



Southern Cross Electrical Engineering Limited

**Interim Financial Report for the Half Year
Ended 31 December 2010**

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Directors' report

The directors present their report together with the consolidated financial report for the six months ended 31 December 2010 and the independent review report thereon.

Directors

The directors of the Southern Cross Electrical Engineering Limited ("SCEE" or "the Company") at any time during or since the end of the interim period are:

Name	Period of directorship
Non-executive	
Mr Gianfranco Tomasi (Chairman)	Director since 1978
Mr Brian Carman	Director since 1988
Mr John Cooper	Director since 2007
Mr Douglas Fargher	Director since 2007
Executive	
Mr Simon High (Managing Director)	Director since 2 August 2010

Review of operations

Across the six months ended 31 December 2011 SCEE continued works at Pluto, commenced works at Mt Keith and completed the Mt Cattlin project for Galaxy Resources Ltd.

During the period SCEE was awarded the electrical and instrumentation contracts at the Pueblo Viejo gold project for Barrick and the above ground electrical and instrumentation contract at the Cadia gold project. Mobilisation on these contracts commenced during January and February 2011 respectively.

Subsequent to 31 December 2011, SCEE has been awarded power line construction for Rio Tinto and in Peru.

Pluto

This contract was awarded in November 2009 and SCEE commenced on site in January 2010. The expected completion date was originally July 2010 but has extended to March 2011. This project is the first major oil & gas project the company has been involved in for over 10 years and is considered to be strategically important to SCEE as the company positions itself for the growing investment in the LNG market.

Across the last six months SXE has experienced a number of access delays which has impacted the Company's efficiency on this job. Due to these delays SXE has incurred a loss in this half of \$2.6 million on the Pluto project.

This project has been challenging for the company and a number of lessons have been come from the project. This has resulted in SCEE upgrading the project control systems necessary for complex construction contracts especially schedule of rates contracts. Additionally, SXE has recruited a construction team which has substantial oil & gas construction experience to increase the Company's depth of knowledge in this market.

Mt Keith

On 22 June 2010 SCEE was awarded the electrical and instrumentation for the talc redesign project at Mt Keith. This is a brownfields upgrade being performed by the SCEE team that successfully completed the Tiwest brownfields upgrade. SCEE are pleased with its current position on this project.

Mt Cattlin

Work at Mt Cattlin commenced in May 2010 and was completed in October 2010. This project ran in line with expectations.

SCEE has seen an increase in the level of tendering activity across the December 2010 half, however, tender pricing has been very competitive. This has been due to SCEE and its competitors pricing work to retain capacity in our respective businesses ahead of what is expected become an increasingly active period. This has resulted in SCEE's gross margin for the half (excluding Pluto) to be 18.7% which is well below the 35.9% the Company achieved in the year ended 30 June 2008 which was prior to the global financial crisis.

SCEE's overhead costs for the six months ended 31 December 2010 have increased by \$1.4m compared to the prior corresponding period. This is due to the inclusion of a full six months from Oceanic and KJJ and a final payment in relation to the acquisition of KJJ which is included in the employee benefits expense.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 16 and forms part of the directors' report for the six months ended 31 December 2010.

Dated at Sydney, this 21st day of February 2011.

Signed in accordance with a resolution of the directors:



G Tomasi

Chairman

Condensed Consolidated Income Statement

	31 Dec 2010	31 Dec 2009
	\$	\$
Contract revenue	47,267,080	39,168,528
Contract expenses	(44,993,549)	(25,501,477)
Gross profit	2,273,531	13,667,051
Other income	24,744	37,864
Foreign exchange gains/(losses)	(78,591)	(153,228)
Employee benefits expenses	(5,136,051)	(4,313,459)
Occupancy expenses	(365,373)	(366,525)
Administration expenses	(1,653,014)	(1,048,893)
Other expenses	(386,854)	(420,199)
Business combination expenses	(95,085)	(816,143)
Depreciation and amortisation expenses	(844,302)	(1,561,537)
(Loss) / Profit from operating activities	(6,260,995)	5,024,931
Finance income	64,362	273,401
Finance expenses	(432,890)	(108,260)
Net finance expense	(368,528)	165,141
(Loss) / Profit before income tax	(6,629,523)	5,190,072
Income tax benefit / (expense)	1,843,458	(1,862,679)
(Loss) / Profit for the period	(4,786,065)	3,327,393
Earnings per share (cents per share) for (loss) / profit attributable to the ordinary equity holders of the Company:		
- basic (cents)	(3.9)	2.8
- diluted (cents)	(3.9)	2.8

