liabilities adjusted for effect of sale and acquisition of businesses and foreign exchange movements:				
(Increase) decrease in trade and other receivables	354	(5,748)	(515)	325
(Increase) decrease in inventories	(1,595)	(11,315)	-	9
(Increase) decrease deferred tax asset & tax receivable	991	(976)	566	(48)
(Increase) decrease in non-current assets – other	-	-	-	-
(Decrease) increase in trade and other payables	(7,406)	15,761	48	440
(Decrease) increase in provisions	1,303	(507)	2	(428)
(Decrease) increase in income tax payable	347	1,318	628	(345)
(Decrease) increase in deferred tax liabilities	304	701	78	125
Net cash inflow (outflow) from operating activities	5,188	4,835	(12,631)	(13,858)

35. Non-cash investing & financing activities

As disclosed in Note 31 part of the purchase consideration in relation to the acquisition of JS Mining acquisition consisted of the issue of 2,500,000 ordinary shares at a fair value issue price of $2.91 per share totalling $7,275,000. This is not reflected in the statement of cash flows.

Shares issued through the dividend reinvestment plan totalling $615,000 (2008: $835,000) have been excluded from the statement of cash flows.

36. Events occurring after the balance sheet date

Share Purchase Plan

On 1 February, the Company opened its 2010 Share Purchase Plan (SPP). Eligible shareholders have each been given the opportunity to purchase up to $14,999 worth of new shares at an issue price of $2.65. The purpose of the SPP is to partially find the acquisition of the JS Mining business. The SPP is planned to close at 5pm (Brisbane time) on 26 February 2010.

Dividend

On the date of approval of this report, the directors have declared a final dividend of 6 cents per fully paid ordinary share, unfranked and payable on 7 May 2010 (May 2009: 2 cents per share, unfranked). 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.

Capital raise

At the shareholder meeting held on 25 February 2010, approval was given to issue:

- 1,600,000 shares to JS Mining at a deemed price of $3.00 as part of the second instalment payment due to JS Mining; and
- 1,350,000 shares to institutions at an issue price of $2.65 per share to raise a further $3.6m in cash.

37. Earnings per share

	Consolidated	
	2009 Cents	**2008 Cents**
(a) Basic Earnings per Share		
From continuing operations attributable to the ordinary equity holders of the company	27.8	7.5
From discontinued operation	(18.1)	17.2
Total basic earnings per share attributable to the ordinary equity holders of the company	9.7	24.7
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	27.8	7.5
From discontinued operation	(18.1)	17.2
Total basic earnings per share attributable to the ordinary equity holders of the company	9.7	24.7
(c) Reconciliations of earnings used in calculating earnings per share	**$'000**	**$'000**
Basic earnings per share		
Profit from continuing operations	5,380	1,395
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	5,380	1,395
Profit from discontinued operation	(3,509)	3,176
Profit (loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	1,871	4,571
Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	5,380	1,395
Profit (loss) from discontinued operation	(3,509)	3,176
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	1,871	4,571
(d) Weighted average number of shares used as the denominator	**Number**	**Number**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	19,337,954	18,527,866
Adjustments for calculation of diluted earnings per share:		
Shares deemed to be issued for no consideration in respect of options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	19,337,954	18,527,866

(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*

Options 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. 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 2009 was authorised for issue in accordance with a resolution of the directors on 25 February, 2010.

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

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Principal Place of Business
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Telephone : (07) 3121 2900

Directors' declaration

In accordance with a resolution of the directors of Ludowici Limited, we state that:

1. In the opinion of the directors:
   (a) the financial statements and notes of the company and of the consolidated entity 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 Company's and consolidated entity's financial position as at 31 December 2009 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) the remuneration disclosures set out on pages 24 to 30 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations
2. This declaration has been made after receiving the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

On behalf of the board

P J Arnall
Director

P J Largier
Director

Brisbane 25 February 2010

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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 balance sheet as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and 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 both Ludowici Limited and the Ludowici 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Ludowici Limited (continued)

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

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 company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the consolidated 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 24 to 30 of the directors' report for the year ended 31 December 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

