



ANNUAL REPORT 2010



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Savcor is committed to extending the life of structures by utilising innovative technical solutions which will significantly reduce environmental impact.



Savcor Group Limited underwent a robust restructure in 2010 to become a more uniform and focused technology-based company in the construction and resources industry. The new structure will better serve our customers within the mining and energy industries as well as major building and infrastructure owners in Australia and internationally.

Results

Revenue in continuing operations \$90.2 million

Earnings before interest, tax, depreciation and amortisation in continuing operations \$ 4.4 million.

Savcor Face Sale

The group exited its direct involvement in the mobile telephone and related industries by selling the Savcor Face companies in China to a Finnish public company Cencorp Corporation.

Savcor Group Limited became the biggest shareholder of Cencorp with approximately 42% ownership.

Interest bearing debt was reduced by approximately \$9 million as a result of the sale.

International

Savcor's primary international strategy is growing the ART business in Brazil, Russia, India and China (BRIC countries).

Savcor ART International received further orders from Russia, India, China, Japan, Papua New Guinea, Vietnam and Hong Kong and its first order from Brazil.

After its first full year of operation the Savcor ART International business unit contributed to group earnings.

Technology

Savcor received its first commercial order for its Industrial Process Improvement (IPI) operations in Australia, in the alumina industry.

Savcor received several orders for its Structural Health Monitoring Systems (Futurtec) from Russia, Vietnam, Finland and Australia.

Savcor's EPS (Electrochemical Protection Systems) product was successfully applied to prevent corrosion of new structures (cathodic prevention). A properly maintained Savcor EPS can prolong the economical life time of a concrete structure to 100 years and beyond.

Safety and Environment

Savcor EPS is the most environmentally friendly concrete repair technology.

In 2010 Savcor Industry and Resources business unit again received a platinum award from IFAB/CGU for its safety management systems.

Savcor was rewarded by its customer Woodside Energy for achieving a LTI free 1,000 days (LTI=lost working time injury at the Woodside Karratha Gas Plant in May 2010 .

The Board Members



Simon Rowell, Non-Executive Chairman

is chairman of McPherson's Limited and was previously chairman of Green's Foods Limited and MMC Contrarian Limited. He is also an operational partner of Ironbridge Private Equity. Simon is the former managing director of Snack Foods Limited and AV Jennings Homes and has extensive experience leading businesses with Asian operations, in particular in China. Simon is chairman of Savcor Group Limited's audit and risk committee and nomination and remuneration committee.



Hannu Savisalo, Managing Director and CEO

established Savcor Group in 1981 and led the development of the company from a start-up operation to its current form. He has driven Savcor Group's strategy since the company's establishment and has been integral to leading the integration of the various acquisitions that have been completed.



Nicholas Psaltis, Non-Executive Director

is a director and partner of Millennium Properties Pty Limited. He was previously CEO of Minson Construction and an executive director of Transfield PBM. Nicholas was a founder of Remedial Engineering in 1986 and was an executive director of that company until its acquisition by Savcor Group in 1995.



Iikka Savisalo, Non-Executive Director

has worked with Savcor Group since 1995 and has been closely involved in the company's growth by acquisition strategy. He previously had responsibility for Savcor Group's business development and mergers and acquisitions functions. Prior to taking on this role he was director of mergers and acquisitions for the ART division and before that director of consumer operations for the FACE division. Iikka is currently a director of Cencorp Corporation.

Chairman's Report

Savcor Group Limited's results for year ended 31 December 2010

Dear Fellow Shareholders

Today we are reporting revenue of \$90.2 million for the full year to 31 December 2010 (2009: \$79.1 million) from Savcor's continuing operations.

As you are aware, the Savcor FACE business was disposed of during the year by sale to Cencorp Corporation. Accordingly the results have been restated in accordance with applicable accounting standards to reflect the results of continuing business.

Savcor ART is the continuing business of the group, operating mainly in the infrastructure and resources engineering industries. Savcor ART operates principally in Australia, with developing businesses in Papua New Guinea, New Zealand, China, India and other countries. The growth in revenue was achieved mainly in the areas of water and resources industries, which are key focuses for the company in the future.

Areas of specialty include remedial engineering and mining industry services. The company also has a growing business in providing services to water and waste water treatment utilities.

The adjusted consolidated 2010 EBITDA of Savcor ART segment and the Corporate function was \$5.9 million (2009: \$6.1 million) excluding \$1.1 million (2009: \$0.2 million) of incremental and internal Savcor FACE business sale related costs and the share of loss of Cencorp Corporation of \$0.3 million (2009: \$nil).

The results of the continuing operations exclude transactions between the continuing and discontinued operations. EBITDA from continuing operations, adjusted for the internal costs relating to the sale of Savcor FACE business and excluding the share of loss of Cencorp Corporation was \$5.2 million (2009: \$6.5 million). The results of the continuing operations are summarised as follows:

Reconciliation of Adjusted EBITDA to results before tax from continuing operations

	2010 \$ million	2009 \$ million
Adjusted EBITDA of Savcor ART segment and Corporate excluding the impact of sale of Savcor FACE and investment in Cencorp Corporation	5.9	6.1
Adjustment:		
• Impact of exclusion of transactions between continuing and discontinued operations	0.6	(0.4)
Adjusted EBITDA of continuing operations	5.2	6.5
Adjustments:		
• Internal management and other costs relating to the sale of Savcor FACE	0.6	-
• Share of loss of associate (Cencorp Corporation)	0.3	-
EBITDA of continuing operations	4.4	6.5
Depreciation	1.9	1.7
Amortisation	0.5	0.8
Impairment losses – Savcor ART	2.5	0.5
Impairment losses – investment in associate (Cencorp Corporation)	3.5	-
EBIT of continuing operations	(4.0)	3.5
Finance income and expenses, net	3.2	1.6
(Loss)/Profit before tax from continuing operations	(7.3)	1.9

Chairman's Report

The loss before tax from continuing operations was \$7.3 million (2009: \$1.9 million profit). The results for 2010 were subject to a number of unusual events and issues, including:

- The gross margin achieved in 2010 was 22% (2009: 27%). Margins on contracted work were significantly lower overall in 2010 owing to competitive pressure and a number of contracts where costs exceeded original estimates. In particular, there were 2 contracts which incurred losses at gross margin level which are considered by management to be unusual and will not be repeated.
- As part of the sale of Savcor FACE business, the company received shares in Cencorp Corporation. On acquisition, the shares were valued at market price, which was higher than the issue price of the shares. Subsequently the shares were written down to the directors' estimate of the realisable value less costs to sell. This resulted in a charge of \$3.5 million before tax for the continuing operations.
- During the year the first Industrial Process Improvement (IPI) commercial installation was ordered and is expected to be commissioned in 2011. The delay in commercialisation of IPI signalled a requirement to recognise impairment losses of relevant patents and other intellectual property, amounting to \$2.3 million.
- The sale of Savcor FACE business resulted in significant additional costs in the Company consisting of approximately \$0.5 million of incremental costs and of approximately \$0.6 million of internal management and other costs before tax.
- The continuing operations of Savcor Group underwent a major restructuring during the year, positioning the Company for growth after the sale of Savcor FACE business.

Cash flow from operations was \$0.1 million (2009: \$5.4 million). Net interest bearing liabilities as at 31 December 2010 were \$26.2 million (2009: \$33.4 million).

Disposal of Savcor FACE

Savcor FACE, the mobile telephone component and RFID business based in China, was sold with effect 30 November 2010 to a Finnish company, Cencorp Corporation, which is a related entity of the Company. The disposal was effected by Cencorp Corporation issuing 133.3 million shares to the Company as well as assuming interest bearing debt and paying cash to a combined total of approximately \$9 million after final settlement. The disposal resulted in a reduction in interest bearing debt of about \$9 million as well as the Company acquiring an interest of approximately 42% in Cencorp Corporation as at 31 December 2010. It is the intention of the Company to dispose of some or all of the Cencorp Corporation shares at an appropriate time in order to reduce interest bearing liabilities.

Result for the year

The net loss for the year was \$8.3 million (2009: \$0.3 million), including the net loss of \$2.2 million (2009: \$1.6 million) attributable to discontinued operations and after an income tax credit of \$1.2 million (2009: tax charge of \$0.6 million). Including adjustments to foreign currency translation, the total comprehensive income was a loss of \$11.8 million (2009: \$8.3 million).

Chairman's Report

Outlook

Following the disposal of Savcor FACE business, the focus is to develop the Savcor ART business. Savcor ART continues to win important and significant work across its operations and it is now concentrating on operational improvements to ensure margins and overall profitability are improved. An update on trading for the 2011 year will be given at the Annual General Meeting in May 2011.

Sydney, Australia
28 February 2011



Simon Rowell
Chairman

Safety and Environment

Rehabilitation works for the environment

Petrus Siemonsma, General Manager Savcor Infrastructure

With all the talk about climate change and creating a low-carbon future, you would really expect an enormous push in the area of rehabilitation of existing structures. The United Nations Environment Programme (UNEP) estimates that worldwide, the built environment's lifespan contribution to global CO² emissions is a staggering 40%, making it the largest single contributor to global warming.

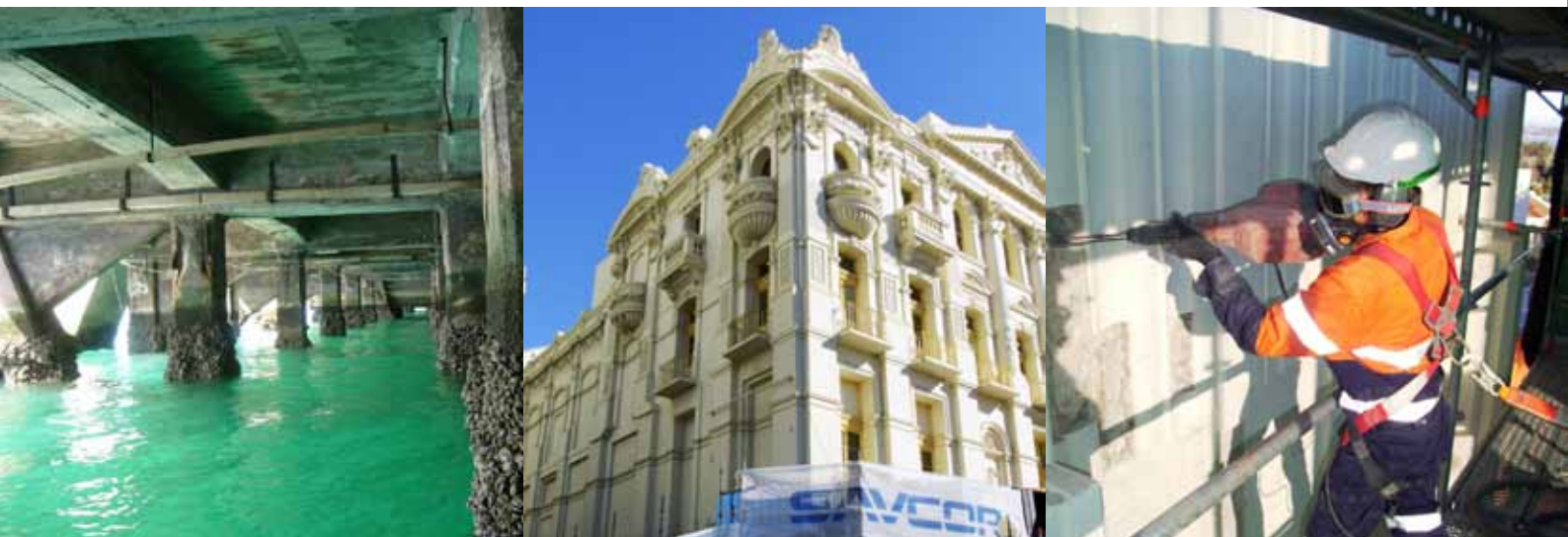
With advanced technologies such as cathodic protection, carbon strengthening and high density polyethylene (HDPE) liners, a reasonable expectation would be that part of the funding available for infrastructure projects would be spent on technologies to extend the service life of existing structures.

Savcor is not only a specialist rehabilitation company, but is also one of the few companies with both an in-house design capacity and a research and development division. We are truly committed to giving our clients value for money by extending the life of structures by utilising innovative technical solutions which will significantly reduce environmental impact.

Installing a cathodic protection system on an existing wharf, for example, can extend the service life of that wharf by more than 30 years, compared to the costs and impact on the environment if the same wharf was demolished and rebuilt.

Perhaps there is a message for all consultants and clients to make sure they are well informed of the possibilities for rehabilitation prior to making recommendations or committing funds to demolition and reconstruction. If we truly want to help the environment of the future, we have to start with ourselves. We need to question our designs, solutions and the projects we commit to in order to take responsibility for their impact on the environment.

As a rehabilitation company, Savcor is very proactive about this and are focused on how to make a difference to the world we live in. With our solutions and advanced technologies, we challenge our clients to do the same.



Safety and Environment

Commitment to safety

Savcor commits to safety at all levels. CEO and Managing Director Hannu Savisalo believes that all incidents and occupational illnesses are preventable. He is fully committed to the Woodside safety slogan "No one gets hurt, no incidents".

Savcor at Woodside Energy's Karratha Gas Plant: 1,000 days LTI (Lost Time Injury) free

In April 2010 Savcor's team in Karratha celebrated a remarkable achievement: 1,000 days LTI (Lost Time Injury) free, after having no incidents since commencing an onsite presence in 2004. In 2010 Savcor had as many as 75 personnel working on site for major, core and shutdown maintenance teams. During the last six years, our safety record has been a benchmark for all contractors on site. Our commitment is to actively involve the workforce in their safety program and we recognise that safety culture is critical at all levels. Savcor looks forward to another 1,000 days LTI free.

Platinum Safety Award 2010 in Western Australia

In 2010 Savcor achieved another safety milestone – the IFAP/CGU Platinum Safety Award. This award recognises best practice in workplace safety by employers in Western Australia. The Platinum level is awarded to those companies that have achieved the gold award for five consecutive years.



Savcor ART



Petrus Siemonsma
General Manager
Savcor Infrastructure

Savcor Infrastructure

The Infrastructure division earns its revenue from a variety of industries: marine; civil, power, buildings and water and wastewater.

History has shown that in some years, a particular industry is more active than in other years. This means that our strategy has to be geared to capitalise on the activity in that particular industry.

In 2010 the water and waste water area was a very buoyant market. Securing lining works in both the Adelaide and Victorian desalination plants, as well as the Eastern Treatment Plant in Victoria and the Brisbane Wet Wells gave Savcor great exposure to many clients and the confidence that 2011 will be an even more successful year.

Our strategy for marine and civil works is to provide our clients with the best practice solutions, which provide a long asset life and the lowest ongoing maintenance costs. We need to encourage our clients to welcome Savcor as a long term partner, assisting them not only in fixing their corrosion problems in the short term, but also helping them with long term maintenance.

The building industry is the most competitive area of all, with tight competition among many smaller players. Nevertheless, Savcor's strategy is to take advantage of the latest technical solutions on offer and our proven track record in delivering quality projects under stringent conditions.





Courtesy of Woodside Energy Limited



Julian Bleddyn

General Manager

Savcor Industry and Resources

Savcor Industry and Resources

As the resource market globally continues to grow, Savcor will grow with it, increasing its service offering for lifetime asset management. Our drive now is to increase the existing service offering to our clients by complementing the traditional qualities of safely delivering a quality service on time, with emerging technologies we are developing within our global operations.

From designing cathodic protection systems for pipelines, tanks and wharves, to civil works for the installation and construction phases of a project, to application of protective coatings on assets for environmental and chemical resistance, Savcor will continually seek to assist the client in optimising the efficiency and reducing the downtime of their assets.

We are entering into another boom in Western Australia. This presents Savcor with the ideal platform to maximise its potential. Desired results will only be achieved by utilising the skills of our employees, constantly challenging and developing our services, and working closely with our clients.



Savcor ART International



Atef Cheaitani
General Manager
Savcor ART International

Transforming Savcor ART into a global brand

Savcor Group Limited began implementing a new growth strategy in 2009 by expanding the Australian infrastructure rehabilitation business into the new growth markets of Brazil, Russia, India and China, collectively known as the BRIC countries.

Currently, Savcor Group Limited has fully owned subsidiary companies outside Australia in five countries: New Zealand, Japan, India, China and Finland.

Our strategy is to expand into Russia and Brazil and have established businesses in all four BRIC countries by 2012 while continuing to grow our existing global companies.

Savcor has identified the BRIC countries as important and vital markets for our growth strategy in the area of corrosion control and infrastructure rehabilitation.

While the operations in New Zealand, Japan and Finland have been a part of Savcor Group Limited since the company's inception in 2007, a systematic approach to expand globally to the BRIC countries has been adopted by the Savcor board and as a result, Savcor Group Limited acquired Savcor Corrosion Technology in China and established Savcor India Private Limited in India in mid 2009. The BRIC countries have long coastlines and the associated huge infrastructure of bridges and wharves. This infrastructure is rapidly aging and advanced rehabilitation electrochemical corrosion prevention solutions provided by Savcor are in great demand.

After its first full year of operation the Savcor ART International business unit contributed to group earnings.

Savcor India Private Limited

Savcor entered the Indian market in March 2009 by establishing a fully owned subsidiary in Bangalore. Today, the company has 18 employees consisting of project managers and structural, corrosion and civil engineers. The company has in-house capabilities in undertaking condition assessment surveys of concrete structures; design of electrochemical corrosion prevention systems; and carrying out contracting work in the area of concrete repair, structural rehabilitation and strengthening.



Savcor India Private Limited is accredited to ISO 9001-2008. Since its inception in mid 2009, the company has completed various complex strengthening and repair projects.

Savcor Corrosion Technology Co. Ltd, China

Savcor Group Limited also acquired this company in April 2009. It has ten staff members located in two offices in Guangzhou and Tianjin. Our personnel consists of corrosion and civil engineers. Our main capabilities in China are in the areas of design and installation of corrosion prevention and protection systems for reinforced concrete and steel structures. We have also pioneered the introduction of cathodic prevention technology with the installation of the first cathodic prevention system to the north and south towers of the Hangzhou Bay Bridge, the longest secrossing bridge in the world. Savcor Corrosion Technology has a very strong track record in delivering complex electrochemical solutions for new concrete bridges, nuclear power and chemical plants. Savcor Corrosion Technology is also accredited to ISO 9001-2008.

Russia

Savcor Tempo Oy located in Mikkeli, Finland, is a fully owned subsidiary of Savcor Group Limited and has been successful in securing various projects in Russia in the areas of structural health monitoring and corrosion protection of marine structures and pipelines. Recent projects include the installation of structural health monitoring systems to the Neva Stay Cable Bridge, the Alexander Bridge in St Petersburg, and a wharf marine terminal for the Caspian Pipeline Consortium in Novorossiysk. Currently we are in the process of installing a structural health monitoring system within the new Mariinsky Theatre in St Petersburg. Establishing a permanent presence in Russia is Savcor's next step in expanding and growing the business in this market.

Brazil

Savcor Group Limited has completed a market assessment for the infrastructure rehabilitation business in Brazil and we are in the process of establishing a legal entity to deliver electrochemical solutions for Brazil's aging infrastructure. It is expected that the company's expansion to Brazil will be completed by 2012.



Savcor ART Technologies



Asset Assessment Technologies

Savcor has an array of state-of-the-art technologies which assist in providing our customers with meaningful asset condition reports for concrete and steel. Galvanostatic pulse, linear polarisation resistance and ER (electrical resistance) corrosion rate monitoring, half-cell potential mapping, DCVG (direct current voltage gradient) coating defect surveys, electro-magnetic covermeter surveys, ultrasonic surveys, coating thickness and adhesion testers are all technologies Savcor uses daily to deliver results to our customers.



Electrochemical Prevention and Protection

At the heart of Savcor's business is the ability to design, supply, install and service specialist corrosion management and monitoring systems, such as RECON and MCON. These systems have been developed in-house by Savcor's research and development engineers to provide digital remote control of cathodic protection systems for reinforced concrete and steel structures.



Linabond® Co-Lining™ Systems

Linabond® Co-Lining™ Systems are set to revolutionise the sewer rehabilitation process by providing solutions which outperform any other system in the market. By combining an advanced polymer coating with an impervious PVC sheet, Linabond® has been successfully used with no known failures for over 30 years in the United States. Linabond® has an expected life well in excess of 50 years and is becoming increasingly recognised by Australian water corporations.



Futurtec Structural Health Monitoring

Savcor has the ability to provide valuable information on the integrity of structures. Using a system of strategically placed sensors with a powerful software analysis package, Futurtec provides real-time monitoring of structures and warns of any structural problems. The benefit of early warning data is critical in increasing safety and reducing significant repair costs.

Industrial Process Improvements (IPI)

Savcor's proprietary industrial process improvements technologies deliver significant efficiencies to clients. Scale management, Savcor's patented technology, is a world first. Using an electrochemical technique, scale is discouraged from forming on vessel walls overcoming significant problems in the alumina industry. The technology delivers significant process efficiency giving cost, safety and environmental benefits to existing refineries. Greenfield refineries will also be able to incorporate the technology, reducing their construction and operating costs.



Wedge®

Another IPI technology is Wedge® - a process diagnostic software package that monitors and maximises efficiencies across a wide variety of processes.

The benefits of Wedge® were demonstrated to clients during an awareness road show in 2009 and significant interest was generated.



Specialised High Performance Coatings and Linings

For many years Savcor has installed a variety of high performance coatings and linings that offer value to asset owners. HDPE (high density polyethylene) linings, Linabond® Co-Lining™ Systems, elastomeric urethane/polyurea spray applied technology, world-class acid resistant coatings, fireproofing materials, thermal insulation products and more are some of the technologies Savcor installs regularly.



Corrosion Related Products

Savcor Products Pty Ltd searches the world to bring our customers the latest technology in the fight against corrosion. Ranging from anodes, corrosion monitoring equipment, vapour phase corrosion inhibitors to pipe locating and repair equipment, Savcor Products provides a unique service both in the support of other Savcor divisions and directly to asset owners.



Savcor ART References

Marine Structures

Marine Structures are extremely vulnerable to corrosion and structural problems. Savcor has safely completed some of the largest and most complex marine remedial jobs in the world.

With our extensive expertise and advanced repair technologies such as electrochemical protection and specialist repair methods, Savcor has established an enviable track record in the successful rehabilitation of marine structures.

In 2010 Savcor finished a large wharf refurbishment project at CentrePort Wharf in Wellington, New Zealand. Earlier Savcor has received excellent references from many other major ports such as Port of Melbourne and Port of Brisbane.

Infrastructure Protection

The new Victorian Desalination Plant will deliver one third of Melbourne's annual water needs from a source that is entirely independent of rainfall. The \$3.5 billion project includes an 84 kilometre water network. The pipeline will comprise more than 6,200 mild steel cement lined pipe sections, all 1.9 metres in diameter.

Savcor has been contracted to design, supply, install and commission both the temporary and permanent cathodic protection system for the entire 84 kilometre pipeline.

The size of the pipeline, its permanent earthing system, numerous insulating flanges and surrounding power infrastructure are challenges that must be overcome to deliver a robust, efficient and effective CP system.

Once the pipeline is completed, an impressed current cathodic protection system will be used to provide the ongoing maintenance. The overall system will incorporate 260 test points which will be used for monitoring the potential levels and the system effectiveness.



Oil and Gas, and Power Generation

The oil and gas, and power generation sectors are growing rapidly as worldwide demand for renewable and non-renewable energy sources continues to increase.

Savcor has a proven ability to provide rehabilitation and maintenance techniques which minimise downtime from production shutdowns and outages for customers in these sectors.

From the application of high-tech fireproofing materials and rope access repair techniques to the supply of speciality corrosion monitoring equipment, Savcor is the first choice for many customers. On all projects safety remains our number one priority.