**Condensed Consolidated Comprehensive Income Statement**

	31 Dec 2010	31 Dec 2009
	\$	\$
(Loss) / Profit for the period	(4,786,065)	3,327,393
Other comprehensive income		
Foreign currency translation differences for foreign operations	(146,377)	21,261
Income tax on other comprehensive income	-	-
Other comprehensive income for the period, net of income tax	(146,377)	21,261
Total comprehensive income for the period	(4,932,442)	3,348,654
Attributed to		
Owners of the Company	(4,932,442)	3,348,654
Total comprehensive Income for the period	(4,932,442)	3,348,654

Condensed consolidated Balance Sheet

		31 Dec 2010	30 Jun 2010
	Notes	\$	\$
Assets			
Cash and cash equivalents		2,208,637	7,497,712
Trade and other receivables		17,446,203	12,464,990
Inventories		1,310,374	1,268,865
Construction work in progress		9,712,629	15,680,806
Prepayments		248,864	40,780
Total current assets		30,926,707	36,953,153
Property, plant and equipment		12,324,915	12,519,400
Intangible assets and goodwill	7	17,776,549	17,851,851
Total non-current assets		30,101,464	30,371,251
Total assets		61,028,171	67,324,404
Liabilities			
Bank overdraft	8	5,798,560	-
Trade and other payables		8,140,621	9,199,104
Loans and borrowings		2,436,455	1,998,923
Unearned income		1,637,304	-
Employee entitlements		2,728,364	2,756,932
Total current liabilities		20,741,304	13,954,959
Loans and borrowings		2,101,492	2,935,492
Employee entitlements		205,360	278,879
Deferred tax liability		891,645	2,735,103
Total non-current liabilities		3,198,497	5,949,474
Total liabilities		23,939,801	19,904,433
Net assets		37,088,370	47,419,971
Equity			
Share capital		24,964,368	24,964,368
Reserves		(86,070)	(128,586)
Retained earnings		12,210,072	22,584,189
Total equity		37,088,370	47,419,971



Condensed consolidated Statement of Changes in Equity

	Share Capital	Retained Earnings	Options Reserve	Translation Reserve	Total Equity
Balance as at 1 July 2010	24,964,368	22,584,189	321,483	(450,069)	47,419,971
Total comprehensive income for the period					
Profit for the period	-	(4,786,065)	-	-	(4,786,065)
Foreign currency translation	-	-	-	(146,377)	(146,377)
Total comprehensive Income	-	(4,786,065)	-	(146,377)	(4,932,442)
Transactions with owners, recorded directly in equity					
Cost of share based payment	-	-	188,893	-	188,893
Issue of new shares	-	-	-	-	-
Dividends	-	(5,588,052)	-	-	(5,588,052)
Total transactions with owners	-	(5,588,052)	188,893	-	(5,399,159)
Balance as at 31 December 2010	24,964,368	12,210,072	510,376	(596,446)	37,088,370
	Share Capital	Retained Earnings	Options Reserve	Translation Reserve	Total Equity
Balance as at 1 July 2009	19,777,237	21,822,037	209,689	(571,405)	41,237,558
Total comprehensive income for the period					
Profit for the period	-	3,327,393	-	-	3,327,393
Foreign currency translation	-	-	-	21,261	21,261
Total comprehensive Income	-	3,327,393	-	21,261	3,348,654
Transactions with owners, recorded directly in equity					
Cost of share based payment	-	-	97,359	-	97,359
Issue of new shares	864,706	-	-	-	864,706
Dividends	-	(5,439,706)	-	-	(5,439,706)
Total transactions with owners	864,706	(5,439,706)	97,359	-	(4,477,641)
Balance as at 31 December 2009	20,641,943	19,709,724	307,048	(550,144)	40,108,571

**Condensed Consolidated Statement of Cash Flows**

	31 Dec 2010	31 Dec 2009
	\$	\$
Cash flows from operating activities		
Cash receipts from customers	42,287,190	43,372,632
Cash paid to suppliers and employees	(46,797,595)	(37,930,526)
Interest received	64,362	273,401
Interest paid	(432,890)	(108,260)
Income taxes received / (paid)	489,439	(2,734,662)
Net cash from operating activities	(4,389,494)	2,872,585
Cash flows from investing activities		
Acquisition of subsidiaries (net of cash acquired)	-	(11,782,637)
Acquisition of property, plant and equipment	(136,984)	(345,880)
Net cash (used in) investing activities	(136,984)	(12,128,517)
Cash flows from financing activities		
Repayment of borrowings	(834,000)	(198,178)
Dividends paid	(5,588,052)	(5,439,706)
Net cash (used in) financing activities	(6,422,052)	(5,637,884)
Net increase (decrease) in cash and cash equivalents	(10,948,530)	(14,893,816)
Cash and cash equivalents at 1 July	7,497,712	31,305,768
Effect of exchange rate fluctuations on cash held	(139,105)	(139,287)
Cash and cash equivalents at 31 December	(3,589,923)	16,272,665