Independent auditor's report to the members of Ludowici Limited (continued)

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Ludowici Limited (the company) for the year ended 31 December 2009 included on the Ludowici Limited web site. The company's directors are responsible for the integrity of the Ludowici Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Martin Linz

Martin Linz
Partner

Brisbane
25 February 2010

Shareholdings and voting rights

Statement of directors' interests in share capital of the parent entity as at 19 February 2010.
[A.S.X. listing requirement 4.10]

	Ordinary Shares	5% Cumulative 1st Preference Shares	6% Cumulative 2nd Preference Shares
P J Arnall	31,626		
P J Largier	27,887		
J K Ludowici*	203,952	9,900	10,350
C W Ravenhall	52,806		
H K R Rhodes-White*	83,808		
N W Stump	9,132		
G Cowan	-		

Messrs Ludowici and Rhodes-White are directors of Ludowici Investments Pty Ltd, which holds 5,272,792 shares in the company. Mr Ludowici is also a director of Sevlan Pty Ltd which holds 112,545 shares in the company.

Statement of Shareholdings as at 19 February 2010.

1. Distribution of shareholdings

	Ordinary Shares			5% Cumulative 1st Preference Shares			6% Cumulative 2nd Preference Shares		
Size of Holding	No. of Holders	No. of Shares	%	No. of Holders	No. of Shares	%	No. of Holders	No. of Shares	%
1 – 1,000	324	189,658	0.85	17	4,275	8.55	17	3,959	7.92
1,001 – 5,000	554	1,508,698	6.77	9	24,400	48.80	8	21,441	42.88
5,001 – 10,000	173	1,307,749	5.87	2	21,325	42.65	3	24,600	49.20
10,001 – 100,000	186	4,441,674	19.94	-	-	-	-	-	-
100,001 and over	28	14,830,566	66.57	-	-	-	-	-	-
TOTAL :	1265	22,278,345	100.00	28	50,000	100.00	27	50,000	100.0
Twenty largest share holders	20	13,836,512	61.96	20	49,525	99.05	20	49,407	98.81

2. Ordinary shares – On a show of hands, each holder present in person or by proxy or attorney shall have one vote or on a poll, one vote for each share held.

Preference shares – On a show of hands at a meeting which is convened for the purpose of reducing the capital, or winding up, or sanctioning a sale of the undertaking, or where the proposition to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference of shares is in arrears more than six months, each holder present in person or by proxy or attorney shall have one vote, on a poll, four votes for each share held.

3. Share options exercisable at year end :

Issued To	No. Of Options	Grant Date	Vesting Date	Expiry Date
Employees and executives under Employee	375,000	28/04/08	31/12/10	24/02/11
Share Plan and Executive Share and Option Plan	150,000	28/04/08	31/12/11	23/02/12
	525,000			

4. Substantial holders.

Name Of Substantial Shareholder	Relevant	Interest	% Of Issued Capital
Moranbah Supermarket Pty Ltd	7,008,147	Fully paid ordinary shares	35.5%
Ludowici Investments Pty Ltd	6,660,142	Fully paid ordinary shares	33.7%
Egon Investments Pty Ltd	6,128,218	Fully paid ordinary shares	31.0%

Shareholdings and voting rights

Twenty largest shareholders

Ordinary shares	Number Of Shares	%
Ludowici Investments Pty Ltd	5,257,493	23.54
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	1,018,412	4.56
Johnson Screens (Australia) Pty Ltd	900,000	4.03
J P Morgan Nominees Australia Limited	828,933	3.71
National Nominees Limited	787,622	3.53
Egon Investments Pty Limited	777,697	3.48
Evelin Investments Pty Limited	663,099	2.97
Belsov Pty Ltd <Turner Family S/F A/C>	457,759	2.05
Cogent Nominees Pty Limited	403,309	1.81
Mrs Margot Kinnear Ludowici <No 2 Robertson A/C>	363,753	1.63
RBC Dexia Investor Services Australia Nominees Pty Limited <Bkcust A/C>	361,521	1.62
Henleaze Investments Pty Ltd	325,000	1.46
HSBC Custody Nominees (Australia)	287,750	1.29
Savage Nominees Limited	275,754	1.23
Mr Robert Henry Charles Rhodes-White	236,152	1.06
JBBM Pty Ltd <Julian Ludowici S/F A/C>	204,772	0.92
Wiltac Pty Ltd <Turner Family S/F A/C>	192,031	0.86
Mrs June Bonnie Davies	177,988	0.80
Mr Laurence John Gluskie	160,000	0.72
Mr Cameron Boyd Williams	157,467	0.71
Totals: Top 20 Holders Of All Ordinary Shares	13,836,512	61.96
Total Remaining Holders Balance	8,496,333	38.04