High Priority Maintenance for Woodside Energy

Savcor has provided specialist maintenance services to Woodside Energy Ltd since 2004. At Australia's largest onshore LNG (Liquefied Natural Gas) facility, the Woodside operated Karratha Gas Plant, Savcor has been selected as a preferred contractor for maintenance.

The work orders are maintenance work for small, isolated and often difficult to access areas of plant and equipment identified for corrosion remediation. Savcor performs maintenance in all areas of the facility including live process lines within the operating LNG trains. To deliver work safely in a live hydrocarbon process environment, Savcor's maintenance teams follow strict procedures for managing HSE risks. Maintenance is a key element for Woodside's plant and equipment, extending the life of process assets and ultimately delivering maximum operational readiness.



Cencorp Corporation

Savcor now owns circa 42% of Finnish public company Cencorp Corporation

By selling the Savcor Face division Savcor received in addition to a cash component, approximately 42% of the shares of Cencorp Corporation, a Finnish public company with a market capitalisation of approximately €47 million as at the end of December 2010.

Cencorp's strategy

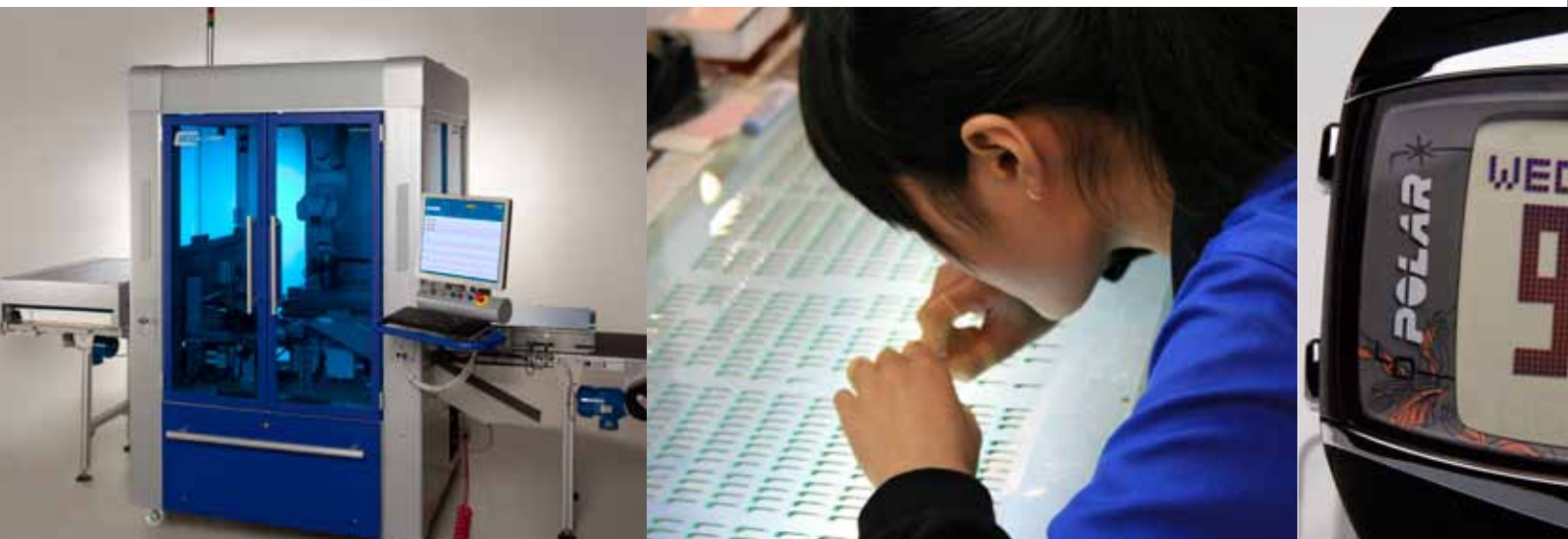
For a long time Cencorp has been known as a reliable and innovative supplier of automation and laser applications. Cencorp's vision is to rapidly grow its market share within the fastest growing market in the electronics and energy industries. Cencorp's strategy is to use opportunities to gain a significant market position within the electronics and new energy industries as a manufacturer of innovative automation and laser applications. Acquisition of Savcor Face has given Cencorp the means to be a skillful producer of special components such as flexible PCBs, antennas, EMI coatings and innovative decorations. Furthermore, the acquisition has allowed Cencorp to enter the fastest growing market, Asia.

Strategic strengths

Worldwide operations and local support

Cencorp is capable of serving its customers throughout the world. The automation and laser application operations and sales have a worldwide reach, and the maintenance, support and spare parts services close to customers create confidence in Cencorp's support in any situation.

Flexible PCBs, antennas, EMI coatings and decorative coatings are made in China, close to the production facilities of our biggest customers.



Pioneering and innovation

Cencorp's laser and automation applications form unique integrated solutions that provide technological advantages over its competitors. Cencorp strongly invests in product development and solving customers' problems. The key success factor is to completely understand the customer's business and allow flexibility in cooperating with them. Solutions will be tailored to the customer's needs, utilising Cencorp's flexible product platforms. Cencorp also focuses on efficient project management, actively keeping the customer up-to-date in all project stages.

Long experience

For more than 30 years, Cencorp has worked with laser and automation solutions and for nearly 15 years with special component production. Cencorp has gained solid, specialised technological know-how in the industry and a good understanding of customers' production processes.

Strategic focus in Asia and in new energy

With the acquisition of Savcor Face, Cencorp is taking a step forward in the implementation of its strategy. On one hand, Cencorp now focuses on mass production of special components based on its core technologies and requiring special expertise and, on the other, further strengthening the capabilities to deliver automation and laser applications in the most important and fastest growing electronics and energy industry market area in Asia.

Cencorp's objective is to be a market leader in selected automation applications and to be among the leaders in other selected business areas. In the special components business, Cencorp will select core areas with the objective of becoming a global top player.

An interesting new area is renewable energy applications, in particular solar and fuel cells. Cencorp's customers in this field make excellent use of the advantages offered by Cencorp's laser technology and in the long term Cencorp seeks a leading position as a supplier of special laser technology for the leading companies in the new energy business.



Directors' Report

For the financial year ended 31 December 2010

Your Directors submit their report of Savcor Group Limited and its controlled entities (the Group) for the financial year ended 31 December 2010.

DIRECTORS

The names and details of Savcor Group Limited's (the Company, the Parent) Directors in office during the financial period and until the date of this report are as follows.

Names, qualifications, experience and special responsibilities

Simon Rowell BA (Hons) Reading University, CA, FAICD
Independent, Non-Executive Chairman.

Simon joined Savcor Group Limited's board on 1 November 2007 and became chairman on 17 June 2009. Simon is currently chairman of McPherson's Limited and was previously chairman of Green's Foods Limited and MMC Contrarian Limited. Simon is the former managing director of Snack Foods Limited and AV Jennings Homes and has extensive experience leading businesses with Asian operations, in particular in China. Simon is chairman of Savcor Group Limited's audit and risk committee and nomination and remuneration committee. Simon resides in Sydney.

Simon has held the following listed company directorships during the past three financial years:

- McPherson's Limited from November 2003 (current);
- Green's Foods Limited from November 2002 to March 2007; and
- MMC Contrarian Limited from September 2003 to August 2007.

Hannu Savisalo MSc Metallurgy, Helsinki University of Technology
Managing Director, Non-Independent, Executive Director.

Hannu joined Savcor Group Limited's board on 26 September 2007. Hannu established Savcor Group in 1981 and has led its development from a start-up operation to its current form. Hannu has driven Savcor Group's strategy since its establishment and has been integral in leading the integration of the various acquisitions that have been completed. Hannu is chairman of Savcor Group Oy and Cencorp Corporation. In 2004 Hannu was awarded the honorary title of Teollisuusneuvos (Industrial Counsellor) by the president of Finland. Hannu resides in Sydney.

Hannu has held the following listed company directorship during the past three financial years:

- Cencorp Corporation from April 2009 (current).

Nicholas Psaltis Dip Civil Engineering, Victoria University
Independent, Non-Executive Director.

Nicholas joined Savcor Group Limited's board on 26 September 2007. Nicholas is a director and partner of Millennium Properties Pty Limited. Nicholas was previously chief executive officer of Minson Constructions and an executive director of Transfield PBM. In 1986 Nicholas was a founder of Remedial Engineering which was acquired by Savcor Group in 1995. Nicholas was also chief executive officer of Savcor ART from 1999 to 2004. Nicholas resides in Melbourne.

Nicholas has held no other listed company directorships during the past three financial years.

Directors' Report continued

For the financial year ended 31 December 2010

DIRECTORS (continued)

Names, qualifications, experience and special responsibilities (continued)

Iikka Savisalo BBA, Accounting, Porvoo Commercial College
Non-Independent, Non-Executive Director.

Iikka joined Savcor Group Limited's board on 26 September 2007. Iikka has worked with Savcor Group since 1995. He was responsible for Savcor Group Limited's business development and mergers and acquisitions functions until 30 June 2009. He has subsequently been responsible for Savcor Group Oy's business development and worked as chief financial officer of Cencorp Corporation. Prior to the more recent roles, Iikka was director of mergers and acquisitions for the Savcor ART division and director of consumer operations for the Savcor FACE division. Iikka resides in Finland.

Iikka has held the following listed company directorship during the past three financial years:

- Cencorp Corporation from April 2009 (current).

Jyrki Salminen MSc Technology, Helsinki University of Technology
Independent, Non-Executive Director until 16 October 2010.

Jyrki joined Savcor Group Limited's board on 1 November 2007 and resigned on 16 October 2010. Jyrki is a Senior Vice President at Nokia leading Nokia Retail. This division of Nokia is globally responsible for Nokia's sales via the company's own shops, partner Nokia Stores and on-line stores. Jyrki resides in Finland.

Jyrki has held no other listed company directorships during the past three financial years.

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of Savcor Group Limited are:

	Number of ordinary shares	Number of options over ordinary shares
Simon Rowell	252,102	-
Hannu Savisalo	28,991,173	991,894
Nicholas Psaltis	918,122	-
Iikka Savisalo	20,070,812	460,523
Jyrki Salminen	-	-

Hannu Savisalo and Iikka Savisalo are both shareholders of Savcor Group Oy which is the 100% owner of Savcor Face Group Oy. Savcor Face Group Oy holds 89,203,610 shares in the Company. The beneficial interest of Hannu Savisalo is 32.5% of Savcor Face Group Oy and the beneficial interest of Iikka Savisalo is 22.5% of Savcor Face Group Oy.

Directors' Report continued

For the financial year ended 31 December 2010

COMPANY SECRETARIES

likka Savisalo BBA, Accounting, Porvoo Commercial College
likka Savisalo has been the Company Secretary of Savcor Group Limited since its incorporation.

John O'Malley BEc, LLB CPA
John O'Malley has been additional Company Secretary of Savcor Group Limited since July 2009.

DIVIDENDS

The Company paid no dividends during the financial years 2010 and 2009.

CORPORATE INFORMATION

Savcor Group Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 26 September 2007.

The registered office and principal place of business of the Company is Level 16, 132 Arthur Street, North Sydney NSW 2060, Australia, phone +61 2 9025 2000.

Savcor Group Limited's shares are publicly traded on the Australian Securities Exchange following the Company's listing on 18 December 2007. The Company's share register is kept at Registries Limited, Level 7, 207 Kent Street, Sydney NSW 2000, Australia, phone 1300 737 760 (within Australia) and +61 2 9290 9600 (from outside Australia).

PRINCIPAL ACTIVITIES

Savcor Group Limited is an industrial technology business that has established itself in the application of surface coating and protection and structural rehabilitation and maintenance technologies. Entities in the Group operate in the infrastructure and resources sectors (Savcor ART Division). Until 30 November 2010 the Group operated also in mobile phone handset manufacturing and RFID (Radio Frequency Identification) tag manufacturing sectors (Savcor Face Division). Savcor ART protects and remediates steel and concrete structures via the application of electrochemical protection technology and provides maintenance services for mining, infrastructure and industrial sectors. Savcor FACE focused on manufacture and supply of flexible circuits, electromagnetic interference shielding solutions and decorative coatings in the mobile phone manufacturing industry and flexible circuits in the RFID tag manufacturing industry.

OPERATING AND FINANCIAL REVIEW

Information on operations and financial position of the Group is set out in the Chairman's Report contained within the annual report.

Operating results for the financial year

The Group's net loss after tax for the year ended 31 December 2010 is \$8,342,000 (2009: loss of \$251,000). During the financial year 2010, the Group sold the Savcor FACE business to Cencorp Corporation. Non-recurring losses from the discontinued operations on post-tax basis in financial year 2010 amount to \$2,248,000 (2009: loss of \$1,554,000). The Group's loss after tax from the continuing operations for the year ended 31 December 2010 is \$6,094,000 (2009: profit of \$1,303,000). The loss after tax from the continuing operations includes a share of loss of an associate of \$3,720,000, which is largely due to a write down to fair value less cost to sell of the investment in Cencorp Corporation's shares, which were received as a partial consideration for the sale of the Savcor FACE business to Cencorp Corporation.

Directors' Report continued

For the financial year ended 31 December 2010

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The total equity of the Group decreased to \$21,591,000 from \$33,262,000 during the financial year 2010, a decrease of \$11,671,000. During the year, the Company issued a total of 1,850,096 new ordinary shares in accordance with the plan rules of the Company's Deferred Employee Share Plan (DESP). The new shares were issued at 10.54 cents per share and the total consideration value of the shares was \$195,000. During the financial year 2010 1,757,068 Savcor Group Ltd options were forfeited or lapsed.

On 28 May 2010 Savcor Group Limited and its fully owned subsidiary Intune Circuits Oy signed a share and asset sale agreement with Cencorp Corporation of Finland to sell the Savcor FACE business to Cencorp Corporation. The transaction was subject to a number of conditions that were met during the financial year and the sale was completed on 30 November 2010. The transaction resulted in the Company selling its entire interest in the Savcor FACE business for 133,333,333 fully paid ordinary shares in Cencorp Corporation and a cash consideration of \$3,616,000. As per the share and asset sale agreement, the cash consideration was calculated as \$11,000,000 less the debt of the Savcor FACE business that remained with the Savcor FACE business in the transaction less the change in the net assets of the Savcor FACE business between 31 December 2009 and the completion date 30 November 2010. Cencorp Corporation was a related entity to the Company already prior to the transaction owing to Finnish Savcor Group Oy owning approximately 62.4% of Cencorp Corporation and approximately 64.1% of the Company via Savcor Face Group Oy at the time of the signing of the share and asset sale agreement. Following the transaction and issue of new shares in financial year 2010, Savcor Group Oy owns approximately 63.3% of the Company's shares via Savcor Face Group Oy and directly approximately 31.7% of Cencorp Corporation's shares. At completion date 30 November 2010 Cencorp Corporation became an associate of the Company and at balance sheet date the Company owns approximately 42.4% of Cencorp Corporation's shares.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 25 February 2011 the Company renewed its Australian banking facilities agreement and amended the size and type of facilities available. The amended facilities include an amortising, 3-year cash advance facility of \$23,500,000, a non-amortising and annually revolving cash advance and overdraft facility of \$8,000,000, non-amortising and annually revolving bank guarantee facilities of \$3,400,000 and transactional banking facilities. The 3-year cash advance facility will amortise by \$3,000,000 on 30 June 2011 and by \$3,500,000 on 30 September 2011. On 31 December 2011 the facility will amortise by a further amount that is required to ensure that the Group's leverage ratio (interest bearing debt divided by the Company's and its controlled entities' earnings before interest, taxes, depreciation and amortisation) immediately after the payment is not greater than 3.00. The balance of the amortising facility shall be repaid by 25 February 2014. For further details refer to Note 25.

There have been no other significant events occurring after the balance date which may affect either the Company's operations or results of those operations or the Company's state of affairs.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Comments regarding activities within the Group are included in the Chairman's Report included in the annual report. Further information on likely developments and expected results have not been included in this report as the Directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulations and pollution control requirements in respect of its remediation activities and surface protection technologies in Australia. The businesses concerned take all reasonable precautions to minimise the risk of any adverse environmental incident, including the proper disposal of solid and liquid waste products, arranging environmental audits where deemed necessary and ensuring that personnel receive appropriate training and supervision. There have been no instances of non-compliance with environmental regulations during the financial year.

Directors' Report continued

For the financial year ended 31 December 2010

SHARE OPTIONS

Unissued shares

As at the date of this report and as at 31 December 2010, there were 3,471,630 unissued ordinary shares under options (5,228,698 at 31 December 2009).

The outstanding options vest in two tranches in 2011 and 2012 subject to performance conditions being met. Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate. For vesting and exercise conditions and other details about the share options see Note 21(b) of the Financial Statements.

Shares issued as a result of the exercise of options

No options have been exercised during or since the end of the financial year.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Company paid a premium to insure Directors and certain Officers of the Company and controlled entities. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as Officers of the Company or controlled entities. The insurance policy prohibits disclosure of the premium paid or other details.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

	Directors' meetings		Audit and Risk Committee meetings		Nomination and Remuneration Committee meetings	
	Attended	Held while member	Attended	Held while member	Attended	Held while member
Number of meetings						
Simon Rowell	9	9	3	3	1	1
Hannu Savisalo	9	9	-	-	1	1
Nicholas Psaltis	9	9	3	3	1	1
Iikka Savisalo	5	9	1	3	-	-
Jyrki Salminen	5	7	-	-	-	-

Committee memberships

The Audit and Risk Committee is chaired by Simon Rowell. The other members of the committee are Iikka Savisalo and Nicholas Psaltis.

The Nomination and Remuneration Committee is chaired by Simon Rowell. The other members of the committee are Nicholas Psaltis and Hannu Savisalo.

Directors' Report continued

For the financial year ended 31 December 2010

AUDITOR INDEPENDENCE

The Directors received the following independence declaration from the Company's auditor, Ernst & Young.



Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001
Tel: +61 2 9248 5555
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Auditor's Independence Declaration to the Directors of Savcor Group Limited

In relation to our audit of the financial report of Savcor Group Limited for the financial year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ben Tansley
Partner
Sydney

28 February 2011

Directors' Report continued

For the financial year ended 31 December 2010

NON-AUDIT SERVICES

The following non-audit services were provided by the auditors of the Group, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Tax compliance services	43,830
Assurance related services	<u>2,652</u>
	<u>46,482</u>

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, the term 'Executive' complies with the Corporations Act definition and encompasses the Chief Executive, senior executives, general managers, senior managers and secretaries of the Company and the Group.

For the purposes of this report key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

Details of key management personnel

2010

Directors

Simon Rowell	Non-Executive Chairman
Hannu Savisalo	Managing Director
Nicholas Psaltis	Non-Executive Director
Iikka Savisalo	Non-Executive Director
Jyrki Salminen	Non-Executive Director until 16 October 2010

5 most highly remunerated executives

Atef Cheaitani	General Manager, International Operations and Corporate Chief Technology Officer
Petrus Siemonsma	General Manager, Infrastructure, Marine, Building and Water & Waste Water
Herkko Soininen	Chief Financial Officer
Paul Daffy	National Manager - Business Development
Vinay Swaroop	National Products Manager

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Details of key management personnel (continued)

2010 (continued)

Other key management personnel

Sami Lindfors	President, Savcor FACE until 30 November 2010
Robert Philip Harcourt	Corporate Chief Operations Officer until 23 February 2010
Christopher Oates	General Manager, Industry and Resources until 25 June 2010
Julian Bleddyn	General Manager, Industry and Resources from 6 September 2010

2009

Directors

Simon Rowell	Non-Executive Chairman (Non-Executive Director until 16 June 2009)
Hannu Savisalo	Managing Director
Nicholas Psaltis	Non-Executive Director
Jyrki Salminen	Non-Executive Director
Iikka Savisalo	Non-Executive Director (Executive Director until 30 June 2009)
John Ingram	Non-Executive Chairman until 16 June 2009, Non-Executive Director until 30 June 2009

5 most highly remunerated executives

Sami Lindfors	President, Savcor FACE
Robert Philip Harcourt	Corporate Chief Operations Officer
Herkko Soinen	Chief Financial Officer
Atef Cheaitani	General Manager, International Operations and Corporate Chief Technology Officer
Christopher Oates	General Manager, Industry and Resources

Other key management personnel

Petrus Siemonsma	General Manager, Infrastructure, Marine and Buildings
Paul Daffy	National Manager - Business Development
Vinay Swaroop	National Products Manager

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Directors and executives.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Board and executive team.

Remuneration philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives;
- link executive rewards to shareholder value;
- have a significant portion of executive remuneration 'at risk';
- establish appropriate, demanding performance hurdles for variable executive remuneration; and
- possibility for Directors to sacrifice a portion of their fees to acquire shares in the Company at market price.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

Non-Executive Director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting. The latest determination was at the shareholders' meeting following the Company's incorporation when shareholders approved a maximum aggregate remuneration of \$500,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure are reviewed annually. In the annual review process, the Board considers advice from external consultants and studies fees paid to non-executive directors of comparable companies.

The Non-Executive Chairman of the Board receives an annual fee of \$120,000. Each Non-Executive Director receives a base fee of \$75,000 for being a Director of the Group. No additional fees are paid for membership or chairmanship of Board committees.

Non-Executive Directors have been encouraged by the Board to hold shares in the Company. The Company facilitates this through the Non-Executive Directors' participation in the Company's Deferred Employee Share Plan. Under the plan, Non-Executive Directors can take a part of their annual fees in the form of shares in the Company. The shares are purchased on-market at the prevailing market share price.

Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs. The remuneration of Non-Executive Directors for the period ending 31 December 2010 is detailed in the key management personnel section of this report.

Executive remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- reward executives for Group, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Executive remuneration (continued)

Structure

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee engages external consultants as needed to provide independent advice.

The Company has entered into an executive services agreement with the Managing Director and employment or executive contracts with other executives. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- fixed remuneration (base salary, superannuation and non-monetary benefits); and
- variable remuneration:
 - short term incentive (STI); and
 - long term incentive (LTI).

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in Table 1.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee or by an assigned Committee member. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and non-monetary benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of executives is detailed in Table 1.

Variable remuneration — short term incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets may consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance, the emphasis being on financial measures such as EBITDA.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Variable remuneration — short term incentive (STI) (continued)

Structure (continued)

The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On a semi-annual basis, after consideration of performance against KPIs, the Nomination and Remuneration Committee or an assigned Committee member determines the amount, if any, of the short term incentive to be paid to each executive. This process usually occurs within 4 months after the reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to the approval of the Nomination and Remuneration Committee or the Board and the payment of the bonuses is discretionary. Payments made are delivered as a cash bonus or as shares purchased or issued at market value.

STI bonus for 2009 and 2010 financial years

For the financial year 2010 an STI bonus of \$215,000 (2009: \$nil) including superannuation has been paid or accrued for the key management personnel of the Group. Half of the STI bonus has or will be paid in cash and half in the Company's shares.

There have been no alterations to the STI bonus plans since their grant date.

Variable remuneration — long term incentive (LTI)

Objective

The objective of the LTI plan is to reward executives in a manner that aligns remuneration with the creation of shareholder wealth. As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have an impact on the Group's performance against the relevant long term performance hurdle.

Structure

LTI grants to executives are delivered in the form of share options under the Employee Option Plan (EOP). The outstanding share options have been divided into two tranches in which options will vest over periods of 39 and 51 months following the Listing of the Company and subject to meeting performance hurdles. Executives are able to exercise the share options at an exercise price of \$2.00 per share for up to 12 months after vesting before the options lapse.

Performance hurdle

The company uses Compound Average Growth Rate (CAGR) of Earnings Per Share (EPS) as the performance hurdle for the LTI plan. EPS CAGR was selected as the LTI performance hurdle as it ensures an alignment between comparative shareholder return growth and reward for executives.