Notes to the condensed consolidated interim financial statements**1. Reporting entity**

Southern Cross Electrical Engineering Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred as the "Group").

The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at 41 Macedonia Street Naval Base Western Australia 6165 or at www.scee.com.au.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010.

The consolidated interim financial report was approved by the Board of Directors on 21st February 2011.

3. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied that applied to the consolidated financial report as at and for the year ended 30 June 2010.

4. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2010.

5. Financial risk management

During the six months ended 31 December 2010 the Group's financial risk management objectives and policies were consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2010.

Notes to the condensed consolidated interim financial statements
6. Segment reporting

Revenue is principally derived by the Group from the provision of electrical and instrumentation services to the resources, energy and infrastructure sectors. The Group therefore operates within one operating segment.

7. Intangible assets – customer contracts and goodwill

Reconciliation of carrying amount

Cost	Note	Goodwill	Customer Contracts	Total
Balance as at 1 July 2009		-	-	-
Acquisitions through business combinations		6,783,348	1,057,852	7,841,200
Balance as at 31 December 2009		6,783,348	1,057,852	7,841,200
Balance as at 1 July 2010		17,174,151	1,810,852	18,985,003
Acquisitions through business combinations		-	-	-
Balance as at 31 December 2010		17,174,151	1,810,852	18,985,003
Amortisation and impairment losses				
Balance as at 1 July 2009		-	-	-
Impairment loss		-	-	-
Amortisation		-	(906,731)	(906,731)
Balance as at 31 December 2009		-	(906,731)	(906,731)
Balance as at 1 July 2010		-	(1,133,152)	(1,133,152)
Impairment loss		-	-	-
Amortisation		-	(75,302)	(75,302)
Balance as at 31 December 2010		-	(1,208,454)	(1,208,454)
Carrying amounts				
At 1 July 2009		-	-	-
At 31 December 2009		6,783,348	151,121	6,934,469
At 1 July 2010		17,174,151	677,700	17,851,851
At 31 December 2010		17,174,151	602,398	17,776,549

Notes to the condensed consolidated interim financial statements**8. Loans and borrowings**

On 24 September 2010, the Group established a \$20.25 million multi-option facility. The bank facilities are secured by a fixed and floating charge over the asset of the Group with a maturity date of 31 July 2012. This facility replaces the previous facility that was entered into on 24 February 2010. The multi-option facility was amended on 3 November 2010 to increase the bank overdraft limit from \$5 million to \$8 million.

The multi-option facility is drawn to \$16,253,828 as at 31 December 2010, comprised of bank guarantees of \$10,455,268 and a bank overdraft of \$5,798,560.

9. Share based payment

During the six months ended 31 December 2010 there were nil employee share options issued.

10. Related parties

Arrangements with related parties continue to be in place on the same basis as at 30 June 2010. For full disclosure on these transactions refer to the 30 June 2010 annual financial report.

11. Events after the balance sheet date

There are no matters or circumstances that have arisen since 31 December 2010 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent reporting periods.

Directors' declaration

In the opinion of the directors of Southern Cross Electrical Engineering Limited ("the Company"):

1. the financial statements and notes set out on pages 5 to 12, are in accordance with the Corporations Act 2001 including:
 - a. giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the six month period ended on that date; and
 - b. complying with Australian Accounting Standard AASB134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney, this 21st day of February 2011

Signed in accordance with a resolution of the directors



G Tomasi

Chairman



Independent auditor's review report to the members of Southern Cross Electrical Engineering Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Southern Cross Electrical Engineering Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated income statement, condensed consolidated comprehensive income statement, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year period ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half-year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Southern Cross Electrical Engineering Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Southern Cross Electrical Engineering Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half-year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

R Gambitta
Partner

Perth

21 February 2011



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Southern Cross Electrical Engineering Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

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

KPMG

R Gambitta
Partner

Perth

21 February 2011