5% Preference shares			6% Preference shares		
	Number Of Shares	%		Number Of Shares	%
Equity Trustees Limited	11,425	22.85	JBBM Pty Ltd	9,900	19.80
JBBM Pty Ltd	9,900	19.80	Great Northern Laundry	9,000	18.00
Meggsies Pty Ltd	4,000	8.00	Equity Trustees Limited	5,700	11.40
Wilcorp No 41 Pty Limited	3,900	7.80	Batoka Pty Ltd	3,900	7.80
Miss Mary Graham Neild	3,820	7.64	Miss Mary Graham Neild	3,734	7.47
Great Northern Laundry	3,000	6.00	Metropolitan Credits Pty Ltd	3,400	6.80
Winpar Holdings Limited	2,825	5.65	Winpar Holdings Limited	3,207	6.41
Batoka Pty LTd	2,300	4.60	Ms Annabel Peta Sophie Catto	3,000	6.00
Patmic Pty Limited	2,300	4.60	Patmic Pty Limited	1,800	3.60
Miss Katherine Victoria May Cameron	1,155	2.31	Mr William Robert Cameron	1,200	2.40
Troika Investments Pty Ltd	1,100	2.20	Mrs Ruth Littler	1,200	2.40
Mr Andrew Douglas Cameron	800	1.60	Mrs Frances Roberts	500	1.00
Mr William Robert Cameron	700	1.40	Ms Helen Mary Viret	500	1.00
Miss Elizabeth Mary Fahey	700	1.40	Mr Andrew Douglas Cameron	450	0.90
Lady Dorothy Wolseley	400	0.80	Mr Julian Kinnear LUdowici	450	0.90
Mrs Ruth Littler	300	0.60	Dr Gordon Bradley Elkington	400	0.80
Mrs Frances Roberts	300	0.60	Miss Katherine Victoria May Cameron	366	0.73
Estate Late Phyllis Mabel Woolcock	266	0.53	Mr Michael Thomas Riordan	300	0.60
Dominyk Anthony Lever	200	0.40	Mrs Winsome Gwenda Crichton	200	0.40
Mrs Elizabeth Coutts Kitchin	134	0.27	Miss Ellen Ita English	200	0.40
	49,525	99.05		49,407	98.81

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Directory

Directors:
Phil J Arnall* *Chairman*
Patrick J Largier *Managing Director*
Guy Cowan *
Julian K Ludowici*
Colin W Ravenhall*
Hugh K R Rhodes-White
Nick W Stump
* Members of the Audit Committee

Secretary:
Jim D MacDonald

Management:
Group
Chief Executive
Patrick J Largier
Chief Financial Officer
Jim D MacDonald

Regional Managers

General Manager Sales, Australia and South East Asia
Craig Wilson

General Manager USA
Ed Vickers

General Manager Chile
Horacio Marin

General Manager China
Viktor Li

General Manager South Africa
Mark Houchin

Country Manager India
Santhakumar Chelladorai

Functional Support
General Manager Engineering
Rob Angus

General Manager Engineered Consumables Products
Brett A Cason

General Manager Operations
Wayne Dixon

General Manager Vibrating Equipment
Eddie McKerr

Human Resources Manager
Alan Muntz

General Manager Seals
Neil Tindle

General Manager Global Business Development
David Ricketts

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Chartered Accountants

Bankers:
HSBC Bank Australia Limited

Solicitors:
Herbertgeer

Designed and Produced by Computershare

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