Performance hurdles for options to vest are:

- 25% of options vest if EPS CAGR \geq 12% p.a.
- 50% of options vest if EPS CAGR \geq 15% p.a.
- 100% of options vest if EPS CAGR \geq 18% p.a.

EPS CAGR for the outstanding options is measured from 1 January 2008 to 31 December of 2010 or 2011 depending on the tranche.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Variable remuneration — long term incentive (LTI) (continued)

Performance hurdle (continued)

Where a participant ceases employment prior to the vesting of their share options, the share options lapse in 30 days or subject to Director discretion. In the event of a change in the control of the Group, the Board will determine the manner in which the options are dealt with, so that the participants' financial position in relation to the options remains as close to the situation prior to the change of control of the Group as possible. The Company prohibits executives from selling, transferring, mortgaging or otherwise dealing with the options without Board approval. The EOP has been described in more detail in Note 21 of the Financial Statements. For details of LTI options granted refer to Note 27.

Company performance and its link to long-term incentives

The financial performance measure which drives LTI vesting is the Group's Earnings Per Share (EPS). As outlined above, the vesting of the long term incentive options issued in 2007 is dependant on the Cumulative Average Growth Rate of Earnings Per Share. The following table outlines the Group's EPS over the five-year period from 1 January 2006 to 31 December 2010. Due to the Group's restructuring in 2007, the 2006 and 2007 EPS figures are not comparable to 2008 - 2010 EPS figures.

	2006	2007	2008	2009	2010
Earnings per share (cents per share)	2.25	24.38	7.04	(0.18)	(5.98)

As a result of the Group's performance since 1 January 2008, none of the options issued in 2007 have vested.

Employment contracts

Managing Director

The Managing Director, Hannu Savisalo, is employed under a fixed term contract terminating on 30 November 2012. Under the terms of the present contract:

- Hannu Savisalo is entitled to a fixed total remuneration package of \$350,000 per annum subject to periodic review. He is also entitled to participate in the Company's EOP applicable from time to time.
- Hannu Savisalo may resign from his position and thus terminate the contract by giving a 12 months' written notice. On resignation any unvested options will lapse according to the policies of the EOP.
- The Company may terminate the contract by providing a 12 months' written notice. If notice is given by the Company, the Company has to pay the Managing Director 12 months' salary on termination. On termination with notice by the Company, any LTI options that have vested or that will vest during the notice period will be released. LTI options that have not yet vested will lapse according to the policies of the EOP.
- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is entitled to remuneration only up to the date of termination without any payment in lieu of notice period. On termination with cause any unvested options will lapse immediately or be subject to the Board's discretion.

Other executives

All other executives have rolling contracts. The Company may terminate an executive's employment agreement by providing typically 1 to 6 months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). If serious misconduct has occurred, the Company may terminate the contract at any time without notice. On termination with notice by the Company, any LTI options that have vested or that will vest during the notice period will be released. LTI options that have not yet vested will lapse according to the policies of the EOP. On termination with cause any unvested options will lapse immediately or be subject to the Board's discretion.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Employment contracts (continued)

Other executives (continued)

Termination periods of the key management personnel's employment contracts by the Company are 3 months in the case of Atef Cheaitani and Julian Bleddyn, 2 months in the case of Herkko Soininen and 1 month in the case of Paul Daffy, Petrus Siemonsma and Vinay Swaroop. Sami Lindfors and Robert Philip Harcourt had a 6 month notice period and Christopher Oates had a 3 month notice period.

Remuneration of key management personnel

Table 1

	Short-term			Post employment		Long-term	Share-based payment		Total	% performance related
	Salary & fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Long service leave	Options	Shares		
2010	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors										
Simon Rowell	110,092	-	-	9,908	-	-	-	-	120,000	-
Hannu Savisalo	131,489	-	208,000	10,511	-	-	(10,944)	-	339,056	-
Nicholas Psaltis	68,807	-	-	6,193	-	-	-	-	75,000	-
Iikka Savisalo *	75,000	-	-	-	-	-	(5,081)	-	69,919	-
Jyrki Salminen * **	59,524	-	-	-	-	-	-	-	59,524	-
Sub-total Directors	444,912	-	208,000	26,612	-	-	(16,025)	-	663,499	-
5 most highly remunerated executives										
Atef Cheaitani	277,284	22,500	-	47,832	-	8,780	(5,081)	22,500	373,815	12.0%
Petrus Siemonsma	200,749	27,500	21,426	44,235	-	8,617	(2,345)	27,500	327,682	16.8%
Herkko Soininen	229,743	12,500	57,862	14,829	-	-	(5,081)	12,500	322,353	7.8%
Paul Daffy	227,477	20,000	-	20,473	-	-	(2,345)	20,000	285,605	14.0%
Vinay Swaroop	176,251	25,000	25,794	15,863	-	7,975	(2,345)	25,000	273,538	18.3%
Sub-total executives	1,111,504	107,500	105,082	143,232	-	25,372	(17,197)	107,500	1,582,993	13.6%
Other key management personnel										
Sami Lindfors * **	196,471	-	37,763	-	-	-	(5,081)	-	229,153	-
R. Philip Harcourt **	141,792	-	2,855	14,042	-	1,115	(8,141)	-	151,663	-
Christopher Oates **	126,894	-	-	16,330	-	3,403	(3,757)	-	142,870	-
Julian Bleddyn **	76,408	-	7,591	7,560	-	-	-	-	91,559	-
Sub-total other KMPs	541,565	-	48,209	37,932	-	4,518	(16,979)	-	615,245	-
TOTAL	2,097,981	107,500	361,291	207,776	-	29,890	(50,201)	107,500	2,861,737	7.5%

Notes:

Note 1: The remuneration value of options is disclosed consistently with the expense recognised by the consolidated entity in the statement of comprehensive income. The remuneration value of options reflects the reduction in the cumulative value of options, which is caused by the forfeiture of the options or performance hurdles not having been or being less likely to be met.

Note 2: Performance related bonuses were or will be paid partly in cash and partly as company shares issued into the Deferred Employee Share Plan (DESP). Cash bonus amounts listed above include the full amount of performance bonuses paid or to be paid in cash or as a superannuation contribution. Share of performance related remuneration is calculated from the amount of cash and share bonuses and it excludes the remuneration value of options.

* Based overseas.

** For a period of approximately 10.5 months in the case of Jyrki Salminen, 11 months in the case of Sami Lindfors, 2 months and payment in lieu of notice in the case of Robert Philip Harcourt, 6 months in the case of Christopher Oates and 4 months in the case of Julian Bleddyn.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of key management personnel (continued)

Table 1 (continued)

	Short-term			Post employment		Long-term	Share-based payment		Total	% performance related
	Salary & fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Long service leave	Options	Shares		
2009	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors										
Simon Rowell **	94,037	-	-	8,463	-	-	-	-	102,500	-
Hannu Savisalo	131,486	-	208,000	10,514	-	-	(19,984)	-	330,016	-
Nicholas Psaltis **	68,807	-	-	6,193	-	-	-	-	75,000	-
Jyrki Salminen *	75,000	-	-	-	-	-	-	-	75,000	-
Iikka Savisalo *	127,087	-	48,914	7,565	-	-	(9,278)	-	174,288	-
John Ingram ** ***	75,000	-	-	-	-	-	-	-	75,000	-
Sub-total Directors	571,417	-	256,914	32,735	-	-	(29,262)	-	831,804	-
5 most highly remunerated executives										
Sami Lindfors *	241,711	-	44,211	-	-	-	(9,278)	-	276,644	-
R. Philip Harcourt	228,486	-	19,300	26,014	-	4,400	(9,278)	-	268,922	-
Herkko Soininen **	194,745	-	64,971	13,727	-	-	(9,278)	-	264,165	-
Atef Cheaitani	238,756	-	-	21,488	-	4,818	(9,278)	-	255,784	-
Christopher Oates	202,558	-	-	20,498	-	4,021	(4,282)	-	222,795	-
Sub-total executives	1,106,256	-	128,482	81,727	-	13,239	(41,394)	-	1,288,310	-
Other key management personnel										
Petrus Siemonsma	183,500	-	21,246	18,150	-	3,769	(4,282)	-	222,383	-
Paul Daffy	202,885	-	-	18,260	-	-	(4,282)	-	216,863	-
Vinay Swaroop	165,000	-	20,550	14,850	-	8,061	(4,282)	-	204,179	-
Sub-total other KMPs	551,385	-	41,796	51,260	-	11,830	(12,846)	-	643,425	-
TOTAL	2,229,058	-	427,192	165,722	-	25,069	(83,502)	-	2,763,539	-

Notes:

Note 1: The remuneration value of options is disclosed consistently with the expense recognised by the consolidated entity in the statement of comprehensive income. The remuneration value of options reflects the reduction in the cumulative value of options, which is caused by the performance hurdles being less likely to be met.

Note 2: Share of performance related remuneration is calculated from the amount of cash bonus only and it excludes the remuneration value of options.

* Jyrki Salminen and Sami Lindfors were based overseas for the full year and Iikka Savisalo for 6 months in 2009.

** Salary sacrificed part of the remuneration into the Deferred Employee Share Plan (DESP).

*** For a period of 6 months.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of key management personnel (continued)

Options granted as part of remuneration

Savcor Group Limited granted no options during the financial years 2009 and 2010. The option related remuneration disclosed for the Directors and executives for the financial years 2009 and 2010 relates to options granted in 2007 as their value is recognised as remuneration for the Directors and executives during the vesting period of the options. The remuneration value of the options is consistent with the expense recognised by the consolidated entity and reflects changes in the cumulative value of the options. The value of the options depends on the number of options expected to vest and is influenced by the likelihood of performance hurdles being met. There have been no alterations to the terms and conditions of options granted as remuneration since their grant date.

Table 2

	<i>Value of options granted during the period</i>	<i>Value of options exercised during the period</i>	<i>Value of options lapsed during the period</i>	<i>Remun- eration consisting of options for the period</i>
<i>2010</i>	\$	\$	\$	%
Directors				
Simon Rowell	-	-	-	-
Hannu Savisalo	-	-	-	(3.2) %
Nicholas Psaltis	-	-	-	-
Iikka Savisalo *	-	-	-	(7.3) %
Jyrki Salminen * **	-	-	-	-
Sub-total Directors	-	-	-	(2.4) %
5 most highly remunerated executives				
Atef Cheaitani	-	-	-	(1.4) %
Petrus Siemonsma	-	-	-	(0.7) %
Herkko Soininen	-	-	-	(1.6) %
Paul Daffy	-	-	-	(0.8) %
Vinay Swaroop	-	-	-	(0.9) %
Sub-total executives	-	-	-	(1.1) %
Other key management personnel				
Sami Lindfors * **	-	-	-	(2.2) %
R. Philip Harcourt **	-	-	-	(5.4) %
Christopher Oates **	-	-	-	(2.6) %
Julian Bleddyn **	-	-	-	-
Sub-total other KMPs	-	-	-	(2.8) %
TOTAL	-	-	-	(1.8) %

Notes:

The value of options forfeited or lapsed during the period was determined at the date of lapse and it reflects the intrinsic value of the options, which in the case of options forfeited or lapsed in 2010 is \$nil.

* Based overseas.

** For a period of approximately 10.5 months in the case of Jyrki Salminen, 11 months in the case of Sami Lindfors, 2 months and payment in lieu of notice in the case of Robert Philip Harcourt, 6 months in the case of Christopher Oates and 4 months in the case of Julian Bleddyn.

Directors' Report continued

For the financial year ended 31 December 2010

REMUNERATION REPORT (AUDITED) (continued)

Remuneration of key management personnel (continued)

Options granted as part of remuneration (continued)

Table 2 (continued)

	<i>Value of options granted during the period</i>	<i>Value of options exercised during the period</i>	<i>Value of options lapsed during the period</i>	<i>Remun- eration consisting of options for the period</i>
	\$	\$	\$	%
<i>2009</i>				
Directors				
Simon Rowell	-	-	-	-
Hannu Savisalo	-	-	-	(6.1) %
Nicholas Psaltis	-	-	-	-
Jyrki Salminen *	-	-	-	-
Iikka Savisalo *	-	-	-	(5.3) %
John Ingram **	-	-	-	-
Sub-total Directors	-	-	-	(3.5) %
5 most highly remunerated executives				
Sami Lindfors *	-	-	-	(3.4) %
R. Philip Harcourt	-	-	-	(3.5) %
Herkko Soininen	-	-	-	(3.5) %
Atef Cheaitani	-	-	-	(3.6) %
Christopher Oates	-	-	-	(1.9) %
Sub-total executives	-	-	-	(3.2) %
Other key management personnel				
Petrus Siemonsma	-	-	-	(1.9) %
Paul Daffy	-	-	-	(2.0) %
Vinay Swaroop	-	-	-	(2.1) %
Sub-total other KMPs	-	-	-	(2.0) %
TOTAL	-	-	-	(3.0) %

Notes:

* Jyrki Salminen and Sami Lindfors were based overseas for the full year and Iikka Savisalo for 6 months in 2009.

** For a period of 6 months.

The maximum grant, which will be payable assuming that all service and performance criteria are met, is equal to the number of options granted multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance criteria are not met is zero.

Signed in accordance with a resolution of the Directors.



Simon Rowell
Director
Sydney, 28 February 2011

Corporate Governance Statement

For the financial year ended 31 December 2010

The Board of Directors of Savcor Group Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Savcor Group Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the 2nd Edition of Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations.

Recommendation	Comply Yes / No	Explanation
1.1 Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	
1.2 Disclose the process for evaluating the performance of senior executives.	Yes	
2.1 A majority of the Board should be independent Directors.	No	Compliant until 16 October 2010 when one of the independent Directors resigned. A new Director has not been appointed and there has subsequently been an equal number of independent and non-independent Directors.
2.2 The Chair should be an independent Director.	Yes	
2.3 The roles of Chair and chief executive officer should not be exercised by the same individual.	Yes	
2.4 The Board should establish a nomination committee.	Yes	
3.1 Establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the Company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes Yes Yes	
3.2 Establish a policy concerning trading in company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	
4.1 The Board should establish an audit committee.	Yes	
4.2 The audit committee should be structured so that it: • consists only of Non-Executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not Chair of the Board; and • has at least three members.	Yes Yes Yes No Yes	Chairman must be independent Non-Executive Director.
4.3 The audit committee should have a formal charter.	Yes	

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Recommendation	Comply Yes / No	Explanation
5.1 Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	
6.1 Design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Yes	
7.1 Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes	
7.3 The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	
8.1 The Board should establish a remuneration committee.	Yes	
8.2 Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and senior executives.	Yes	

Savcor Group Limited's corporate governance practices were in place throughout the year ended 31 December 2010. The philosophy of the Board is to adopt a best practice stance that is consistent with both the ASX Principles of Good Corporate Governance and Best Practice Recommendations and its own best interests. The Board reviews its position in relation to corporate governance issues regularly and makes necessary changes when appropriate.

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Board functions

The Board is committed to ensuring Savcor Group Limited is properly managed and accordingly the Directors have adopted corporate governance policies and practices designed to promote responsible management and conduct of the Company's business. The main policies and practices adopted by Savcor Group Limited are summarised below. In addition, many governance elements are set out in the Company's Constitution.

The Board is responsible for the overall corporate governance of Savcor Group Limited including establishing and monitoring key performance goals, internal controls, a business risk management process and appropriate ethical standards.

The Board brings together a broad range of qualifications, extensive industry and public company experience and the balanced skill set it has is expected to continue to benefit the Company.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of Directors and for the operation of the Board.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and it has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship, it makes use of committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Nomination and Remuneration Committee; and
- Audit and Risk Committee.

The roles and responsibilities of these committees are discussed throughout this Corporate Governance Statement.

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Board functions (continued)

The Board is responsible for ensuring that Management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risks;
- ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- implementation of budgets by Management and monitoring progress against budget - via the establishment and reporting of key performance indicators.

Other functions reserved to the Board include:

- approval of the annual and half-yearly financial reports;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- reporting to shareholders.

Board charter

The Board has adopted a charter that sets out the principles for the operation of the Board and describes the powers and responsibilities of the Board, which include:

- appointing and removing the Managing Director and Management and determining their conditions of service;
- reviewing the performance and approving the remuneration (including financial incentives) of the Managing Director and Management as recommended by the Nomination and Remuneration Committee;
- recommending the appointment and reviewing the performance of Directors;
- establishing any incentive plan for Directors, Management and employees;
- appointing the members of the Nomination and Remuneration Committee and Audit and Risk Committee;
- delegating an appropriate level of authority to Management and approving any matters in excess of the discretion that it delegates to the Managing Director and Management in relation to business transactions, credit transactions, risk limits and expenditure;
- monitoring compliance with regulatory requirements and ethical standards;
- monitoring business risks, overseeing the risk management strategy and ensuring that internal control systems are effective;
- approving the budget, the business plan and compliance policies and monitoring the strategic and financial objectives and performance of the Company;
- approving annual accounts, reports and other public documents; and
- effectively communicating about the affairs of the Company and the businesses it operates to shareholders and other stakeholders.

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Structure of the Board

The Board consists of four Directors with a majority of three Non-Executive Directors. The Company's Constitution provides for a minimum of three and a maximum of twelve Directors unless the Company in a General Meeting determines otherwise.

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report are included in the Directors' Report.

It is the Board's policy that independent Non-Executive Directors should be free from any business or other relationship that could materially compromise the Director's ability to act in the best interests of Savcor Group Limited. The Board considers a Director to be independent where he or she is not a member of Management or a substantial shareholder and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the Director's unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case-by-case basis. The Board will review the independence of each Director in light of interests disclosed to the Board from time to time.

In accordance with the definition of independence above and the materiality thresholds set, the following Directors of Savcor Group Limited are considered to be independent:

Name	Position
Simon Rowell	Non-Executive Chairman
Nicholas Psaltis	Non-Executive Director

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the Company's expense.

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

Name	Term in Office
Simon Rowell	3 years and 4 months
Hannu Savisalo (Managing Director)	3 years and 5 months
Nicholas Psaltis	3 years and 5 months
Iikka Savisalo	3 years and 5 months

Trading policy

Under the Company's Securities Trading Policy, an executive or Director must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Trading policy (continued)

Transactions in Securities by any person to whom the Trading Policy applies are prohibited during the following periods:

- from the period commencing 1 January of each year until the release of the annual results for the previous financial year; and
- from the period commencing 1 July of each year until the release of the half-yearly results.

Persons to whom the Trading Policy applies are not to engage in short term trading of the Company's Securities.

As required by the ASX Listing Rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company.

Board Committees

The Board retains ultimate authority over management, however, as is customary, the Board has delegated authority over the day-to-day management of the Company to the Managing Director and in turn to Management. To assist in the execution of its responsibilities, the Board has established a Nomination and Remuneration Committee and an Audit and Risk Committee. These committees have written mandates and operating procedures.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible for ensuring that the Directors and Management are remunerated fairly and for overseeing that the remuneration policies and practices are consistent with Savcor Group Limited's strategic goals and human resources objectives.

The Committee is also responsible for advising the Board on the composition of the Board and its Committees and reviewing the performance of the key executives.

In making recommendations to the Board regarding the appointment of Directors, the Committee periodically assesses the appropriate mix of skills, experience and expertise required on the Board and assesses the extent to which the required skills and experience are represented on the Board.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Company's Management's remuneration is structured to promote superior performance by the Company. Management remuneration is regarded as a key tool in motivating executives to achieve goals consistent with the Company's goals for long term corporate growth and success.

The Nomination and Remuneration Committee monitors and reviews the remuneration and incentive programs established by the Board and makes recommendations to the Board as to any desirable changes and any payments thereto.

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Nomination and Remuneration Committee (continued)

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits to Non-Executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves, the Managing Director and the executive team. The Committee consists of at least two Directors. The Chairman of the Committee must be an independent Non-Executive Director. Mr Simon Rowell chairs this Committee. Other members of the Committee are Hannu Savisalo and Nicholas Psaltis.

Qualifications of Nomination and Remuneration Committee members are:

- Mr Simon Rowell (Committee Chairman) holds a BA (Hons) from Reading University (UK) and is a Chartered Accountant;
 - Mr Hannu Savisalo holds a MSc degree in Metallurgy from the Helsinki University of Technology (Finland); and
 - Mr Nicholas Psaltis holds a Dip Civil Engineering degree from Victoria University.
- The Committee may obtain information from and consult with Management and external advisers if it considers appropriate.

For details of Directors' attendance at meetings of the Nomination and Remuneration Committee, refer to the Directors' Report.

Audit and Risk Committee

The role of the Audit and Risk Committee is to advise on internal controls and appropriate standards for the management of Savcor Group Limited. The Committee also confirms the quality and reliability of the financial information prepared, working on behalf of the Board with the external auditor. The Committee reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

The Committee provides advice to the Board and reports on the status of the business risks to Savcor Group Limited aiming at ensuring risks are identified, assessed and properly managed.

The Committee consists of at least two Directors, a majority of whom must be independent Non-Executive Directors. The Chairman of the Committee has to be an independent Non-Executive Director. Mr Simon Rowell chairs this Committee. Other members of the Committee are Nicholas Psaltis and Iikka Savisalo.

Qualifications of Audit and Risk Committee members are:

- Mr Simon Rowell (Committee Chairman) holds a BA (Hons) from Reading University (UK) and is a Chartered Accountant;
- Mr Nicholas Psaltis holds a Dip Civil Engineering degree from Victoria University; and
- Mr Iikka Savisalo holds a BBA in Accounting from Porvoo Commercial College.

Corporate Governance Statement continued

For the financial year ended 31 December 2010

Risk identification and management

The Audit and Risk Committee has the following responsibilities with respect to the risk management function delegated to it by the Board:

- approving Management's overall risk management strategy for the Company and ensuring the required actions are resourced appropriately;
- ensuring that the Company identifies, reviews and regularly updates the profile of the principal strategic, operational and financial risks to which it is exposed and assesses the appropriateness of the steps the Company has taken to manage these risks;
- developing a risk profile describing the material risks facing the Company and reviewing trends on the risk profile, reporting on specific risks and the status of the risk management process;
- monitoring performance of Management in implementing risk management responses and internal control rectification activities and ensuring that there are appropriate systems in place for identifying and monitoring risks and that these are operating as intended; and
- reviewing the effectiveness of the Company's implementation of the risk management system.

Managing Director and Chief Financial Officer certification

The Managing Director and Chief Financial Officer have provided a written statement to the Board that:

- the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results, are in accordance with relevant accounting standards and are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- that the Company's risk management and internal compliance and control system is operating effectively in all material respects.

Continuous disclosure

The Company has a Continuous Disclosure Policy that aims to ensure the Company complies with its continuous disclosure obligations under the ASX Listing Rules and that it develops vetting and authorisation policies and procedures which ensure the Company's announcements are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

Once the Company is aware of price-sensitive information (information concerning the Company's financial position, strategy or operations, which if made public, would be likely to have a material impact on the price of the Company's shares), the Company provides that information promptly to the market through the ASX Company Announcements Platform. Such announcements will be made as soon as reasonably practicable after learning of the required disclosure.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2010

	Notes	CONSOLIDATED	
		2010 \$'000	2009 \$'000
Revenue		90,209	79,114
Cost of sales		(70,021)	(57,991)
Gross profit		20,188	21,123
Other income	6	1,660	1,146
Research and development expenses		(3,510)	(2,027)
Sales and marketing expenses		(3,883)	(3,572)
Administrative expenses		(14,089)	(12,259)
Share of losses of an associate	6	(3,720)	-
Finance costs	6	(3,280)	(1,634)
Other expenses		(616)	(914)
(Loss)/profit before income tax		(7,250)	1,863
Income tax benefit/(expense)	7	1,156	(560)
(Loss)/profit from continuing operations after income tax		(6,094)	1,303
Loss from discontinued operations after income tax	30	(2,248)	(1,554)
Net loss for the period		(8,342)	(251)
Other comprehensive income			
Foreign currency translation		(3,471)	(8,035)
Other comprehensive income for the period, net of tax		(3,471)	(8,035)
Total comprehensive income for the period and attributable to members of the Parent		(11,813)	(8,286)

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2010 (continued)

		CONSOLIDATED	
		<i>2010</i>	<i>2009</i>
	<i>Notes</i>	<i>cents per</i>	<i>cents per</i>
Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of Savcor Group Limited			
Basic earnings per share	9	(4.37)	0.93
Diluted earnings per share	9	(4.37)	0.93
Earnings per share for loss attributable to the ordinary equity holders of Savcor Group Limited			
Basic earnings per share	9	(5.98)	(0.18)
Diluted earnings per share	9	(5.98)	(0.18)

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	CONSOLIDATED	
		2010 \$'000	2009 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	10	415	4,663
Trade and other receivables	11	22,566	28,756
Inventories	12	1,838	7,374
Income tax receivables		637	450
Total current assets		25,456	41,243
Non-current assets			
Investments in associates and joint ventures	29	20,884	280
Property, plant and equipment	13	5,106	32,350
Intangible assets and goodwill	14	6,384	12,930
Deferred tax assets	7	4,474	4,117
Total non-current assets		36,848	49,677
TOTAL ASSETS		62,304	90,920
LIABILITIES			
Current liabilities			
Trade and other payables	15	11,366	15,826
Interest-bearing loans and borrowings	17	26,395	25,094
Provisions	16	1,809	1,996
Total current liabilities		39,570	42,916
Non-current liabilities			
Trade and other payables	15	85	69
Interest-bearing loans and borrowings	17	214	12,986
Provisions	16	321	241
Deferred tax liabilities	7	523	1,446
Total non-current liabilities		1,143	14,742
TOTAL LIABILITIES		40,713	57,658
NET ASSETS		21,591	33,262
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	18(a)	273,584	273,388
Retained earnings		5,971	12,904
Reserves	19	(257,964)	(253,030)
Parent interests		21,591	33,262
TOTAL EQUITY		21,591	33,262

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2010

	Contributed equity	Retained earnings	Foreign currency translation reserve	Common control reserve	Employee equity benefits reserve	Articles of association reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED							
At 1 January 2009	273,901	13,155	9,314	(255,795)	165	1,409	42,149
Loss for the year	-	(251)	-	-	-	-	(251)
Other comprehensive income	-	-	(8,035)	-	-	-	(8,035)
Total comprehensive income for the period	-	(251)	(8,035)	-	-	-	(8,286)
Transactions with owners in their capacity as owners							
Share buy-back	(513)	-	-	-	-	-	(513)
Cost of share-based payments	-	-	-	-	(88)	-	(88)
Total transactions with owners in their capacity as owners	(513)	-	-	-	(88)	-	(601)
At 31 December 2009	273,388	12,904	1,279	(255,795)	77	1,409	33,262
At 1 January 2010							
At 1 January 2010	273,388	12,904	1,279	(255,795)	77	1,409	33,262
Loss for the year	-	(8,342)	-	-	-	-	(8,342)
Other comprehensive income	-	-	(3,471)	-	-	-	(3,471)
Total comprehensive income for the period	-	(8,342)	(3,471)	-	-	-	(11,813)
Transactions with owners in their capacity as owners							
Shares issued	195	-	-	-	-	-	195
Cost of share-based payments	-	-	-	-	(54)	-	(54)
Other	-	1,409	-	-	-	(1,409)	-
Total transactions with owners in their capacity as owners	195	1,409	-	-	(54)	(1,409)	141
At 31 December 2010	273,584	5,971	(2,192)	(255,795)	23	-	21,591

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2010

	Notes	CONSOLIDATED	
		2010	2009
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		131,382	120,118
Payments to suppliers and employees		(126,243)	(109,027)
Dividend received from joint venture		157	-
Interest received		46	24
Borrowing costs		(4,167)	(3,198)
Income tax paid		(1,092)	(2,519)
Net cash flows from operating activities	20	83	5,398
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		656	30
Proceeds from sale of intangible assets		500	-
Purchase of property, plant and equipment and intangible assets		(3,919)	(6,140)
Purchase of or investment in controlled entity, net of cash acquired		41	(588)
Proceeds from disposal of subsidiaries/investments, net of cash disposed		3,260	-
Deferred consideration on acquisition of subsidiary		-	(632)
Net cash flows used in investing activities		538	(7,330)
Cash flows from financing activities			
Payment for share buy-back		-	(513)
Proceeds from borrowings		36,420	58,902
Repayment of borrowings		(40,870)	(56,799)
Repayment of finance lease principal		(342)	(636)
Net cash flows (used in)/from financing activities		(4,792)	954
Cash and cash equivalents at beginning of period		4,663	6,810
Net decrease in cash and cash equivalents		(4,171)	(978)
Net foreign exchange differences		(77)	(1,169)
Cash and cash equivalents at end of year	10	415	4,663

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010

1 CORPORATE INFORMATION

The financial report of Savcor Group Limited and its controlled entities (the Group) for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the Directors on 28 February 2011.

Savcor Group Limited (the Parent) is a company limited by shares incorporated in Australia. The ultimate parent of the Group is Savcor Group Oy, a company registered in Finland.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

The Company's shares are publicly traded on the Australian Securities Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial information has been prepared on an accruals basis of accounting including the historical cost convention and going concern basis of accounting.

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

As at 31 December 2010, the consolidated entity has an excess of current liabilities over current assets of \$14,114,000 (2009: \$1,673,000). The Directors consider that the financial report should be prepared on a going concern basis, which contemplates continuity of normal business activities and that the realisation of assets and settlement of liabilities will occur in the normal course of business and that the consolidated entity will be able to pay its debts as and when they become due and payable. This is based on the consolidated entity being forecast to have positive operational cash flow for the financial year 2011, the renewal of the Australian banking facilities which occurred in February 2011 as disclosed in Note 25 and access to additional cash funds through the potential sale of the Company's shares in Cencorp Corporation. The Group's total assets also exceed total liabilities by \$21,591,000 (2009: \$33,262,000).

(b) Statement of compliance

(i) Compliance with IFRS

This financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

(ii) *New Accounting Standards and Interpretations*

(a) *Changes in accounting policy and disclosures.*

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2010:

- AASB 2009-8 Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] effective 1 January 2010;
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 107 & 136] effective 1 January 2010;
- AASB 3 Business Combinations (revised 2008) effective 1 July 2009;
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009;
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009;
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5] effective 1 July 2009; and
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 effective 1 July 2009.

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 2009-8 Amendments to Australian Accounting Standards — Group Cash — Settled Share-based Payment Transactions

The amendments clarify the scope of AASB 2 Share-based Payment by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 — Group and Treasury Share Transactions. It did not have an impact on the financial position or performance of the Group.

AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously “minority interests”), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Annual Improvements Project

In May 2009 and June 2010 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures in Note 30.
- AASB 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 5.
- AASB 136 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 2 Share-based Payment;
- AASB 101 Presentation of Financial Statements;
- AASB 107 Statement of Cash Flows;
- AASB 117 Leases;
- AASB 118 Revenue;
- AASB 138 Intangible Assets;
- AASB 139 Financial Instruments: Recognition and Measurement;
- AASB Interpretation 9 Reassessment of Embedded Derivatives; and
- AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

(b) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2010 are outlined below.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.	Beginning 1 January 2011	Beginning 1 January 2011
AASB 9 AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]	This gives effect to consequential changes arising from the issuance of AASB 9.	Beginning 1 January 2013	Beginning 1 January 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and Interpretations 2, 4, 16, 1039 and 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.	Beginning 1 January 2011	Beginning 1 January 2011
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	This Standard makes amendments to many Australian Accounting Standards, including Interpretations, to introduce reduced disclosure requirements to the pronouncements for application by certain types of entities.	Beginning 1 July 2013	Beginning 1 January 2014
Annual Improvements Project (issued 2010)	AASB 2010-4 [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	This Standard makes amendments to many Australian Accounting Standards.	Beginning 1 January 2011	Beginning 1 January 2011

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	Beginning 1 January 2011	Beginning 1 January 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	This Standard adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. The amendments to AASB 1 and AASB 7 result from proposals that were included in ED 177 Derecognition published in April 2009, and follow the issuance of the Amendments to IFRS 7 by the IASB in October 2010.	Beginning 1 July 2011	Beginning 1 January 2012

The Directors have not yet fully assessed the impact of these new or amended standards and interpretations (to the extent relevant to the Group).

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Savcor Group Limited and its subsidiaries (the Group) as at 31 December 2010.

Information from the financial statements of subsidiaries is included from the date the Parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. The acquisition of subsidiaries is accounted for using the purchase method of accounting, unless they are business combinations under common control which are measured at fair value in the Parent, less any impairment charges.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

In 2007, Savcor Group Limited acquired 100% of the share capital of 14 common control entities from its ultimate parent, Savcor Group Oy, and other Savcor Group Oy group companies. As the business combination is between entities under common control, AASB 3 Business Combinations does not apply. In the absence of any specific guidance on how to account for common control combinations the company has considered overseas practices and standards which permit the 'pooling of interest' method to be employed. As a result the company has elected to:

- (i) record the net assets of the business acquired using the existing book values of common control entities;
- (ii) consolidate the results of the common control entities from 1 October 2007. Although overseas jurisdictions generally require consolidation of the acquiree's results as if the entities had always been combined, the Australian regulator will only permit consolidation from the acquisition date; and
- (iii) record the difference between the consideration paid and net assets acquired directly in equity.

(d) Business combinations

(i) Accounting for business combinations under common control

The acquisition of companies by Savcor Group Limited during the restructure described in Note 2(c) is regarded as a business combination involving companies under common control. While the entities subject to the restructure (common control entities) were acquired at market value by Savcor Group Limited, the Directors have elected to use predecessor values which use the existing book values of assets and liabilities of the common control entities in the consolidated accounts at the level of common control.

In accordance with AASB 3 Business Combinations, when Savcor Group Limited (the legal parent) acquired the common control entities, the acquisition was deemed to be a reverse acquisition since the substance of the transaction is that the existing shareholders of the common control entities had effectively acquired Savcor Group Limited. Under reverse acquisition accounting, the consolidated financial statements are prepared as if one of the common control entities, Savcor Finn Pty Limited, identified as the accounting acquirer, had acquired Savcor Group Limited and the other common control entities as opposed to what is represented by the legal position.

On consolidation, no goodwill arises on the acquisition by Savcor Group Limited of the common control entities' shares.

The use of predecessor values of the common control entities has the following impact on the statement of financial position:

- Savcor Group Limited consolidates the assets and liabilities of the common control entities at their predecessor values, being existing book values at the level of common control immediately prior to the transaction; and
- the difference between the purchase price paid by Savcor Group Limited and the amount that acquired assets and liabilities are recorded at is recognised as a reserve within equity and has been described as a common control reserve.

The number of shares disclosed by the consolidated entity is that of Savcor Group Limited whilst the value of shares disclosed by the consolidated entity is an aggregation of the values of shares of Savcor Group Limited and Savcor Finn Pty Limited.

In the statement of financial position of Savcor Group Limited, the investment in the common control entities is recorded at cost, being the fair value of consideration paid. Where equity instruments are issued in a business combination, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The consolidated financial statements are issued under the name of Savcor Group Limited but are the continuation of the financial statements of the deemed acquirer, Savcor Finn Pty Limited, under the reverse acquisition rules.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations (continued)

(ii) Accounting for business combinations not under common control before 1 January 2010

The purchase method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired, unless they are business combinations involving entities under common control, which are subject to the accounting policy described above. Cost is measured at the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of the acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in a business combination, the value of the instruments is their market price as at the acquisition date. 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 cost of acquisition over the fair value of the Company's share of identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the non-current amounts payable in the future are discounted to their present value at the date of acquisition. 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.

(e) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(f) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Savcor Group Limited and its Australian subsidiaries is Australian dollars (\$).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All exchange differences arising from transactions and balances are taken to the statement of comprehensive income.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation (continued)

(iii) Translation of Group Companies' functional currencies to presentation currencies

The functional currencies of the overseas subsidiaries are as follows:

• Savcor Face (Beijing) Technologies Co., Ltd.: *	Chinese Yuan (C¥)
• Savcor Face (Guangzhou) Technologies Co., Ltd.: *	Chinese Yuan (C¥)
• Savcor Corrosion Technology Co., Ltd.:	Chinese Yuan (C¥)
• Savcor Pacific Ltd: *	Hong Kong Dollar (HK\$)
• Intune Circuits Oy: **	Euro (€)
• Savcor Tempo Oy:	Euro (€)
• Savcor Japan K.K.:	Japanese Yen (J¥)
• Savcor ART New Zealand Ltd:	New Zealand Dollar (NZ\$)
• Savcor India Private Ltd.:	Indian Rupee (INR)

Notes:

* Sold to Cencorp Corporation on 30 November 2010.

** Merged into Savcor Tempo Oy on 31 October 2010.

As at the reporting date the assets and liabilities of overseas subsidiaries are translated into the presentation currency of Savcor Group Limited at the rate of exchange ruling at the balance sheet date and the statements of comprehensive income are translated at the average exchange rates for the period.

Exchange variations resulting from the translation on consolidation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from translation of the net investment in overseas subsidiaries, jointly controlled entities and associates and of the borrowings designated as hedges of the net investment are taken to the foreign currency translation reserve. If an overseas subsidiary, a jointly controlled entity or an associate were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

(g) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity 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.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities in the statement of financial position.

(h) Trade and other receivables

Trade receivables, which generally have 30 to 60 day terms, and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(j) Investments in associates, jointly controlled entities and available-for-sale securities

(i) Associates and jointly controlled entities

The Group's investment in its associates and jointly controlled entities is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the Parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures. The Group generally deems they have significant influence if they have over 20% of the voting rights. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity is a joint venture company in which the Group has 50% of the voting rights.

Under the equity method, investments in the associates and jointly controlled entities are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate or jointly controlled entity is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's investment in the associates and jointly controlled entities. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or jointly controlled entity is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or jointly controlled entity and its carrying value and recognises the amount in the share of profit/(loss) of an associate in the statement of comprehensive income.

The Group's share of its associates' and jointly controlled entities' profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates and jointly controlled entities are recognised in the parent entity's statement of comprehensive income as a component of income, while in the consolidated statement of financial position they reduce the carrying amount of the investment.

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or jointly controlled entity, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or jointly controlled entity.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investments in associates, jointly controlled entities and available-for-sale securities (continued)

The reporting dates of the Group's associate and the Group are identical. The Group's jointly controlled entity's financial period ends 31 March, but it prepares for the use of the Group financial statements as of 31 December. The Group's associate's and jointly controlled entity's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(ii) Available-for-sale securities

Available-for-sale investments are those non-derivative financial assets, principally equity securities, that are designated as available-for-sale. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(k) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes directly attributable expenditure that has been incurred in bringing the assets to the location and condition necessary for their intended service. Maintenance of property, plant and equipment are expensed in the financial year. Major renovations are, however, capitalised and included in the carrying amount of the asset and depreciated over the remaining useful life of the related asset. Where material parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Depreciation of property, plant and equipment is calculated using a straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- buildings - over 20 years; and
- plant and equipment - over 3 to 10 years.

Depreciation of new assets is calculated from the month of purchase or acquisition or from the time they are brought into use. The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the year the asset is derecognised.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the statement of comprehensive income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of leased items, are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the term of the lease.

(m) Intangible assets

Intangible assets, such as patents and licenses, acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment where an indicator of impairment exists. Amortisation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- patents - over 10 years; and
- intellectual property and software licenses - over 3 to 10 years.

The amortisation period for an intangible asset with a finite useful life is reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition goodwill is measured at cost less any impairment losses.

Intangible assets with indefinite useful lives, such as goodwill, are not amortised but are tested for impairment annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, and more frequently when an indication of impairment arises during the reporting period.

(o) Impairment

At each reporting date and whenever events or changes in circumstances give rise to it, it is assessed whether there is any indication that an asset may be impaired. Where an indicator exists, a formal estimate of the recoverable amount is made. 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed. Impairment losses recognised for goodwill are not subsequently reversed.

(p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 - 60 days of recognition.

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Interest, when charged by the lender, is recognised as an expense on an accrual basis. Where material, deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for a least 12 months after the balance sheet date. Borrowing costs attributable to a qualifying asset are capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing). All other borrowing costs are recognised as an expense when incurred.

(r) Provisions

Provisions are recognised when the company:

- has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events;
- it is probable that a future sacrifice of economic benefits will be required; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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 reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Share-based payment transactions

Share-based compensation benefits are provided to Directors and employees through the Employee Option Plan and Deferred Employee Share Plan (DESP) described in Note 21(b).

The fair value of options granted under the Employee 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. In relation to options, the fair value at grant date is independently determined using a binomial approximation 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 the 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 or shares that are expected to become exercisable. At each balance sheet date, the company 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 statement of comprehensive income with a corresponding adjustment to equity.

Shares issued into the Deferred Employee Share Plan as remuneration are recognised as an employee benefit expense with a corresponding increase in equity based on the fair value of the shares at the time of the grant. If shares are acquired on market to a share plan, the amount of remuneration recognised as an employee benefit expense is the amount contributed by the Company to the plan for the acquisition of the shares. The Deferred Employee Share Plan and an Exempt Employee Share Plan are also used for providing salary sacrifice opportunities for Directors and employees as described in Note 21(b).

(t) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services, net of GST and other similar value added taxes, rebates, discounts and exchange differences arising from translating foreign-currency trade receivables. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer which is generally at the time of the delivery of the goods.

(ii) Long-term projects and contracts and construction work in progress

Construction work in progress and long-term projects and contracts are recognised as income on the basis of their percentage of completion. All projects are counted as long-term when they extend into two financial years and when the recognition of such projects as income has a considerable effect on the revenue and profit for the period. The degree of completion for construction work in progress and long-term projects is calculated as a ratio of the actual project's costs relative to the forecast total cost and it relies on estimates of total expected contract revenue and costs, as well as dependable measurement of progress made towards completing that project. Losses on projects are recognised immediately when known and estimable. Costs include both variable and fixed costs directly related to specific contracts and those which can be attributed to contract activity in general and which can be allocated to specific contracts on reasonable basis. Also included are costs expected to be incurred under penalty clauses and rectification provisions.

Variations for extra works performed or changes in contract scope are recognised in contract revenues to the extent where it is probable that the revenue will be certified by the customer and the amount of revenue can be reliably measured. Claims are included in contract revenue only when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and that the amount can be measured reliably. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Preventative maintenance

Revenue for preventative maintenance contracts is recognised progressively over the contract term. Service fees received in advance are recorded as a liability within deferred revenue and these amounts are amortised to the statement of comprehensive income over the life of the contract which is in line with the provision of the services.

(iv) Interest income

Revenue is recognised as the interest accrues to the net carrying amount of the financial asset.

(v) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax

Taxes are based on the profit for the period of the Group companies, calculated on the basis of the local tax legislation. Income taxes relating to items recognised directly in equity are usually recognised in equity and not in the statement of comprehensive income.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax (continued)

Tax consolidation legislation

Savcor Group Limited and its wholly owned Australian controlled subsidiaries form a tax consolidated group. The entities in the tax consolidated group account for their own current and deferred tax amounts. The group applies the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Savcor Group Limited 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, to the extent that the deferred tax assets pass the recognition criteria in AASB 112.

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. Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreements will be recognised as an equity contribution to (or distribution from) wholly-owned tax consolidated entities or as otherwise determined by Savcor Group Limited as per the tax funding agreements.

(w) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST (and other similar value added taxes) except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, finance and operating leases, bank guarantees, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group monitors its exposure to key financial risks, including market risk, credit risk and liquidity risk, and adjusts its financial instruments usage from time to time to support the delivery of the Group's financial targets whilst protecting future financial security.

The primary responsibility for the identification and management of financial risks rests with the Audit and Risk Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below. These include assessing and managing the mix of borrowing currencies and interest rate risk, undertaking ageing analysis of receivables to manage credit risk, and monitoring liquidity risk through the development of cash flow forecasts.

Fair values

All financial assets and liabilities recognised in the balance sheet, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

Risk exposures and responses

(a) Market risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: interest rate risk, currency risk and other price risk.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(i) Interest rate risk

The Group's exposure to interest rates relates primarily to the Group's debt obligations detailed in Note 17 and cash and cash equivalents outlined in Note 10.

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

Year ended 31 December 2010	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED							
FINANCIAL ASSETS							
Floating rate							
Cash assets	415	-	-	-	-	-	415
Total floating rate	415	-	-	-	-	-	415
FINANCIAL LIABILITIES							
Fixed rate							
Obligations under finance leases and hire purchase contracts	99	7	8	15	-	-	129
Insurance premium loan	138	-	-	-	-	-	138
Secured bank loan	4	6	6	4	-	-	20
Unsecured bank loan	70	70	70	17	11	-	238
Total fixed rate	311	83	84	36	11	-	525
Floating rate							
Secured bank loans	25,579	-	-	-	-	-	25,579
Bank overdrafts	505	-	-	-	-	-	505
Total floating rate	26,084	-	-	-	-	-	26,084

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

Year ended 31 December 2009	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
FINANCIAL ASSETS							
Floating rate							
Cash assets	4,663	-	-	-	-	-	4,663
Total floating rate	4,663	-	-	-	-	-	4,663
FINANCIAL LIABILITIES							
Fixed rate							
Obligations under finance leases and hire purchase contracts	331	95	-	-	-	-	426
Secured bank loan	5	5	6	6	4	-	26
Unsecured bank loan	58	58	58	58	5	-	237
Total fixed rate	394	158	64	64	9	-	689
Floating rate							
Secured bank loans	24,700	12,691	-	-	-	-	37,391
Total floating rate	24,700	12,691	-	-	-	-	37,391

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group and Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Financial assets		
Cash and cash equivalents	415	4,663
	415	4,663
Financial liabilities		
Interest-bearing loans and borrowings	(26,609)	(38,080)
	(26,609)	(38,080)
Net exposure	(26,194)	(33,417)

The Group's policy is to use primarily variable interest rate debt and to use derivatives to hedge the interest rate risk when deemed advantageous. The Group constantly analyses its interest rate exposure. It monitors changes in interest rates and adjusts the interest periods of its loans at roll over dates as it sees advantageous. To manage its finance costs the Group also monitors interest rate differences in different borrowing currencies and adjusts the balance of the Group's borrowings in different countries and currencies as it sees fit. Consideration is also given to alternative financing, hedging options and the mix of fixed and variable interest rates.

During the financial year ended 31 December 2010, the Company entered into an interest rate cap, in which the Company receives payments at the end of each period in which the interest rate exceeds the agreed cap rate based on an agreed-upon notional amount. The interest rate cap is designated to limit the exposure of the Group against rises in short-term interest rates on its variable interest rate debt. At 31 December 2010, approximately 80% of the Group's borrowings have been capped. To mitigate the interest rate risk exposure in the future, the Group intends to use derivatives to hedge the interest rate risk on approximately 50% of its interest bearing loans.

Sensitivity analysis

The following sensitivity analysis is based on interest rate risk exposures in existence at balance date.

At balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

	Post tax profit		Other comprehensive income	
	<i>higher/(lower)</i>		<i>higher/(lower)</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Consolidated				
+2% (200 basis points)	(58)	(501)	-	-
-1% (100 basis points)	180	251	-	-

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

The movements in profit are due to higher/lower interest costs from variable rate debt and interest income on cash balances. On Group level the sensitivity is lower in 2010 than in 2009 because of a decrease in the the Group's net debt as a result of the disposal of the FACE business. The Group is also less sensitive to rises in interest rate as a result of the interest rate cap.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

(ii) Currency risk

Prior to the sale of the Savcor FACE business on 30 November 2010, the Group's statement of comprehensive income and statement of financial position were affected significantly by movements in the Chinese Yuan (C¥)/Australian Dollar (A\$) exchange rates as a result of the Savcor FACE business' significant operations in China. Currency exchange fluctuations affected the presentation of the Company's Chinese FACE segment subsidiaries' C¥ denominated results in Australian dollars in the Group's consolidated financial statements. The Company's Chinese FACE segment subsidiaries also held a significant amount of financial assets and liabilities denominated in foreign currency which were also subject to foreign currency risk.

Until the sale of the Savcor FACE business on 30 November 2010, the Group mitigated the effect of its foreign currency exposure by borrowing in Chinese Yuan. At 31 December 2009 the Group had a fully drawn \$20,007,000 (C¥ 122,500,000) banking facility in China allowing the Group to borrow in C¥ amounts required from time to time, providing the Group with enhanced natural hedge against C¥/A\$ fluctuations. At 31 December 2010, following the sale of the Savcor FACE business, the Group has no borrowings in China.

With the disposal of the Savcor FACE business, the Group's currency risk exposure has been significantly reduced. The Group remains subject to foreign currency risk in relation to its financial assets and liabilities. The value of the Group's investment in Cencorp Corporation of Finland in the Group's consolidated statement of financial position is also subject to fluctuations in Euro (€)/Australian Dollar (A\$) exchange rates. The Group also has some transactional currency exposures. Such exposures arise from sales or purchases by an operating entity in currencies other than the functional currency. Historically and during the period the company has not used derivatives to hedge currency risk.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

At balance date, the Group had the following exposure to foreign currencies based on its foreign currency denominated financial assets and liabilities:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Financial assets		
(cash)		
in PGK	42	18
in US\$	9	1,269
in €	1	453
	52	1,740
Financial assets		
(trade receivables)		
in €	247	608
in US\$	107	3,238
in PGK	101	-
	455	3,846
Financial liabilities		
(trade payables)		
in €	(31)	(1,343)
in PGK	(21)	-
in US\$	(7)	(840)
	(59)	(2,183)
Net exposure	448	3,403

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity analysis

The following sensitivity is based on the foreign currency risk exposures in relation to financial assets and liabilities in existence at the reporting date.

At balance date, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

	Post tax profit		Other comprehensive income	
	<i>higher/(lower)</i>		<i>higher/(lower)</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Consolidated				
A\$/€ +10%	17	(28)	-	-
A\$/€ -5%	(9)	14	-	-
Consolidated				
A\$/US\$ +10%	8	302	-	-
A\$/US\$ -5%	(4)	(151)	-	-

The movements in profit in 2010 are less sensitive than in 2009 due to the lower level of foreign currency exposure.

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

(iii) Other price risk

The Group's exposure to commodity price risk is minimal. The Group does not deal with commodity forward contracts and has no associated price risk. As such a sensitivity analysis has not been completed.

Equity securities price risk arises from investments in equity securities. The Group has an investment in the shares of Cencorp Corporation, which is a public company listed on NASDAQ OMX Helsinki. The Group's investment in Cencorp Corporation is accounted for using the equity method of accounting and therefore fluctuations in Cencorp Corporation's share price do not have a direct impact on the Group's profit and loss or total equity. As such a sensitivity analysis has not been completed. A reduction in the share price may, however, be an indicator of a potential impairment that the Directors consider in impairment analysis they perform in relation to the Group's investment.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group's policy is to require advance or progress payments from customers in the case of long-term projects in particular. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Cash is deposited primarily at financial institutions lending funds to the Group. There are no significant concentrations of credit risk within the Group.

(c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and overdrafts, finance and operating leases, bank guarantee facilities and committed available credit lines.

The table below reflects all contractually fixed pay-offs and repayments resulting from recognised liabilities, including trade payables, as at balance sheet date. Undiscounted cash flows are presented for the obligations for the respective upcoming fiscal years. Cash flows for liabilities without fixed amount or timing are based on the conditions existing at balance date.

The remaining undiscounted contractual maturities of the Group's financial liabilities are:

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
less than 1 year	37,692	41,544
1 - 2 years	171	12,888
2 - 3 years	87	89
3 - 4 years	36	88
4 - 5 years	11	9
Over 5 years	-	-
	37,997	54,618

The Directors are of the opinion that the Company will be able to adhere to the contractual maturities of the current and non-current financial liabilities as and when they fall due. At 31 December 2010 the Group had \$415,000 of cash as disclosed in Note 10, \$22,566,000 in trade and other current receivables as disclosed in Note 11 and \$2,434,000 of unused financing facilities available as disclosed in Note 17(c).

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires Management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on various other factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is revaluated.

Impairment of investments in subsidiaries, associates and jointly controlled entities

The Group determines whether the values of investments in subsidiaries, associates and jointly controlled entities are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the asset and may be based on value in use or fair value less cost to sell methodologies.

Capitalised development costs

Development costs are capitalised by the Group only when it can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- that it intends to complete and has the ability to use or sell the asset;
- how the asset will generate future economic benefits;
- that the Group has resources available to complete the development; and
- that it has the ability to reliably measure the development cost.

Taxation

Judgement is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

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 an external valuer using a Binomial Model, with the assumptions detailed in Note 21. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Depreciation charges are included in Note 6.

Revenue recognition for construction work in progress and long term projects and contracts

Construction work in progress and long-term projects and contracts are recognised as income on the basis of their percentage of completion. The degree of completion for construction work in progress and long-time projects is calculated as a ratio of the actual project's costs relative to the forecast total cost and it relies on estimates of total expected contract revenue and costs, as well as dependable measurement of the progress made towards completing that project. Losses on projects are recognised immediately when known and can be estimated reliably. For more information refer to Note 2(u)(ii).

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

5 SEGMENT INFORMATION

(a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director and the Board of Directors (the Chief Operating Decision Makers ("CODM")) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the products and services produced and the country of origin. Discrete financial information about each of these operating businesses is reported to the CODM on at least a monthly basis.

The reportable segments are based on the individual operating segments as reported to the CODM and there is no aggregation of operating segments.

(b) Types of products and services

Savcor ART segment

The ART business uses its surface protection technology to provide services relating to the protection and remediation of steel and concrete structures via the application of electrochemical protection technology and provides maintenance services for mining, infrastructure and industrial sectors. The ART business predominately operates in Australia.

Savcor FACE segment

The FACE business uses surface coating technology to manufacture and supply EMI (electromagnetic interference) and EMC (electromagnetic compliance) shielding solutions and decorative coatings for mobile phones and manufactures and supplies flexible circuits used in mobile phone and RFID tag antennas. The FACE business was sold to Cencorp Corporation on 30 November 2010 and it predominately operated in China.

(c) Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 and in the prior period except as detailed below:

Transfer pricing and intergroup sales

Intergroup sales are made using transfer prices set between the business segments based on an arm's length basis in a manner similar to transactions with third parties. Intergroup sales are eliminated on consolidation.

Corporate charges

Corporate charges are allocated to each business segment, so as to determine a segment result, as follows:

- ART segment is charged on a proportionate basis linked to segment revenue; and
- FACE segment is charged a corporate service fee on the actual hours provided to the segment together and a royalty fee for the use of intellectual property (patents and knowhow).

Segment loans payable and loans receivable

Segment loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

Income tax expense

Income tax expense is calculated based on the segment operating net profits using an actual tax rate applicable to each segment.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

5 SEGMENT INFORMATION (continued)

(c) Accounting policies and inter-segment transactions (continued)

It is the Group's policy that if items of revenue and expenses are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- finance costs on loans held by the Parent;
- amortisation of patents and other intangibles owned by the Parent; and
- impairment of patents and other intangibles owned by the Parent.

(d) Major customers

The Group has a number of customers to which it provides both products and services. The most significant client accounts for 14% (2009: 10%) of the ART segment's external revenue. The next most significant client accounts for less than 10% of external revenue.

(e) Segment information

The following table presents revenue and profit information for the reportable segments for the years ended 31 December 2010 and 31 December 2009.

Year ended 31 December 2010

	FACE	ART	Total
	\$'000	\$'000	\$'000
Revenue			
Revenue from external customers	26,265	90,444	116,709
Inter-segment revenue	(139)	882	743
Total segment revenue	26,126	91,326	117,452
Inter-segment elimination			(743)
Unallocated revenues			44
Total consolidated revenue			116,753
Less revenue of discontinued operations			(26,544)
Total revenue of continuing operations			90,209
Result			
Segment net (loss)/profit after tax	(1,877)	2,263	385
Reconciliation of segmental net (loss)/profit after tax to net loss			
Corporate fees, service fees and royalties charged to operating segments			3,277
Other income			1,685
Finance costs			(3,732)
Other corporate expenses			(11,489)
Income tax expense			1,532
Net loss for the year			(8,342)
Add back loss from discontinued operations after income tax			2,248
Loss from continuing operations after income tax			(6,094)

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

5 SEGMENT INFORMATION (continued)

(e) Segment information (continued)

Year ended 31 December 2010

Other segment information

	FACE	ART	Total
	\$'000	\$'000	\$'000
Capital expenditure	2,220	1,657	3,877
Unallocated capital expenditure			42
Total capital expenditure			<u>3,919</u>
Depreciation expense	3,096	1,808	4,904
Unallocated depreciation expense			60
Less depreciation expense for discontinued operations			(3,096)
Total depreciation expense for continuing operations			<u>1,868</u>
Amortisation expense	256	60	316
Unallocated amortisation expense			1,041
Less amortisation expense for discontinued operations			(812)
Total amortisation expense for continuing operations			<u>545</u>
Impairment expense	-	1,417	1,417
Unallocated impairment expense			5,563
Less impairment expense for discontinued operations			(1,007)
Total impairment expense for continuing operations			<u>5,973</u>

Year ended 31 December 2009

Revenue

	FACE	ART	Total
	\$'000	\$'000	\$'000
Revenue from external customers	32,341	79,344	111,685
Inter-segment revenue	6	1,099	1,105
Total segment revenue	32,347	80,443	112,790
Inter-segment elimination			(1,105)
Unallocated revenues			258
Total consolidated revenue			<u>111,943</u>
Less revenue of discontinued operations			(32,829)
Total revenue of continuing operations			<u>79,114</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

5 SEGMENT INFORMATION (continued)

(e) Segment information (continued)

Year ended 31 December 2009

	<u>FACE</u>	<u>ART</u>	<u>Total</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Result			
Segment net (loss)/profit after tax	(345)	4,129	3,784
Reconciliation of segmental net (loss)/profit after tax to net loss			
Corporate fees, service fees and royalties charged to operating segments			3,469
Other income			680
Finance costs			(1,839)
Other corporate expenses			(7,824)
Income tax expense			1,479
Net loss for the year			<u>(251)</u>
Add back loss from discontinued operations after income tax			<u>1,554</u>
Loss from continuing operations after income tax			<u>1,303</u>
Other segment information			
Capital expenditure	2,590	3,464	6,054
Unallocated capital expenditure			86
Total capital expenditure			<u>6,140</u>
Depreciation expense	4,082	1,620	5,702
Unallocated depreciation expense			46
Amortisation expense for discontinued operations			(4,082)
Total depreciation expense for continuing operations			<u>1,666</u>
Amortisation expense	318	66	384
Unallocated amortisation expense			1,378
Less amortisation expense for discontinued operations			(925)
Total amortisation expense for continuing operations			<u>837</u>
Impairment expense	310	90	400
Unallocated impairment expense			392
Less impairment expense for discontinued operations			(310)
Total impairment expense for continuing operations			<u>482</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

6 OTHER INCOME AND EXPENSES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Other income		
Interest received/receivable	46	25
Gain on foreign exchange	332	744
Gain on disposals of assets	499	20
Share of net profit of a jointly controlled entity	105	232
Other income	678	125
Total other income	1,660	1,146
Finance costs		
Interest and fees on bank loans and overdrafts	3,260	1,605
Finance charges payable under finance leases	20	29
Total finance costs	3,280	1,634
Employee benefits expense		
Wages and salaries	36,765	30,036
Defined contribution superannuation expense	2,569	2,323
Share-based payments (income)/expense	(54)	(88)
Other employee related costs	3,186	2,457
Total employee benefits expense	42,466	34,728
Depreciation and amortisation expense		
Depreciation of property, plant and equipment	1,868	1,666
Total depreciation of non-current assets	1,868	1,666
Amortisation of intangible assets	545	837
Total amortisation expense	545	837
General and other expenses		
Travel	1,336	1,282
Loss on foreign exchange	258	485
Minimum lease payments - operating lease	3,540	3,031
Loss on disposals of assets	26	72
Share of losses of an associate		
Share of net loss of an associate	256	-
Impairment loss on the fair value of investment in associate	3,464	-
	3,720	-
Other impairment losses		
Impairment losses	2,509	482

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

6 OTHER INCOME AND EXPENSES (continued)

Impairment losses of the continuing operations include an impairment loss on fair value of \$3,464,000 on the value of investment in associate as disclosed in Note 29(b) and recognised in the line item 'share of losses of an associate', an impairment loss of \$5,000 (2009: \$nil) recognised in relation to other investments in the line item 'other expenses', impairments of \$192,000 (2009: \$90,000) recognised in relation to inventories and \$40,000 (2009: \$nil) recognised in relation to property, plant and equipment in the line item 'cost of sales' and impairments of \$1,070,000 recognised in relation to development costs (2009: \$nil) and \$1,202,000 (2009: \$392,000) recognised in relation to patents in the line item 'research and development expenses'. The impairment losses booked for development costs and patents in the financial year 2010 relate to Industrial Process Improvement (IPI) and are based on value in use as described in Note 14(c). The other impairments are based on the fair value of the assets at balance date.

7 INCOME TAX

(a) Income tax expense

Major components of income tax expense are:

Statement of comprehensive income

Current income tax

Current income tax charge

Adjustments in respect of current income tax of previous years

Deferred income tax

Relating to origination and reversal of temporary difference

Income tax (benefit)/expense reported in the statement of comprehensive income

CONSOLIDATED	
2010	2009
\$'000	\$'000
(514)	(589)
-	141
(642)	1,008
<u>(1,156)</u>	<u>560</u>

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting (loss)/profit before income tax from continuing operations
Accounting loss before income tax from discontinued operations
Total accounting (loss)/profit before income tax

At the Parent entity's statutory income tax rate of 30% (2009: 30%)

Impairment losses

Adjustments in respect of current income tax of previous years

Foreign tax rate adjustment

Non-assessable income

Other items (net)

Income tax (benefit)/expense

CONSOLIDATED	
2010	2009
\$'000	\$'000
(7,250)	1,863
(2,616)	(1,743)
(9,866)	120
(2,960)	36
1,431	-
311	186
137	223
(1,002)	(640)
559	566
<u>(1,524)</u>	<u>371</u>

Aggregate income tax (benefit)/expense is attributable to:

Continuing operations

Discontinued operations

Effective income tax rate

(1,156)	560
(368)	(189)
<u>(1,524)</u>	<u>371</u>
15%	309%

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

7 INCOME TAX (continued)

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate (continued)

Items credited directly to equity

A deferred tax asset of \$1,420,000 arising on share issue costs in 2007 has been credited directly to equity in the Parent and consolidated financial statements. As at 31 December 2010, the balance of the unamortised deferred tax asset arising on share issue costs credited directly to equity is \$286,000 (2009: \$571,000).

(c) Recognised deferred tax assets and liabilities

Deferred income tax at balance sheet date relates to the following:

	CONSOLIDATED		CONSOLIDATED	
	Statement of financial position		Statement of comprehensive income	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<i>Deferred tax assets</i>				
Tax loss	2,430	1,498	-	-
Share issue cost recognised in equity	286	571	(285)	(289)
Share issue cost recognised in profit or loss	99	197	(99)	(99)
Employee benefits	650	615	36	(75)
Amortisation: patents	565	368	197	243
Impairment losses	-	224	51	-
Income in advance	-	190	(190)	(211)
Provision for doubtful debts	91	98	(7)	76
Other	353	356	16	1
Total deferred tax assets	4,474	4,117	(281)	(354)
<i>Deferred tax liabilities</i>				
Inventory	113	915	(802)	556
Research & development	195	433	(238)	114
Foreign currency balances	168	89	78	(10)
Other	47	9	39	(6)
Total deferred tax liabilities	523	1,446	(923)	654
Deferred tax expense			642	(1,008)

Tax losses

The Group has Australian income tax losses for which a deferred tax asset has been recognised in the statement of financial position of \$2,422,000 (2009: \$1,328,000) which is available indefinitely for offset against future taxable profits. The Group has also recognised deferred tax assets of \$8,000 (2009: \$170,000) at its overseas subsidiaries in relation to their income tax losses. Based on financial budgets and forecasts approved by the Directors covering a five-year period, it is probable that the Group will have sufficient taxable profit available against which the tax loss can be utilised.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

7 INCOME TAX (continued)

(d) Franking credit balance

Franking credit balance

The amount of franking credits available for future reporting periods are:

- franking account balance as at the end of the financial year
- franking credits that will arise from the (refund) / payment of income tax receivable or payable as at the end of the financial year

PARENT	
2010	2009
\$'000	\$'000
4,362	4,049
(602)	(289)
<u>3,760</u>	<u>3,760</u>

(e) Tax consolidation

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

Savcor Group Limited and its 100% owned Australian resident operating subsidiaries formed a tax consolidated group with effect from 11 November 2007. Savcor Group Limited is the head entity of the tax consolidated group. Members of the Group have entered into a tax sharing agreement that 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 possibility of default is remote.

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

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied a modified stand-alone 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 that is consistent with the broad principles in AASB 112 Income Taxes.

In addition to its own current and deferred tax amounts, the head entity also recognises 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.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the group is based on the modified stand alone approach, which is an acceptable method of allocation under AASB Interpretation 1052. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable/payable which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon demand from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Savcor Group Limited has not recognised any amounts as tax consolidation contribution adjustments at reporting date.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

8 DIVIDENDS

Recognised amounts

No dividends were declared or paid during the financial years 2009 and 2010.

Unrecognised amounts

There were no unpaid dividends that had been declared but not been recognised as a liability at the balance date.

9 EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share (EPS) computations.

Earnings used in calculating EPS

For basic and diluted earnings per share:

Net loss attributable to equity holders of the parent

CONSOLIDATED	
2010	2009
\$'000	\$'000
(8,342)	(251)

Weighted average number of shares

Weighted average number of ordinary shares for basic EPS

Effect of dilution: share options

Adjusted weighted average number of ordinary shares for diluted EPS

CONSOLIDATED	
2010	2009
\$'000	\$'000
139,560	139,484
-	-
139,560	139,484

Of the options granted to executives and Directors, none are considered dilutive. Refer to Note 21 for details of the option plan.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

10 CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Cash at bank and in hand	415	4,663

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Reconciliation to Statement of Cash Flow

For the purposes of the Statement of Cash Flow, cash and cash equivalents comprise the following:

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Cash at bank and in hand	415	4,663

11 TRADE AND OTHER RECEIVABLES (CURRENT)

(a) Trade and other receivables (current)

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Trade receivables	17,233	23,124
Allowance for impairment loss	(303)	(409)
	16,930	22,715
Prepayments	633	770
Other receivables	2,876	4,731
Goods and services tax	277	119
Related party receivables	1,850	421
Carrying amount of trade and other receivables	22,566	28,756

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

11 TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

(b) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30 - 60 day terms. An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired. An allowance for impairment of \$303,000 has been recognised by the Group for 2010 (2009: \$409,000) for specific debtors and debtors assessed on a collective basis for which such evidence exists.

Movements in the allowance for impairment loss were as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
At 1 January	409	76
Charge for the year	283	393
Amounts written off	(389)	(60)
At 31 December	303	409

At balance date, the ageing analysis of trade receivables, other receivables and related party receivables is as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
0-30 days	16,694	23,596
31-60 days	2,072	2,025
61-90 days PDNI*	301	845
61-90 days CI**	39	1
+91 days PDNI*	2,589	1,401
+91 days CI**	264	408
Total	21,959	28,276

* Past due not impaired ('PDNI')

** Considered impaired ('CI')

Receivables past due but not considered impaired are \$2,890,000 (2009: \$2,246,000). Payment terms on these amounts have not been renegotiated. Each operating unit has been in direct contact with the relevant debtors and is satisfied that payments will be received in full. Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

(c) Related party receivables

For terms and conditions relating to related party receivables refer to Note 24.

(d) Fair value, credit risk, interest rate risk and foreign exchange rate risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. Current trade and other receivables are typically non-interest bearing and the Group's exposure to interest rate risk in relation to them is not material.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer or sell receivables to special purpose entities. The Group's policies in relation to credit risk, interest rate risk and foreign exchange risk are described in Note 3.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

12 INVENTORIES

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
<i>Raw Materials</i>		
At cost	588	4,649
Provision for diminution in value	-	(207)
	<u>588</u>	<u>4,442</u>
<i>Finished goods</i>		
At cost	1,250	2,187
<i>Work in progress</i>		
At cost	-	745
Total inventory at the lower of cost and net realisable value	<u><u>1,838</u></u>	<u><u>7,374</u></u>

Values of inventories sold have been included in the 'cost of sales' line item as cost of inventories. Write-downs in the value of inventories recognised as an impairment expense totalled \$192,000 for the Group (2009: \$400,000 of write-downs and provision for diminution in value of inventories, both recognised as impairment expense). The provision amount recorded in the balance sheet based on the year end exchange rate is \$nil (2009: \$207,000).

13 PROPERTY, PLANT AND EQUIPMENT

(a) Property, plant and equipment

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
<i>Buildings</i>		
At cost	86	5,734
Accumulated depreciation	(9)	(1,841)
Net carrying amount	<u>77</u>	<u>3,893</u>
<i>Plant and equipment</i>		
At cost	13,710	53,730
Accumulated depreciation	(8,681)	(25,273)
Net carrying amount	<u>5,029</u>	<u>28,457</u>
<i>Total property, plant and equipment</i>		
At cost	13,796	59,465
Accumulated depreciation	(8,690)	(27,115)
Net carrying amount	<u><u>5,106</u></u>	<u><u>32,350</u></u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

13 PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Reconciliation of carrying amounts at the beginning and end of the financial year

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<i>Buildings</i>		
Balance at the beginning of the year	3,893	5,346
Translation difference	(169)	(1,189)
Additions	35	33
Disposals in relation to discontinued operations	(3,476)	-
Reclassification between items	33	-
Depreciation charge for the year	(239)	(297)
Balance at the end of the year - net carrying amount	<u>77</u>	<u>3,893</u>
<i>Plant and equipment</i>		
Balance at the beginning of the year	28,457	36,681
Translation difference	(1,004)	(7,094)
Additions	2,557	4,508
Disposals	(613)	(196)
Assets acquired through acquisitions	-	29
Disposals in relation to discontinued operations	(19,570)	-
Impairment	(40)	-
Reclassification between items	(33)	(20)
Depreciation charge for the year	(4,725)	(5,451)
Balance at the end of the year - net carrying amount	<u>5,029</u>	<u>28,457</u>
<i>Total property, plant and equipment</i>		
Balance at the beginning of the year	32,350	42,027
Translation difference	(1,173)	(8,283)
Additions	2,592	4,541
Disposals	(613)	(196)
Assets acquired through acquisitions	-	29
Disposals in relation to discontinued operations	(23,046)	-
Impairment	(40)	-
Reclassification between items	-	(20)
Depreciation charge for the year	(4,964)	(5,748)
Balance at the end of the year - net carrying amount	<u>5,106</u>	<u>32,350</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

14 INTANGIBLES

(a) Intangible assets

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
<i>Goodwill</i>		
Cost (gross carrying amount)	4,237	4,264
Net carrying amount	4,237	4,264
<i>Development costs</i>		
Cost (gross carrying amount)	2,166	1,892
Accumulated amortisation and impairment	(1,117)	(36)
Net carrying amount	1,049	1,856
<i>Patents</i>		
Cost (gross carrying amount)	4,016	6,383
Accumulated amortisation and impairment	(3,143)	(2,545)
Net carrying amount	873	3,838
<i>Intellectual property and software</i>		
Cost (gross carrying amount)	842	5,526
Accumulated amortisation and impairment	(617)	(2,554)
Net carrying amount	225	2,972
<i>Total intangibles</i>		
Cost (gross carrying amount)	11,261	18,065
Accumulated amortisation and impairment	(4,877)	(5,135)
Net carrying amount	6,384	12,930

(b) Reconciliation of carrying amount at the beginning and end of the financial year

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
<i>Goodwill</i>		
Carrying amount - opening	4,264	4,296
Translation difference	(27)	(40)
Additions	-	7
Carrying amount - closing	4,237	4,264

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

14 INTANGIBLES (continued)

(b) Reconciliation of carrying amount at the beginning and end of the financial year (continued)

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<i>Development costs</i>		
Carrying amount - opening	1,856	1,221
Translation difference	(66)	(33)
Additions	403	587
Disposals in relation to discontinued operations	(47)	-
Impairment	(1,070)	-
Reclassification between items	-	103
Amortisation	(27)	(22)
Carrying amount - closing	<u>1,049</u>	<u>1,856</u>
<i>Patents</i>		
Carrying amount - opening	3,838	5,278
Translation difference	(12)	(38)
Additions	7	15
Disposals in relation to discontinued operations	(123)	-
Impairment	(2,127)	(392)
Amortisation	(710)	(1,025)
Carrying amount - closing	<u>873</u>	<u>3,838</u>
<i>Intellectual property and software</i>		
Carrying amount - opening	2,972	4,059
Translation difference	(81)	(644)
Additions	714	188
Disposals	(65)	(10)
Acquisition of subsidiary	-	176
Disposals in relation to discontinued operations	(2,613)	-
Impairment	(82)	-
Reclassification between items	-	(82)
Amortisation	(620)	(715)
Carrying amount - closing	<u>225</u>	<u>2,972</u>
<i>Total intangibles</i>		
Carrying amount - opening	12,930	14,854
Translation difference	(186)	(754)
Additions	1,124	797
Disposals	(65)	(10)
Acquisition of subsidiary	-	176
Disposals in relation to discontinued operations	(2,783)	-
Impairment	(3,279)	(392)
Reclassification between items	-	21
Amortisation	(1,357)	(1,762)
Carrying amount - closing	<u>6,384</u>	<u>12,930</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

14 INTANGIBLES (continued)

(c) Impairment losses recognised

The Group recognised impairment losses of \$3,279,000 (2009: \$392,000) consisting of an impairment of \$1,202,000 (2009: \$nil) in the value of Industrial Process Improvement (IPI) patent held in Savcor Group Limited, an impairment of \$1,070,000 (2009: \$nil) in the value of the development expenses that relate to the Industrial Process Improvement (IPI) system held in Savcor Finn Pty Limited, an impairment of \$815,000 (2009: \$nil) in the value of FACE segment patents held in Savcor Group Limited, an impairment of \$110,000 (2009: \$nil) in the value of the FACE segment patents held in Savcor Tempo Oy acquired in the merger of Intune Circuits Oy into Savcor Tempo Oy and an impairment of \$82,000 (2009: \$nil) in the value of FACE segment intellectual property for Decorative Metal PVD held in Savcor Group Limited. The impairments made to IPI patent and development expenses in the ART segment were based on value in use calculations with a pre-tax discount rate of 17.8% applied to cash flow projections. The other impairments were based on fair value at balance date.

(d) Description of the Group's intangible assets

(i) Development costs (Internally generated, including software costs)

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 3-10 years depending on the estimated life of the asset. The amortisation is recognised in the statement of comprehensive income in the line items 'cost of sales' and 'research and development expenses'. Development costs in the balance sheet as at 31 December 2010 relate primarily to the development of Industrial Process Improvement (IPI) system to be used for scale prevention in the alumina industry. Amortisation for this intangible asset being developed has not yet commenced on the basis no commercial installation has been done to date. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(ii) Patents

Patents have been acquired through business combinations and are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 10 years or if the patent expires sooner, over a period ending on the date of the expiry of the patent. The amortisation has been recognised in the income statement in the line item 'research and development expenses'. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(iii) Intellectual property and software licenses

Intellectual property and software licenses have been purchased from software providers or have been acquired through business combinations and are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 3-10 years. The amortisation has been recognised in the income statement in the line items 'cost of sales', 'research and development expenses' and 'administrative expenses'. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

14 INTANGIBLES (continued)

(e) Impairment tests for intangibles with indefinite useful lives

Goodwill is allocated to the Group's Cash Generating Units (GCU) identified according to business entities. An entity-level summary allocation of intangibles with indefinite lives, being goodwill, is presented below as at 31 December 2010 and 31 December 2009. The amount of goodwill that arose from the acquisition of Pacific Lining Solutions Holdings Pty Limited has been allocated to Savcor Finn Pty Limited (Savcor Finn) GCU. Goodwill in Savcor Tempo Oy (Savcor Tempo) comes from the acquisition of assets and certain liabilities of Futurtec Oy. The amount of goodwill in Savcor Tempo Oy decreased in 2010 due to fluctuations in A\$/€ exchange rate.

31 December 2010

	Savcor Finn \$'000	Savcor Tempo \$'000	Total \$'000
Goodwill	4,116	121	4,237

31 December 2009

	Savcor Finn \$'000	Savcor Tempo \$'000	Total \$'000
Goodwill	4,116	148	4,264

The recoverable amounts of the CGUs have been determined based on value in use calculations using cash flow projections as at 31 December 2010 based on financial budgets and forecasts approved by the Directors covering a five-year period. During the forecast period, the revenues of Savcor Finn are expected to grow by 5% - 13% per year. Savcor Tempo's revenues are forecast to grow by 33% in 2011 due to expected market and market share growth and during the rest of the forecast period the revenues are expected to grow by 12% each year.

Cash flows beyond the five-year period are extrapolated using a 3% growth rate, which the Directors have deemed to represent conservative long-term average economic growth along which the CGUs are expected to grow in the long term. The 3% growth rate also represents a conservative long-term average growth rate for GDP growth in Western Australia, where Savcor Finn CGU primarily currently operates, forecast by an independent market research company.

The calculation of value in use for both Savcor Finn CGU and Savcor Tempo CGU is most sensitive to the following

- growth rates;
- market share;
- gross margins; and
- discount rate.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

14 INTANGIBLES (continued)

(e) Impairment tests for intangibles with indefinite useful lives (continued)

Growth rates - growth rate estimates are based on published industry research, historical market and CGU growth rates and management's knowledge of future growth drivers and opportunities available to the CGUs within the industry sectors they operate in.

Market share - market share assumptions are important because, as well as using industry data for growth rates, Directors assess how the unit's relative position to its competitors might change over the budget and forecast period. Directors expect Savcor Finn's share of the industrial asset and facilities maintenance to be stable over the forecast period and Savcor Tempo's market share of structural health monitoring systems to grow following the integration of Futurtec monitoring systems and Savcor's corrosion monitoring systems and joint sales thereof.

Gross margins - gross margins are based on the budget in the first year. In subsequent years, in the case of Savcor Tempo CGU the gross margins are expected to exceed marginally the 2010 level. The Directors expect Savcor Tempo's profitability to increase slightly following the completion of integration of Futurtec monitoring systems and Savcor's corrosion monitoring systems and joint sales thereof. In the case of Savcor Finn CGU the gross margins in subsequent years are based on historical gross margin levels prior to the global financial crisis.

Discount rate - discount rate reflects the Directors' estimate of the time value of money and the risks specific to the unit that are not already reflected in the cash flows. In determining an appropriate discount rate, regard has been given to the weighted average cost of capital of the business as a whole and adjusted for country and business risk specific to the CGU. The pre-tax discount rate applied to cash flow projections is 20.5% (2009: 20.9%) for Savcor Finn CGU and 16.7% (2009: 18.8%) for Savcor Tempo CGU.

Whilst the calculation of the value in use is sensitive to the above key assumptions, Directors believe that no reasonably possible change in any of these key assumptions would cause the carrying values of the units to materially exceed its recoverable amount. Directors will review the assumptions used at the conclusion of each reporting period to ensure the assumptions remain in line with the circumstances and developments for these CGUs.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

15 TRADE AND OTHER PAYABLES

CURRENT	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Trade payables	4,044	8,983
Income in advance	3,634	2,556
Other payables	807	1,060
Accrued expenses	2,093	2,764
Goods and services tax	679	443
	<u>11,257</u>	<u>15,806</u>
Related party payables	109	20
	<u>11,366</u>	<u>15,826</u>
NON-CURRENT		
Other payables	85	69
	<u>85</u>	<u>69</u>

(a) Fair value

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

(b) Trade payables

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

(c) Other payables

Other payables are non-trade payables, are non-interest bearing and have an average term of 3 - 6 months.

(d) Related party payables

For terms and conditions relating to related party payables refer to Note 24.

(e) Interest rate, foreign exchange and liquidity risk

For information regarding the interest rate, foreign exchange and liquidity risk of current payables refer to Note 3.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

16 PROVISIONS

Long service leave and annual leave

Current

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Opening balance at 1 January	1,996	2,054
Translation difference	(36)	(92)
Arising during year	1,828	1,155
Utilised during year	(1,936)	(1,121)
Reversal of unused provisions	(43)	-
Balance at 31 December	1,809	1,996

Non-current

Opening balance at 1 January	241	138
Arising during year	80	151
Utilised during year	-	(48)
Balance at 31 December	321	241

Nature and timing of provisions

Long service leave and annual leave

Refer to Note 2 for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

17 INTEREST-BEARING LOANS AND BORROWINGS

Current

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Obligations under finance leases and hire purchase contracts	99	331
Bank overdrafts	505	-
Secured bank loans	25,583	24,705
Unsecured bank loans	70	58
Insurance premium loans	138	-
	26,395	25,094

Non-current

Obligations under finance leases and hire purchase contracts	30	95
Secured bank loans	15	12,712
Unsecured bank loans	169	179
	214	12,986

For terms and conditions attached to each type of borrowing, refer to Note 17(b).

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

17 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(a) Fair values

The carrying amount of the Group's all current and non-current borrowings approximate their fair value.

The Parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 22. However the Directors do not expect those potential financial liabilities to crystallise into obligations and therefore financial liabilities disclosed in this Note are the amounts likely to be payable by the Group.

(b) Terms and conditions

Finance leases and hire purchase contracts

Savcor Finn Pty Limited has finance leases and hire purchase contracts with a total balance sheet value of \$129,000 at 31 December 2010. Of the total amount \$99,000 is payable in 2011 and the remaining \$30,000 by 2014.

Secured bank facilities

The Group's Australian banking facilities comprise of floating rate cash advance facilities of \$26,900,000, an overdraft facility of \$1,000,000, bank guarantee facilities of \$2,400,000 and transactional banking facilities. The cash facilities terminate on 3 March 2011. At 31 December 2010 the Group had drawn loans of \$26,600,000, used \$505,000 of overdraft and drawn bank guarantees worth \$1,761,000 from the facilities. The facilities are secured by a fixed and floating charge on the assets and undertakings of the borrowers Savcor Group Limited, Savcor ART Pty Limited, Savcor Finn Pty Limited and Savcor Products Pty Limited and cross-guarantees are in place between the borrowers. Savcor Tempo Oy is an additional guarantor to the facility. On 25 February 2011 the Company renewed its Australian banking facilities agreement and amended the size and type of facilities available. The amended facilities include an amortising, 3-year cash advance facility of \$23,500,000, a non-amortising and annually revolving cash advance and overdraft facility of \$8,000,000, non-amortising and annually revolving bank guarantee facilities of \$3,400,000 and transactional banking facilities. The 3-year cash advance facility will amortise by \$3,000,000 on 30 June 2011 and by \$3,500,000 on 30 September 2011. On 31 December 2011 the facility will amortise by a further amount that is required to ensure that the Group's leverage ratio (interest bearing debt divided by the Company's and its controlled entities' earnings before interest, taxes, depreciation and amortisation) immediately after the payment is not greater than 3.00. The balance of the amortising facility shall be repaid by 25 February 2014.

Savcor India Pvt Limited has an amortising fixed rate bank loan of \$20,000 (INR890,000) as at 31 December 2010 with monthly repayments till 1 June 2014. The loan is secured by a mortgage over a company car.

Savcor Corrosion Technology Co., Ltd. has provided bank guarantees secured by bank deposits with a total value of \$115,000 (C¥770,000) to its customers. \$40,000 (C¥270,000) will be released in 2011 and \$75,000 (C¥500,000) in 2013 upon receipt of final acceptance certificates from the customers.

Unsecured bank loans

Savcor Group Limited has an insurance premium loan with a balance of \$138,000 at 31 December 2010 and monthly instalments till 1 April 2011.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

17 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(b) Terms and conditions (continued)

Savcor Japan KK has an amortising fixed rate bank loan of \$179,000 (J¥14,800,000) as at 31 December 2010 with monthly repayments till 10 January 2014 and an amortising fixed rate bank loan of \$60,000 (J¥5,000,000) as at 31 December 2010 with monthly repayments till 10 December 2015. Savcor Japan KK has obtained a guarantee from Credit Guarantee Association of Tokyo for the latter loan.

(c) Financing facilities available

At balance date, the following financing facilities had been negotiated and were available.

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
<i>Total facilities</i>		
Bank guarantees	2,515	4,526
Bank overdraft	1,000	1,000
Bank loans and finance leasing	27,425	42,195
	<u>30,940</u>	<u>47,721</u>
<i>Facilities used at reporting date</i>		
Bank guarantees	1,876	2,751
Bank overdraft	505	-
Bank loans and finance leasing	26,104	38,080
Unexpired borrowing costs	21	115
	<u>28,506</u>	<u>40,946</u>
<i>Facilities unused at reporting date</i>		
Bank guarantees	639	1,775
Bank overdraft	495	1,000
Bank loans and finance leasing	1,300	4,000
	<u>2,434</u>	<u>6,775</u>

Note: In the table above, the unexpired borrowing costs relating to the Australian banking facilities have been added back to derive the gross amount of facilities drawn at the reporting date.

Refer to Note 17(b) for information on the facilities available, including the nature of each arrangement.

(d) Assets pledged as security

The carrying amounts of assets pledged or agreed to be pledged as security for current and non-current interest bearing liabilities are:

	CONSOLIDATED	
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Current		
<i>Fixed and floating charge</i>		
Cash and cash equivalents	189	667
Receivables	20,088	27,901
Inventories	1,627	1,942
Total current assets pledged as security	<u>21,904</u>	<u>30,510</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

17 INTEREST-BEARING LOANS AND BORROWINGS (continued)

(d) Assets pledged as security (continued)

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Non-current		
<i>Fixed and floating charge</i>		
Tangible assets	4,932	27,973
Intangible assets	3,189	7,398
Investments	24,766	275
Total non-current assets pledged as security	<u>32,887</u>	<u>35,646</u>
Total assets pledged as security	<u>54,791</u>	<u>66,156</u>

(e) Interest rate risk

Information regarding the interest rate risk of the interest bearing loans and borrowings is set out in Note 3.

(f) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

18 CONTRIBUTED EQUITY

(a) Ordinary shares

	CONSOLIDATED	
	2010	2009
	No. of shares	No. of shares
Ordinary shares issued and fully paid	140,928,943	139,078,847

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	CONSOLIDATED	
	No. of shares	\$'000
<i>Movement in ordinary shares on issue</i>		
At 1 January 2009	141,566,006	273,901
Share buy-back (i) (ii)	(2,487,159)	(508)
Transaction costs net of tax (iii)	-	(5)
At 31 December 2009	<u>139,078,847</u>	<u>273,388</u>
At 1 January 2010	139,078,847	273,388
Share issue (iv)	1,850,096	195
At 31 December 2010	<u>140,928,943</u>	<u>273,584</u>

(i) Savcor Group Limited acquired 53,500 shares at a price of \$0.16 per share for \$9,000 on 31 December 2008. These shares are included in the 2009 buy-back figures as the shares were paid for, registered in the Company's name and cancelled only in 2009.

(ii) Savcor Group Limited bought back at total of 2,487,159 shares on 31 December 2008 as per note (i) and between 5 January 2009 and 20 April 2009. The shares were acquired at an average price of \$0.20, with prices ranging from \$0.16 to \$0.39. The total cost of shares bought back was \$508,000 and all the shares bought back were cancelled. The total cost of \$508,000 and the transaction costs of \$5,000 have been deducted from ordinary contributed equity.

(iii) The transaction costs represent brokerage costs associated with the share buy-back.

(iv) Savcor Group Limited issued 1,850,096 shares at an issue price of \$0.11 per share in accordance with the plan rules of the Savcor Group Limited Deferred Employee Share Plan (DESP) to eligible employees in Australia on 28 September 2010.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

18 CONTRIBUTED EQUITY (continued)

(b) Capital management

When managing capital, including the balance of equity and debt, Directors' objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Directors also aim to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Directors may adjust the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, Directors may change the amount of dividends to be paid to shareholders, return capital to shareholders, buy back shares, issue new shares or sell assets to reduce debt.

During 2009 and 2010 Savcor Group Limited paid no dividend. The Group's Australian banking facilities agreement restricts the Company's ability to pay dividends without the bank's consent. As per the banking facilities agreement signed in February 2011, the Company will need the bank's consent for dividend payment unless the Group's leverage ratio (total interest bearing debt / earnings before interest, taxes, depreciation and amortisation) is less than 2 times. If the Group's leverage ratio is greater or equal to 2 times but less than 2.5 times, the Company can pay a dividend of up to 50% of its free cashflow or 50% of its net profit after tax (NPAT), whichever is less, without the bank's consent. Directors monitor the Group's leverage ratio and take it into account when considering acquisitions and other investments, working capital management practices, dividends, share buy-backs and share issues. The Directors intend to provide a dividend payout ratio of 40-50% of NPAT in future years.

Directors have no current plans to issue further shares on the market or reduce the share capital by buying back and cancelling existing shares.

The Directors monitor the Group's capital to ensure that the Group is able to adhere to the financial covenants set in its banking facilities agreement, meet its short term commitments as well as to provide a return to shareholders. The Board provides ongoing measures and guidelines to management for their day to day monitoring of the Group's capital structure and requirements.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

19 RESERVES

	CONSOLIDATED				
	<i>Foreign currency translation reserve</i>	<i>Common control reserve</i>	<i>Employee equity benefits reserve</i>	<i>Articles of association reserve</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2009	9,314	(255,795)	165	1,409	(244,907)
Foreign currency translation differences	(8,035)	-	-	-	(8,035)
Cost of share based payment	-	-	(88)	-	(88)
At 31 December 2009	<u>1,279</u>	<u>(255,795)</u>	<u>77</u>	<u>1,409</u>	<u>(253,030)</u>
At 1 January 2010	1,279	(255,795)	77	1,409	(253,030)
Foreign currency translation differences	(4,256)	-	-	-	(4,256)
Discontinued operations	785	-	-	(1,409)	(624)
Cost of share based payment	-	-	(54)	-	(54)
At 31 December 2010	<u>(2,192)</u>	<u>(255,795)</u>	<u>23</u>	<u>-</u>	<u>(257,964)</u>

Note:

The movement in the articles of association reserve in the financial year 2010 is due to the reserve being transferred into retained earnings following the sale of the Savcor FACE business. Refer to Note 30 for further details about the sale.

Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and from the translation of the value of investment in foreign associates and jointly controlled entities.

Common control reserve

The acquisition by Savcor Group Limited of 14 common control entities as described in Note 2(c) is regarded as a business combination involving companies under common control. For consolidation purposes a subsidiary, Savcor Finn Pty Limited, has been deemed accounting acquirer in the business combination and the assets and liabilities of the other entities acquired by Savcor Group Limited have been consolidated to its balance sheet. In the consolidation, predecessor values which use the existing book values of assets and liabilities of the entities subject to the business combination immediately prior to acquisition are used. The difference between the purchase price paid by Savcor Group Limited and the amount that the acquired assets and liabilities are recorded at is recognised as a common control reserve within equity. Purchase price is the fair value of consideration paid. Where equity instruments are issued in a business combination, the purchase price is the equity instruments' market price as at the acquisition date.

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 21 for further details of these plans.

Articles of association reserve

Articles of association reserve is used in China to allocate a portion of the financial year's profit to a development fund. According to the articles of association of the Group's Chinese companies, the Boards of Directors of the Chinese companies have to decide each year on an allocation of a portion of the financial year's profit after tax to the statutory funds.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

20 CASH FLOW STATEMENT RECONCILIATION

(a) Reconciliation from the net loss after tax to the net cash flows from operations

	CONSOLIDATED	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Net loss	(8,342)	(251)
<i>Adjustments for:</i>		
Unrealised foreign exchange (gain)/loss	(323)	531
Net (gain)/loss on disposal of tangible and intangible assets	(933)	62
Depreciation and amortisation	6,321	7,509
Impairment losses	6,980	792
Expense/(income) from share-based payments	141	(88)
Share of profit of a jointly controlled entity	(105)	(232)
Share of loss of an associate	256	-
<i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	(6,969)	(5,281)
(Increase)/decrease in inventory	1,282	831
(Increase)/decrease in income tax receivable	(187)	(88)
(Increase)/decrease in deferred tax asset	(1,506)	(1,402)
(Decrease)/increase in trade and other payables	4,367	3,550
(Decrease)/increase in provisions	24	122
(Decrease)/increase in income tax payable	-	(1,192)
(Decrease)/increase in deferred tax liabilities	(923)	535
Net cash flows from operating activities	<u>83</u>	<u>5,398</u>

(b) Non-cash financing and investing activities

	CONSOLIDATED	
	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Sale of assets for shares in associate (Note 30)	(25,404)	-
Acquisition of assets by means of finance leases or hire purchases	40	-
Issue of shares under employee share scheme	195	-

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

21 SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expense/income

The expense/income recognised for employee services received during the year is shown in the table below:

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Income arising from share based payment transactions - options	(54)	(88)
Expense arising from share based payment transactions - issue of shares	195	-
Total expense/(income) arising from share-based payment transactions	141	(88)

The share-based payment plans are described below. The plans were established in 2007 and subsequently there have been no cancellations of any of the plans. The Deferred Employee Share Plan (DESP) and the Employee Option Plan (EOP) were amended to comply with Division 83A (ITAA1997) and amended Taxation Administration Act (1953) in 2010. New offers made or to be made from the plans, including the September 2010 Bonus Share Offer, are governed by the amended plan rules. The amendments do not affect the terms and conditions of offers made in 2007 – 2009, but employee share scheme reporting is done as per the requirements of the amended Taxation Administration Act (1953). It is anticipated that also the Exempt Employee Share Plan (EESP) will require amendment in order to comply with Division 83A (ITAA1997) and the amended Taxation Administration Act (1953). No offers or acquisitions to the EESP have been made since 1 July 2009, or will be made until these amendments have been completed.

(b) Types of share-based payment plans

Exempt Employee Share Plan ('EESP')

Grants and awards made prior to 1 July 2009

Savcor Group Limited has adopted the EESP pursuant to which eligible employees of the Company may acquire up to \$1,000 worth of Shares income tax-free each tax year (ended 30 June) in conformity with concessions contained in the ITAA.

All permanent full-time and part-time Australian resident employees of Savcor employed at a date specified in the EESP offer and invited to participate by the Directors, are eligible employees under the EESP. An EESP IPO Offer was made to invited employees of Savcor employed at the Prospectus Date on 12 November 2007 at the IPO Offer Price. Apart from the IPO Offer, no further offers have been made under the EESP. Future grants will be issued or acquired at the market price of the Shares, at the time of issue or acquisition, determined in accordance with the EESP Trust Deed. Under the EESP, the Directors also have the discretion to issue Shares at a discount to the prevailing market price. Prior to 1 July 2009 and the introduction of Division 83A (ITAA 1997), employees who participated in the Deferred Employee Share Plan ('DESP') were excluded from participation in the EESP in the same tax year.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

21 SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

The EESP IPO Offer provided eligible employees with two choices:

Choice A

\$1,000 tax-free allocation of Shares on the Listing Date funded from pre-tax base future salary or wages foregone by participating employees (for the 2007/2008 tax year ended 30 June 2008).

The \$1,000 was deducted in equal instalments from pre-tax base future salary or wages over the period 1 January 2008 to 30 June 2008 (i.e. 6 months).

Choice B

\$1,000 tax-free allocation of Shares on the Listing Date funded from pre-tax base future salary or wages foregone by participating employees (for the 2007/2008 tax year ended 30 June 2008) AND \$1,000 tax-free allocation of Shares acquired on or about 1 July 2008, funded from pre-tax base future salary or wages foregone by participating employees (for the 2008/2009 tax year ended 30 June 2009). The \$2,000 was deducted in equal instalments from pre-tax base future salary or wages over the period 1 January 2008 to 30 June 2009 (i.e. 18 months).

Under the terms of the EESP the eligible employee cannot sell, transfer or create a security interest or otherwise deal in the Shares until the earlier of:

- the end of three years after the time of issue or acquisition of the Shares;
- the time when the eligible employee ceases to be employed by Savcor; or
- if Savcor becomes the subject of a takeover offer, merger or change of control, as defined in the EESP Trust Deed.

The Shares issued under the EESP are held in trust and were subject to an administrative holding lock for this purpose. Eligible employees otherwise have the same rights and entitlements as all other members, including dividend and voting rights.

Because the Shares acquired under the EESP IPO Offer were paid for out of pre-tax salary or wages sacrifice, there was no funding cost to the Company. All shares are held subject to the terms of the EESP Trust Deed established for the purpose.

Deferred Employee Share Plan ('DESP')

Under the DESP, eligible invitees can sacrifice a portion of their remuneration (salary, bonus or fees) and receive Shares in lieu. In addition, eligible invitees can be granted free Shares at the discretion of the Board.

Where Shares are issued or acquired by remuneration sacrifice, the Shares are issued or acquired at the market price of the Shares, at the time of issue or acquisition, determined in accordance with the DESP Trust Deed. All Australian-resident permanent employees are eligible to participate in the DESP, at the discretion of the Directors.

The Company has made the following DESP Offers:

- September 2010 Bonus Share Offer: Invited employees and executives were offered Shares as a performance bonus. The September 2010 Bonus Share Offer was not based on voluntary salary sacrifice and therefore the invited employees and executives were not able to access tax deferral concessions normally available under the plan. Shares were issued to those employees and executives who accepted the offer in accordance with the DESP Trust Deed. The value of the new shares issued into the DESP was expensed. There were no service, performance or other vesting conditions attached to any Shares granted under the September 2010 Bonus Share Offer, but the Shares were subject to a 3 month administrative holding lock.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

21 SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

- 2009/2010 Salary Sacrifice Offer: Invited employees, executives and Directors were given the opportunity to sacrifice part of their 2009/2010 pre-tax salary or wages into the DESP. The share acquisitions were funded from pre-tax base future salary or wages forgone, recovered in equal deductions over the period 1 May 2009 to 30 June 2010. There were no service, performance or other vesting conditions attached to any Shares granted under the 2009/2010 Salary Sacrifice Offer and the Shares were not subject to an administrative lock, but could be withdrawn from the plan only once the salary sacrifice commitments had been met, that is, on 1 July 2010.
- April and May 2009 Bonus Sacrifice Offers: Invited employees, executives and Directors were given the opportunity to sacrifice part or all of their 2008 performance bonuses into the DESP. There were no service, performance or other vesting conditions attached to any Shares granted under the April and May 2009 Bonus Sacrifice Offers and the Shares were not subject to an administrative lock and could be withdrawn from the plan once the Share acquisition was completed.
- May 2009 Free Share Offer: Invited employees were given the opportunity to receive free Shares under the terms of the DESP. The shares were acquired from the market and the cost was expensed. There are no service, performance or other vesting conditions attached to any Shares granted under the May 2009 Free Share Offer. The shares were, however, subject to an administrative lock and could be withdrawn from the plan at the earliest on 1 July 2010.
- IPO Offer: Invited employees, executives and Directors were given the opportunity to sacrifice part or all of their 2008/2009 pre-tax salary, bonuses, fees or wages into the DESP. The share acquisitions were funded from pre-tax base future salary, bonuses, wages or fees forgone, recovered in equal deductions over the period 1 January 2008 to 30 June 2008 in the case of employees and from 1 July 2009 to 30 June 2009 in the case of executives and Directors. Shares acquired as a result of salary sacrifice under the IPO Offer could only be withdrawn 12 months after the date they were acquired or if the employment with the Company was terminated.

In addition, the Company utilises the DESP to facilitate the tax-effective acquisition of Shares by Non-Executive Directors, to further align their interests with those of members. Under the DESP, Non-Executive Directors can sacrifice all or a portion of their annual Directors' fees and receive Shares in lieu. The Shares are issued or acquired at the market price of the Shares, at the time of issue or acquisition, determined in accordance with the DESP rules. All Australian-resident Non-Executive Directors are eligible to participate in the DESP at the invitation of the Directors.

Shares issued into the DESP as remuneration are recognised as an employee benefit expense with a corresponding increase in equity based on the fair value of the shares at the time of the grant. For shares acquired under the other DESP Offers, except for the cost of acquiring shares from the market for the Free Share Offer, there has been no funding cost to the Company as the Shares have been paid for out of pre-tax salary, fee, wages or bonus sacrifice. All Shares will be held subject to the terms of the DESP Trust Deed established for that purpose.

The legal title to Shares issued or acquired under the DESP are held by a Trust, for the benefit of the eligible invitee, for this purpose. Eligible invitees otherwise have the same rights and entitlements as all other members, including dividend and voting rights. Shares can remain in the DESP for up to 10 years while the employee remains employed with Savcor.

Employee Option Plan ('EOP')

The Company has adopted an Employee Option Plan, pursuant to which eligible participants may be granted options entitling the grantee to acquire Shares upon payment of an exercise price (if any) determined by the Directors, exercisable on achievement of pre-set time and vesting conditions as determined by the Board. If the conditions are satisfied, the options are exercisable by the grantee for an exercise price determined by the Board. An option may only be exercised by a date determined by the Board and will lapse, at a date determined by the Board.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

21 SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

The Company's shareholders approved an initial grant of 5,228,698 options to 11 executives and Directors under the EOP in 2007 prior to the IPO. A summary of the main terms of the EOP and the specific offer terms for the initial grant are provided below.

Exercise Price of Options

The exercise price of the initial grant of options is \$2.00 per share, equal to the IPO Offer Price.

Vesting conditions

In respect of options granted prior to the Listing Date, the vesting and performance conditions for exercise are set out in the table below.

Tranche	% of Option	Time Hurdles	Performance Hurdles
1	33.3%	Exercisable no earlier than 27 months following Listing Date no earlier than 39 months following Listing Date	-25% vests if EPS CAGR \geq 12% p.a. -50% vests if EPS CAGR \geq 15% p.a. -100% vests if EPS CAGR \geq 18% p.a. EPS CAGR measured from 1 Jan 2008 to 31 Dec 2009 based on pro/forma CY07 EPS of 11.24 cents
2	33.3%	Exercisable no earlier than 27 months following Listing Date no earlier than 39 months following Listing Date	-25% vests if EPS CAGR \geq 12% p.a. -50% vests if EPS CAGR \geq 15% p.a. -100% vests if EPS CAGR \geq 18% p.a. EPS CAGR measured from 1 Jan 2008 to 31 Dec 2010 based on pro/forma CY07 EPS of 11.24 cents
2	33.3%	Exercisable no earlier than 27 months following Listing Date no earlier than 39 months following Listing Date	-25% vests if EPS CAGR \geq 12% p.a. -50% vests if EPS CAGR \geq 15% p.a. -100% vests if EPS CAGR \geq 18% p.a. EPS CAGR measured from 1 Jan 2008 to 31 Dec 2011 based on pro/forma CY07 EPS of 11.24 cents

Notes:

Limited re-testing of performance conditions is permitted. 50% of any options not vested at the first exercise date will rollover into the next tranche. 50% of any unvested options from Tranche 3 will be rolled over and available for re-testing at 31 December 2012. Any unvested options at 31 December 2012 will lapse immediately.

Performance hurdles in relation to options granted to Tranche 1 were not met and 50% of the Tranche 1 options that were not forfeited due to resignations lapsed in 2010 and 50% were rolled over to Tranche 2.

EPS CAGR means Compound Average Growth Rate of Earnings Per Share.

The options were also granted subject to the following conditions:

- at the discretion of the Company, Shares in respect of which a participant has exercised options may be provided by way of issue or on-market purchase;
- standard ASX Listing Rules terms apply to account for bonus and rights issues and other reorganisations of capital;
- options cannot be sold, transferred, mortgaged, or otherwise dealt with without Board approval; and
- standard terms will apply to take account of termination events and change of control.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

21 SHARE-BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

Termination provisions

All unvested options will lapse in the following circumstances:

Event	Lapse period
Death, permanent disability	30 days and/or Director discretion
Resignation or retirement	30 days and/or Director discretion
Redundancy	30 days and/or Director discretion
Other termination event	Immediately on termination or Director discretion

Estimated value explained

The value assessed for the initial grant of options of \$1,571,000 was calculated independently at the time of grant. As at 31 December 2010 the total amount expected to be expensed over the vesting period in accordance with AIFRS is \$32,000.

(c) Summary of options granted under EOP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2010		2009	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	5,228,698	2	5,228,698	2
Lapsed or forfeited during the year	(1,757,068)	-	-	-
Granted during the year	-	-	-	-
Outstanding at the end of the year	<u>3,471,630</u>	<u>2</u>	<u>5,228,698</u>	<u>2</u>
Exercisable at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The outstanding balance as at 31 December 2010 is represented by 3,471,630 options over ordinary shares with an exercise price of \$2 each, exercisable upon meeting the conditions as described in Note 21(b).

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 31 December 2010 is 1.61 years (2009: 2.21 years).

(e) Range of exercise price

The exercise price for options outstanding at the end of the year was \$2.00 (2009: \$2.00).

(f) Weighted average fair value

No new options were granted in 2009 and 2010. The weighted average fair value of options granted during 2007 was \$0.30.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

21 SHARE-BASED PAYMENT PLANS (continued)

(g) Option pricing model: EOP

The fair value of the equity-settled share options granted under the EOP is estimated as at the date of grant using a Binomial Model taking into account the terms and conditions upon which the options were granted.

No new options were granted in 2009 and 2010.

The following table lists the inputs to the model used for the options granted in 2007:

	EOP 2007
Dividend yield (%)	3.50
Expected volatility (%)	38.80
Risk-free interest rate (%)	6.56
Expected life of option (years)	3.77
Option exercise price (\$)	2.00
Weighted average share price at measurement date of 10 December 2007	1.49
Model used	Binomial

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life, which is not necessarily the same as the exercise pattern that eventually occurs.

22 COMMITMENTS AND CONTINGENCIES

(a) Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on certain motor vehicles and premises. The motor vehicle leases have an average life of between 1 and 5 years. The premises leases have an average life of 1 - 5 years. There are no restrictions placed upon the lessee by entering into these leases.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

22 COMMITMENTS AND CONTINGENCIES (continued)

(a) Commitments (continued)

Future minimum amounts payable under non-cancellable operating leases as at 31 December are as follows:

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Within one year	2,279	3,328
After one year but not more than five years	2,155	5,861
After more than five years	-	3,987
Total minimum lease payments	4,434	13,176

Finance lease and hire purchase commitments – Group as lessee

The Group has finance lease and hire purchase commitments on motor vehicles and other plant and equipment. The maturities of finance lease and hire purchase commitments as at 31 December are shown below:

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Within one year	105	352
After one year but not more than five years	34	98
After more than five years	-	-
Total minimum lease payments	139	450

Based on carrying values of the current finance lease and hire-purchase assets at 31 December 2010, \$89,000 (2009: \$257,000) relate to motor vehicles and \$16,000 (2009: \$95,000) relate to other plant and equipment. Of the non-current finance lease and hire-purchase assets at 31 December 2010 \$34,000 (2009: \$82,000) relate to motor vehicles and \$nil (2009: \$16,000) relate to other plant and equipment.

(b) Contingencies

Savcor Group Limited, Savcor ART Pty Limited, Savcor Finn Pty Limited and Savcor Corrosion Technology Co., Ltd. have provided bank guarantees worth \$1,500,000 in favour of certain customers in support of agreed project deliverables and warranties within the Savcor ART business. Additionally Savcor ART Pty Ltd has provided \$376,000 of bank guarantees in respect of leases over premises in Australia.

Guarantees provided by the Group to its financiers in relation to its loans and other banking facilities have been disclosed in Notes 17 and 25.

A Deed of Cross Guarantee is in place between Savcor Group Limited, Savcor Finn Pty Limited and Savcor ART Pty Limited since 21 October 2008. Refer to Note 28 for more information.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

23 AUDITORS' REMUNERATION

The auditor of Savcor Group Limited is Ernst & Young.

	CONSOLIDATED	
	2010	2009
	\$	\$
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	175,100	236,720
• Other services in relation to the entity and any other entity in the consolidated group		
- Tax compliance services	43,830	42,000
- Assurance related services	2,652	7,615
	<u>221,582</u>	<u>286,335</u>
<i>Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:</i>		
• An audit or review of the financial report of an entity in the consolidated group	52,880	93,241
	<u>52,880</u>	<u>93,241</u>
<i>Amounts received or due and receivable by non Ernst & Young audit firms for:</i>		
• Audit or review of the financial report	25,910	23,735
• International and general tax consulting	1,840	23,951
• Other non-audit services	31,810	69,370
	<u>59,560</u>	<u>117,056</u>

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

24 RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Savcor Group Limited and the subsidiaries listed in the following table.

<i>Name</i>	<i>Country of incorporation</i>	<i>% equity interest</i>	<i>% equity interest</i>	<i>Investment (\$'000)</i>	<i>Investment (\$'000)</i>
		<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
• Savcor Finn Pty Limited	Australia	100%	100%	26,476	26,476
• Savcor ART Pty Limited	Australia	100%	100%	23,923	23,923
• Savcor Products Pty Limited	Australia	100%	100%	5,281	5,281
• Savcor ART New Zealand Limited	New Zealand	100%	100%	144	192
• Savcor Japan KK	Japan	100%	100%	637	637
• Savcor Tempo Oy	Finland	100%	100%	1,923	1,744
• Intune Circuits Oy *	Finland	-	100%	-	179
• Savcor PLS Pty Limited	Australia	100%	100%	-	-
• Pacific Lining Solutions Holdings Pty Limited	Australia	100%	100%	129	129
• Savcor Pacific Limited **	Hong Kong	-	100%	-	15,505
• Savcor Face (Guangzhou) Technologies Co., Ltd. **	China	-	100%	-	-
• Savcor Face (Beijing) Technologies Co., Ltd. **	China	-	100%	-	-
• Savcor Corrosion Technology Co., Ltd.	China	100%	-	1,000	1,000
• Savcor India Private Limited	India	100%	-	219	219
				<u>59,732</u>	<u>75,285</u>

Notes:

* Company was merged into Savcor Tempo Oy in 2010

** Company was sold in 2010

In the financial year 2010, Intune Circuits Oy was merged into Savcor Tempo Oy on 31 October 2010 and Savcor Pacific Limited was sold to Cencorp Corporation as a part of the sale of Savcor FACE business on 30 November 2010. Refer to the Directors' Report and Note 30 for further details on the sale of Savcor FACE business.

A Deed of Cross Guarantee has been in place between Savcor Group Limited, Savcor Finn Pty Limited and Savcor ART Pty Limited since 21 October 2008. Refer to Note 28 for more information.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

24 RELATED PARTY DISCLOSURES (continued)

(b) Ultimate parent

The ultimate parent of the Group is Savcor Group Oy, which is a company incorporated in Finland.

Savcor Group Oy owns 63% (2009: 64%) of the ordinary shares in Savcor Group Limited via its 100% owned subsidiary Savcor Face Group Oy. Transactions between the consolidated Group and Savcor Group Oy in 2010 amounted to sales of \$59,000 (2009: \$262,000), purchases of \$690,000 (2009: \$618,000) and interest income of \$nil (2009: \$7,000).

Savcor Group Oy is owned by the Savisalo family. Hannu Savisalo owns 32.5%, Iikka Savisalo owns 22.5% and the rest of the family owns the remaining 45% of Savcor Group Oy. The Directors' shareholdings in Savcor Group Limited declared in the Directors' report for Hannu Savisalo and Iikka Savisalo includes only their personal beneficial interest in Savcor Group Limited. The beneficial interest of the rest of the family amounts to 40,141,625 (2009: 40,141,625) shares of the 89,203,610 (2009: 89,203,610) Company's shares owned by Savcor Face Group Oy.

(c) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year-end, refer to Notes 11 and 15 respectively).

<i>Related party</i>	<i>Description</i>	<i>2010</i> <i>\$'000</i>	<i>2009</i> <i>\$'000</i>
CONSOLIDATED			
Ultimate parent entity:			
Savcor Group Oy	<i>Sales of services</i>	(59)	(257)
	<i>Sales of office rent</i>	-	(4)
	<i>Purchase of services</i>	639	558
	<i>Lease of premises</i>	51	61
	<i>Interest income</i>	-	(7)
Parent entity:			
Savcor Face Group Oy	<i>Sales of services</i>	-	(1)
	<i>Purchase of materials</i>	-	-
	<i>Purchase of machinery</i>	-	1,620
	<i>Lease of office</i>	-	87

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

24 RELATED PARTY DISCLOSURES (continued)

(c) Transactions with related parties

<i>Related party</i>	<i>Description</i>	<i>2010 \$'000</i>	<i>2009 \$'000</i>
Subsidiaries of ultimate parent entity			
Savcor Komarom Kft	<i>Sales of materials</i>	-	(35)
	<i>Purchase of materials</i>	-	171
	<i>Purchase of machinery</i>	-	2
OOO Savcor ART Rus	<i>Sales of materials and services</i>	(626)	(53)
	<i>Purchase of materials</i>	-	9
	<i>Purchase of services</i>	-	11
Savcor Face Oy	<i>Purchase of services</i>	19	79
	<i>Purchase of intangibles</i>	-	88
Savcor Forest Oy	<i>Sales of materials</i>	-	(4)
	<i>Sales of equipment</i>	(3)	-
	<i>Purchase of services</i>	2	1
Masser Oy	<i>Purchase of materials</i>	2	3
Savcor Face Ltd	<i>Sales of materials</i>	(49)	(64)
Subsidiary of ultimate parent entity (until 30 November 2010 62% owned by Savcor Group Oy) and associate (post 30 November 2010)			
Cencorp Corporation	<i>Sales of materials</i>	(9)	(1)
	<i>Purchase of services</i>	94	1
	<i>Gain on sale of assets</i>	(79)	-
	<i>Loss on sale of assets</i>	556	-
Company of associated group (post sale to Cencorp Corporation and becoming part of an associated group on 30 November 2010)			
Savcor Face (Guangzhou) Technologies Co., Ltd	<i>Sales of materials</i>	(16)	-
	<i>Purchase of services</i>	5	-
Savcor Face (Beijing) Technologies Co., Ltd	<i>Purchase of materials</i>	11	-

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

24 RELATED PARTY DISCLOSURES (continued)

(c) Transactions with related parties (continued)

<i>Related party</i>	<i>Description</i>	<i>2010</i> \$'000	<i>2009</i> \$'000
Joint venture of ultimate parent company (pre-acquisition 16 April 2009 when 51% owned by Savcor Group Oy)			
Savcor-CHEC (Guangzhou) Corrosion Engineering Ltd.	<i>Sales of materials and services</i>	-	(61)
Jointly controlled entity			
Savcor-Contech Joint Venture Limited	<i>Sales of services and materials</i>	(76)	(256)
	<i>Other operating income</i>	(407)	-
	<i>Dividend income</i>	(153)	-
	<i>Purchase of materials</i>	1	-

Jointly controlled entities

The Group has a 50% (2009: 50%) interest in Savcor-Contech Joint Venture Limited, which is a company incorporated in New Zealand.

Associates

As a partial consideration for the sale of the Savcor FACE business to Cencorp Corporation, Savcor Group Limited was issued 133,333,333 shares in Cencorp Corporation, representing a 44.7% interest in Cencorp Corporation at transaction completion date 30 November 2010. Following a subsequent capital raising and issue of new shares by Cencorp Corporation to another investor, the ownership of Savcor Group Limited in Cencorp Corporation at balance sheet date 31 December 2010 is 42.4%. Due to the level of ownership and due to two of Savcor Group Limited's Directors being directors of also Cencorp Corporation, Savcor Group Limited is deemed to have significant influence over Cencorp Corporation. Cencorp Corporation is a publicly listed company incorporated in Finland.

Apart from the related parties, there are no entities which have a significant influence over the Group.

Employees

Contributions to Superannuation funds on behalf of employees are disclosed in Note 6.

Terms and conditions of 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 and settlement occurs in cash. No guarantees have been provided or received for any outstanding related party receivables or payables.

Terms and conditions of the tax funding arrangement are set out in Note 7.

Allowance for impairment loss on trade receivables

For the year end 31 December 2010, the Group has not made any allowance for impairment loss relating to amounts owed by related parties as payment history has been reliable. An impairment assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, the Group recognises an allowance for the impairment loss.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

24 RELATED PARTY DISCLOSURES (continued)

(d) Loans from related parties

No loans existed between the Group and related parties at 31 December 2010 and at 31 December 2009.

(e) Dividends paid to related parties

No dividends were paid to related parties during the financial years 2010 and 2009.

25 EVENTS AFTER THE BALANCE SHEET DATE

On 25 February 2011 the Company renewed its Australian banking facilities agreement and amended the size and type of facilities available. The amended facilities include an amortising, 3-year cash advance facility of \$23,500,000, a non-amortising and annually revolving cash advance and overdraft facility of \$8,000,000, non-amortising and annually revolving bank guarantee facilities of \$3,400,000 and transactional banking facilities. The 3-year cash advance facility will amortise by \$3,000,000 on 30 June 2011 and by \$3,500,000 on 30 September 2011. On 31 December 2011 the facility will amortise by a further amount that is required to ensure that the Group's leverage ratio (interest bearing debt divided by the Company's and its controlled entities' earnings before interest, taxes, depreciation and amortisation) immediately after the payment is not greater than 3.00. The balance of the amortising facility is repayable by 25 February 2014. The facility is secured by a fixed and floating charge on the assets and undertakings of the borrowers Savcor Group Limited, Savcor ART Pty Limited, Savcor Finn Pty Limited and Savcor Products Pty Limited and cross-guarantees are in place between the borrowers. Savcor Tempo Oy is a guarantor to the facility and will provide additional security for the facility.

There have not been any other significant events occurring after balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

26 PARENT ENTITY

Savcor Group Limited is the parent entity of the consolidated Group. Financial information relating to Savcor Group Limited is presented below.

	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Current assets	5,022	5,236
Non-current assets	84,906	82,283
Total assets	<u>89,928</u>	<u>87,519</u>
Current liabilities	38,678	13,144
Non-current liabilities	170	12,785
Total liabilities	<u>38,848</u>	<u>25,929</u>
Net assets	<u>51,080</u>	<u>61,590</u>
Issued capital	269,401	269,205
Retained earnings	(218,344)	(207,692)
Employee equity benefits reserve	23	77
Total shareholders' equity	<u>51,080</u>	<u>61,590</u>
Net loss of the parent entity	(10,652)	(105,940)
Total comprehensive income of the parent entity	<u>(10,652)</u>	<u>(105,940)</u>

Commitments and Contingencies

Savcor Group Limited has entered into the following guarantees and commitments on behalf of itself and its subsidiaries.

	<u>2010</u>	<u>2009</u>
	<u>\$'000</u>	<u>\$'000</u>
Lease commitments	37	247
Bank guarantees	1,761	2,625
	<u>1,798</u>	<u>2,872</u>

A Deed of Cross Guarantee is in place between Savcor Group Limited, Savcor Finn Pty Limited and Savcor ART Pty Limited since 21 October 2008. Refer to Note 28 for more information.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

27 KEY MANAGEMENT PERSONNEL

(a) Remuneration of key management personnel

	CONSOLIDATED	
	2010	2009
	\$	\$
Short-term employee benefits	2,566,773	2,656,250
Post-employment benefits	207,776	165,722
Other long-term benefits	29,890	25,069
Termination benefits	-	-
Share-based payment	57,299	(83,502)
	<u>2,861,738</u>	<u>2,763,539</u>

(b) Option holdings of key management personnel

2010	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 31 December 2010		
						Exercisable	Not exercisable	Total
Directors								
Simon Rowell	-	-	-	-	-	-	-	-
Hannu Savisalo	1,190,273	-	-	(198,379)	991,894	-	-	-
Nicholas Psaltis	-	-	-	-	-	-	-	-
Ilkka Savisalo	552,627	-	-	(92,104)	460,523	-	-	-
Jyrki Salminen *	-	-	-	-	-	-	-	-
5 most highly remunerated executives								
Atef Cheaitani	552,627	-	-	(92,104)	460,523	-	-	-
Petrus Siemonsma	255,058	-	-	(42,510)	212,548	-	-	-
Herkko Soininen	552,627	-	-	(92,104)	460,523	-	-	-
Paul Daffy	255,058	-	-	(42,510)	212,548	-	-	-
Vinay Swaroop	255,058	-	-	(42,510)	212,548	-	-	-
Other key management personnel								
Sami Lindfors **	552,627	-	-	(92,104)	460,523	-	-	-
R. Philip Harcourt *	552,627	-	-	(552,627)	-	-	-	-
Christopher Oates *	255,058	-	-	(255,058)	-	-	-	-
Julian Bleddyn	-	-	-	-	-	-	-	-
Total	4,973,640	-	-	(1,502,010)	3,471,630	-	-	-

Notes:

Net change other includes forfeiture of options due to resignations and lapsing of options due to vesting conditions not being met. All unissued shares consist of ordinary shares.

* Jyrki Salminen ceased to be a Director on 16 October 2010, Robert Philip Harcourt's employment ceased on 23 February 2010 and Christopher Oates' employment ceased on 25 June 2010.

** Sami Lindfors was transferred to Cencorp Corporation along with the sale of the Savcor FACE business on 30 November 2010.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

27 KEY MANAGEMENT PERSONNEL (continued)

(b) Option holdings of key management personnel (continued)

2009	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 31 December 2009		
						Exercisable	Not exercisable	Total
Directors								
Simon Rowell	-	-	-	-	-	-	-	-
Hannu Savisalo	1,190,273	-	-	-	1,190,273	-	-	-
Nicholas Psaltis	-	-	-	-	-	-	-	-
Jyrki Salminen	-	-	-	-	-	-	-	-
Iikka Savisalo	552,627	-	-	-	552,627	-	-	-
John Ingram	-	-	-	-	-	-	-	-
5 most highly remunerated executives								
Sami Lindfors	552,627	-	-	-	552,627	-	-	-
R. Philip Harcourt	552,627	-	-	-	552,627	-	-	-
Herkko Soininen	552,627	-	-	-	552,627	-	-	-
Atef Cheaitani	552,627	-	-	-	552,627	-	-	-
Christopher Oates	255,058	-	-	-	255,058	-	-	-
Other key management personnel								
Petrus Siemonsma	255,058	-	-	-	255,058	-	-	-
Paul Daffy	255,058	-	-	-	255,058	-	-	-
Vinay Swaroop	255,058	-	-	-	255,058	-	-	-
Total	4,973,640	-	-	-	4,973,640	-	-	-

Note:

All unissued shares consist of ordinary shares.

(c) Options granted and vested during the year

No options were granted or vested in the periods ended 31 December 2010 and 2009. 1,502,010 options issued to Directors, executives and other key management personnel were forfeited or lapsed during the period ended 31 December 2010. There have been no alterations to the terms and conditions of options granted as remuneration since their grant date.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

27 KEY MANAGEMENT PERSONNEL (continued)

(d) Shares issued on exercise of compensation options

No options have been exercised during the periods ended 31 December 2010 and 2009 and no shares have been issued to Directors, executives and other key management personnel on exercise of compensation options.

(e) Shareholdings of key management personnel

2010	Balance 1 Jan 10	Granted as remuneration	Ordinary shares on exercise of options	Other ordinary shares	Balance 31 Dec 10
Directors					
Simon Rowell	252,102	-	-	-	252,102
Hannu Savisalo	28,991,173	-	-	-	28,991,173
Nicholas Psaltis	555,622	-	-	362,500	918,122
Iikka Savisalo	20,070,812	-	-	-	20,070,812
Jyrki Salminen *	88,653	-	-	(88,653)	-
5 most highly remunerated executives					
Atef Cheaitani	45,500	189,753	-	-	235,253
Petrus Siemonsma	198,648	189,753	-	-	388,401
Herkko Soininen	300,454	94,877	-	15,830	411,161
Paul Daffy	-	189,753	-	-	189,753
Vinay Swaroop	-	118,596	-	-	118,596
Other key management personnel					
Sami Lindfors **	30,000	-	-	-	30,000
R. Philip Harcourt *	25,000	-	-	(25,000)	-
Christopher Oates *	40,000	-	-	(40,000)	-
Julian Bleddyn	-	-	-	43,000	43,000
Total	50,597,964	782,732	-	267,677	51,648,373

Notes:

* Jyrki Salminen ceased to be a Director on 16 October 2010, Robert Philip Harcourt's employment ceased on 23 February 2010 and Christopher Oates' employment ceased on 25 June 2010.

** Sami Lindfors was transferred to Cencorp Corporation along with the sale of the Savcor FACE business on 30 November 2010.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

27 KEY MANAGEMENT PERSONNEL (continued)

(e) Shareholdings of key management personnel (continued)

2009	Balance 1 Jan 09	Granted as remuneration	Ordinary shares on exercise of options	Other ordinary shares	Balance 31 Dec 09
Directors					
Simon Rowell	188,625	-	-	63,477	252,102
Hannu Savisalo	28,991,173	-	-	-	28,991,173
Nicholas Psaltis	338,254	-	-	217,368	555,622
Jyrki Salminen	42,500	-	-	46,153	88,653
Iikka Savisalo	20,070,812	-	-	-	20,070,812
John Ingram *	510,509	-	-	(510,509)	-
5 most highly remunerated executives					
Sami Lindfors	30,000	-	-	-	30,000
R. Philip Harcourt	25,000	-	-	-	25,000
Herkko Soinen	167,462	-	-	132,992	300,454
Atef Cheaitani	45,500	-	-	-	45,500
Christopher Oates	25,000	-	-	15,000	40,000
Other key management personnel					
Petrus Siemonsma	-	-	-	198,648	198,648
Paul Daffy	-	-	-	-	-
Vinay Swaroop	-	-	-	-	-
Total	50,434,835	-	-	163,129	50,597,964

The key management personnel's shareholdings include shares held in trust under the DESP and EESP and in the names of personal superannuation funds or family members, where known to the Company. Hannu Savisalo's and Iikka Savisalo's shareholdings include their personal beneficial shareholdings in the Company's shares, but exclude the beneficial shareholdings of other Savisalo family members as disclosed in Note 24(b).

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(f) Loans to key management personnel

There were no loans to Directors, executives or other key management personnel.

All other transactions with key management personnel have been disclosed in Note 24 Related Party Disclosures of the financial report.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

28 CLOSED GROUP CLASS ORDER

The consolidated financial statements include the financial statements of Savcor Group Limited and the subsidiaries listed in Note 24(a).

Pursuant to Class Order 98/1418, relief has been granted to Savcor Finn Pty Limited and Savcor ART Pty Limited from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Savcor Group Limited, Savcor Finn Pty Limited and Savcor ART Pty Limited (the Closed Group), entered into a Deed of Cross Guarantee on 21 October 2008. The effect of the deed is that Savcor Group Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Savcor Group Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Restatement of prior period

An impairment loss recognised on investment in a certain subsidiary during the year ended 31 December 2007 was incorrectly omitted from the closed group consolidation prepared specifically for this disclosure in the financial years ended 31 December 2009 and 31 December 2008. This had the effect of over stating investments in subsidiaries by \$45,073,000 and understating accumulated losses by \$45,073,000 for the years ended 31 December 2009 and 31 December 2008. This has been corrected by restating each of the affected financial statement line items contained within this note disclosure for the year affected, as described above. Other than the effect on the closed group class order disclosure as described above, the restatement did not impact any other sections of the financial report.

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are presented below and on the following page.

Consolidated income statement

	CLOSED GROUP	CLOSED GROUP
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
Profit before income tax	(11,033)	(55,583)
Income tax expense	1,518	(180)
Net profit for the period	(9,515)	(55,763)
Retained earnings at the beginning of the period	(179,053)	(123,290)
Dividends provided for or paid	-	-
Retained earnings at the end of the period	(188,568)	(179,053)

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

28 CLOSED GROUP CLASS ORDER (continued)

Consolidated balance sheet

	CLOSED GROUP	CLOSED GROUP
	<i>2010</i>	<i>2009</i>
	<i>\$'000</i>	<i>\$'000</i>
ASSETS		
Current assets		
Cash and cash equivalents	70	465
Trade and other receivables	19,625	19,689
Inventories	463	809
Income tax receivables	602	289
Total current assets	20,760	21,252
Non-current assets		
Investment in subsidiaries	9,333	24,886
Investment in associate and jointly controlled entity	20,714	41
Property, plant and equipment	4,903	5,928
Intangible assets and goodwill	3,189	7,398
Deferred tax assets	4,391	3,664
Total non-current assets	42,530	41,917
TOTAL ASSETS	63,290	63,169
Current liabilities		
Trade and other payables	10,747	10,425
Interest-bearing loans and borrowings	28,862	6,130
Provisions	1,537	1,611
Total current liabilities	41,146	18,166
Non-current liabilities		
Interest-bearing loans and borrowings	115	12,758
Provisions	322	241
Deferred tax liabilities	522	1,445
Total non-current liabilities	959	14,444
TOTAL LIABILITIES	42,105	32,610
NET ASSETS	21,185	30,559
EQUITY		
Equity attributable to equity holders of the parent		
Contributed equity	273,584	273,389
Retained earnings	(188,568)	(179,053)
Reserves	(63,831)	(63,777)
Parent interests	21,185	30,559
TOTAL EQUITY	21,185	30,559

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

29 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(a) Investment details

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Jointly controlled entity (Savcor-Contech Joint Venture Limited)	170	275
Associated entity (Cencorp Corporation)	20,714	-
Other	-	5
Total investments	20,884	280

(b) Movements in the carrying amount of the Group's investment in jointly controlled entity and in associate

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
<i>Savcor-Contech Joint Venture Limited</i>		
At 1 January	275	-
Investment in share capital and shareholder loan	(41)	41
Share of jointly controlled entity's net profit	105	232
Dividend received	(153)	-
Translation difference	(16)	2
At 31 December	170	275

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
<i>Cencorp Corporation</i>		
At 1 January	-	-
Investment in share capital	25,404	-
Share of associate's net loss	(256)	-
Translation difference	(970)	-
Impairment	(3,464)	-
At 31 December	20,714	-

At 31 December 2010 the Directors assessed the value of the investment in Cencorp Corporation shares for possible impairment. The market price of Cencorp Corporation shares was \$0.20 (€0.15) on 31 December 2010, but due to Cencorp Corporation shares having limited free float and being thinly traded, the Directors assessed that the share market may not be functioning efficiently in relation to Cencorp Corporation shares and considered alternative valuation techniques. The Directors concluded that the Company's investment in Cencorp Corporation shares should be valued at fair value less cost to sell at 31 December 2010. Fair value is a price that a knowledgeable and willing buyer would pay for the asset sold by a knowledgeable and willing seller. In the case of Cencorp Corporation, the Directors deemed a knowledgeable and willing buyer to be an institutional or industrial investor that has bought or subscribed to a meaningful number of Cencorp Corporation shares following investment analysis typical to the type of investment. Based on evidence from Cencorp Corporation's recent capital raisings that were done at \$0.16 (€0.12) on 30 November 2010 and 15 December 2010, the Directors deemed the price at which a knowledgeable and willing buyer would be willing to buy the shares and thereby the fair value of Cencorp Corporation shares to be \$0.16 (€0.12). The Directors deemed the cost to sell to be 1% of the sales price. Consecutively, the Company's investment in Cencorp Corporation shares was impaired by \$3,464,000 at 31 December 2010.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

29 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

(c) Financial information

The following tables illustrate financial information relating to the Group's jointly controlled entity Savcor-Contech Joint Venture Limited and associate Cencorp Corporation.

Extract from the jointly controlled entity's statement of financial position	2010	2009
	\$'000	\$'000
Current assets	835	867
Non-current assets	96	242
Total assets	931	1,109
Current liabilities	592	548
Non-current liabilities	-	-
Total liabilities	592	548
Net assets	339	561
Share of jointly controlled entity's net assets	170	280

Extract from the associate's statement of financial position	2010	2009
	\$'000	\$'000
Current assets	22,223	-
Non-current assets	31,182	-
Total assets	53,405	-
Current liabilities	19,733	-
Non-current liabilities	6,021	-
Total liabilities	25,754	-
Net assets	27,651	-
Share of associate's net assets (excluding fair value adjustment at the date of acquisition)	11,727	-

Extract from the jointly controlled entity's statement of comprehensive income	2010	2009
	\$'000	\$'000
Revenue	4,280	2,985
Net profit	210	463

Extract from the associate's statement of comprehensive income	December	
	2010	2009
	\$'000	\$'000
Revenue	4,740	-
Net profit	(589)	-

(d) Contingent liabilities relating to associates and jointly controlled entities

The Group has no contingent liabilities relating to its associate or jointly controlled entity.

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

30 DISCONTINUED OPERATIONS

(a) Details of operations disposed

On 28 May 2010 Savcor Group Limited and its fully owned subsidiary Intune Circuits Oy signed a share and asset sale agreement with Cencorp Corporation, a company publicly traded in NASDAQ OMX Helsinki, to sell the Savcor FACE business to Cencorp Corporation. The Savcor FACE business comprised of:

- Savcor FACE Assets being:
 - Sale Shares being all shares in Savcor Pacific Limited; and
 - Ancillary Assets being assets, including patents and other IPRs, owned by the Company and Intune Circuits Oy and used in connection with the Savcor FACE business; and
- FACE Receivable being a debt owed by Savcor Pacific Limited to the Company.

The transaction was subject to a number of conditions that were met during the financial year and the sale was completed on 30 November 2010, which is the date on which also the control of the Savcor FACE business passed to Cencorp Corporation.

In connection with the sale of the Savcor FACE business to Cencorp Corporation, the Group discontinued all of its FACE segment related operations. Intune Circuits Oy, which was part of the FACE segment, was merged into Savcor Tempo Oy on 31 October 2010, whereby its assets and operations were absorbed into Savcor Tempo Oy. Savcor Tempo Oy transferred the Savcor FACE business related patents and personnel to Cencorp Corporation on 30 November 2010 as per the requirements of the share and asset sale agreement and its remaining assets remain in Group as a part of the continuing operations.

Refer to Note 5 for segment information.

(b) Financial performance of operations disposed

The results of the discontinued operations until the disposal are presented below.

	2010	2009
	\$'000	\$'000
Revenue	26,544	32,829
Cost of sales	(24,087)	(27,929)
Other income	2,016	2,067
Research and development expenses	(1,030)	(1,190)
Impairment losses	(1,007)	-
Sales and marketing expenses	(871)	(1,038)
Administrative expenses	(2,105)	(2,672)
Other expenses	(1,386)	(2,313)
Profit on disposal	434	-
Finance costs	(1,124)	(1,497)
Pre-tax loss from discontinued operations	(2,616)	(1,743)
Income tax benefit	368	189
Net loss from the discontinued operations	(2,248)	(1,554)

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

30 DISCONTINUED OPERATIONS (continued)

(c) Assets and liabilities and cash flow information of operations disposed

Details of the disposal of the discontinued operations are as follows:

	<u>\$'000</u>
Assets	
Intangibles	2,783
Property, plant and equipment	23,046
Trade and other receivables	15,406
Inventories	3,814
Deferred tax assets	1,154
Cash and cash equivalents	<u>1,612</u>
Total assets	47,815
Liabilities	
Trade and other payables	6,799
Income tax payable	54
Interest-bearing loans and borrowings	<u>12,913</u>
Total liabilities	19,766
Net assets attributable to discontinued operations	<u>28,049</u>
The net cash flows of the FACE segment	
	<u>\$'000</u>
Operating activities	1,782
Investing activities	(2,219)
Financing activities	<u>(959)</u>
Net cash outflow	<u>(1,396)</u>

Consideration received or receivable

The sale of the Savcor FACE business to Cencorp Corporation resulted in the Group selling its entire interest in the Savcor FACE business for 133,333,333 fully paid ordinary shares in Cencorp Corporation and a net cash consideration of \$3,616,000. As per the share and asset sale agreement, the cash consideration was calculated as \$11,000,000 less the debt of the Savcor FACE business that remained with the Savcor FACE business in the transaction less the change in the consolidated net assets of Savcor Pacific Limited and its subsidiaries between 31 December 2009 and the completion date 30 November 2010.

The number of shares issued to Savcor Group Limited was calculated by dividing an agreed aggregate issue price of \$21,775,000 at 30 November 2010 (€16,000,000) by the issue price per share, \$0.16 (€0.12), which is the price at which Cencorp Corporation did a capital raising and issued new shares for cash in November - December 2010. Due to the market price of Cencorp Corporation shares being \$0.19 (€0.14) at completion date 30 November 2010, the shares received by the Company were valued at \$25,404,000 on acquisition. At 31 December 2010 the Company valued the Cencorp Corporation shares to fair value \$0.16 (€0.12) less cost to sell and booked an impairment as part of the continuing operations as disclosed in Note 29(b).

Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2010 (continued)

30 DISCONTINUED OPERATIONS (continued)

(c) Assets and liabilities and cash flow information of operations disposed (continued)

Consideration received or receivable	<i>\$'000</i>	
Cash	5,598	
Sales price adjustment for change in net asset value	(1,982)	
Shares in Cencorp Corporation	25,404	
Total consideration	29,020	
Less net assets disposed of	(28,049)	
Profit on disposal before income tax	971	
Incremental costs of disposal	(537)	
Profit on disposal after income tax	434	
Net cash inflow on disposal	<i>\$'000</i>	
Cash and cash equivalents consideration	5,420	
Less cash and cash equivalents disposed of	(1,612)	
Effect of exchange rate fluctuations on cash held	(48)	
Reflected in the consolidated statement of cash flows	3,760	
Earnings per share	2010	2009
	<i>Cents per</i>	<i>Cents per</i>
	<i>share</i>	<i>share</i>
Basic earnings per share from discontinued operations	(1.61)	(1.11)
Diluted earnings per share from discontinued operations	(1.61)	(1.11)

Directors' Declaration

For the financial year ended 31 December 2010

In accordance with a resolution of the Directors of Savcor Group Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b);
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 31 December 2010; and
- (e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



Simon Rowell
Director

Sydney, 28 February 2011

Independent auditor's report to the members of Savcor Group Limited

Report on the financial report

We have audited the accompanying financial report of Savcor Group Limited, which comprises the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



Opinion

In our opinion:

- a. the financial report of Savcor Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 26 to 35 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Savcor Group Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ben Tansley
Partner
Sydney

28 February 2011

Shareholder Information

As of 28 February 2011

Twenty Largest Shareholders

Holder Name	Number of shares	%
SAVCOR FACE GROUP OY	89,203,610	63.296
RUBICON NOMINEES PTY LTD	14,633,197	10.383
CITICORP NOMINEES PTY LIMITED	3,936,733	2.793
SVA EMPLOYEE SHARE PLAN MANAGERS PTY LTD <DESP A/C>	3,297,532	2.340
NATIONAL NOMINEES LIMITED	3,085,682	2.190
AVENIR ENTERPRISES PTY LTD <FUTURE SUPER FUND A/C>	2,570,000	1.824
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,134,826	1.515
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,189,053	0.844
COGENT NOMINEES PTY LIMITED	1,009,717	0.716
HALLAM DRAINAGE PTY LTD	769,900	0.546
MR NICHOLAS PSALTIS & MRS GAYLE PSALTIS <NICHOLAS S PSALTIS S/F A/C>	763,500	0.542
BOND STREET CUSTODIANS LIMITED <BPTEF - V02077 A/C>	666,629	0.473
TRAFALGAR CUSTODIANS PTY LTD <DAVGRE SUPER FUND A/C>	500,000	0.355
SWETHA INTERNATIONAL PTY LTD	495,142	0.351
NAGARIT PTY LIMITED <NAGARIT SUPER FUND A/C>	450,000	0.319
DAVID GORDON MILLER JENNIFER LOUISE MILLER	430,000	0.305
EML INVESTMENTS PTY LIMITED <PARKES TALBOT INVT GEAR A/C>	420,000	0.298
SELECT INVESTMENTS SUPER PTY LTD <SELECT INVESTMENTS S/F A/C>	402,290	0.285
HILLMORTON CUSTODIANS PTY LTD <THE LENNOX UNIT A/C>	380,000	0.270
MR JOHN PETERSEN MAI	317,200	0.225
TOTAL	126,655,011	89.870

Spread of shareholdings Holding ranges	No. of holders	Spread of unquoted option holdings Holding ranges	No. of holders
1 to 1,000	21	1 to 1,000	0
1,001 to 5,000	229	1,001 to 5,000	0
5,001 to 10,000	131	5,001 to 10,000	0
10,001 to 100,000	247	10,001 to 100,000	0
100,001 and over	45	100,001 and over	8
TOTALS	673		8

As at 28 February 2011 the number of shareholders with less than a marketable parcel for ordinary shares was 269 representing a total of 989,274 shares.

Voting rights

The fully paid ordinary shareholders are entitled to vote at any meeting of the members of the Company and their voting rights on a show of hands and on a poll is one vote for every fully paid ordinary share. Unquoted options have no voting rights.

Unquoted options

There is a total of 3,471,630 unquoted executive options on issue representing 2.46% of the total issued ordinary shares.

Corporate Directory

SAVCOR GROUP LIMITED

ABN 52 127 734 196
Incorporated in Victoria, Australia
Website: www.savcor.com

REGISTERED OFFICE

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DIRECTORS

Simon Rowell (Non-Executive Chairman)
Hannu Savisalo (Managing Director)
Nicholas Psaltis (Non-Executive Director)
Iikka Savisalo (Non-Executive Director)

COMPANY SECRETARY

Iikka Savisalo
John O'Malley

SECURITIES EXCHANGE LISTING

Australia

AUDITOR

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SHARE REGISTRY

Registries Limited
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ANNUAL GENERAL MEETING

Details of the 2011 Annual General Meeting of Savcor Group Limited will be sent to shareholders in the Notice of Annual General Meeting.

