

# APPENDIX 4E

## 1. Details of the reporting period

Current period: 1 July 2009 to 30 June 2010

Prior corresponding period: 1 July 2008 to 30 June 2009

## 2. Results for announcement to the market

Key information	Year ended 30 June 2010 \$ '000	Year ended 30 June 2009 \$ '000	Change %
Revenue	79,003	83,013	(4.8)
Net profit for the period attributable to members	2,288	7,918	(71.1)

Dividends	Date of payment	Cents per share	Total amount \$ '000
2010 Interim dividend ordinary share fully franked	7 April 2010	1.0	1,241

No other dividends have been paid or declared since the end of the financial year.

### Commentary

The financial report for the year ended 30 June 2010, and the results reported herein, are prepared in accordance with Australian Accounting Standards and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures that the financial report complies with International Financial Reporting Standards.

### Review and results of operations

The Global Financial Crisis reduced confidence of mining companies world-wide. This has been coupled by further uncertainty in Australia surrounding the Resource Super Profits Tax.

In the year ended 30 June 2010 Runge reports revenues of \$79.0 million (2009: \$83.0 million) and net profit after tax of \$2.3 million (2009: \$7.9 million), in line with market guidance.

#### Consulting

Runge consulting services include mining advisory services and software implementation consulting. Consulting revenue was lower than in prior comparative year, with the exception of Asia.

Shares received as a consideration for our consulting services contributed \$1.4 million to 2010 services revenue and \$1.2 million to profit before income tax.

#### Technology

Runge collects software license fees and software maintenance for its software. There were no large enterprise sales in 2010 (\$2.3 million in 2009).

Sales of desktop products has steadily grown and maintenance increased by 10.2% to \$8 million (2009: \$7.3 million).

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## *Other operating revenues*

GeoGAS showed continuous growth increasing its revenues to \$6.1 million (2009: \$4.3 million). Training revenues for the year remained steady at \$1.4 million (2009: \$1.5 million).

## *Operating expenses*

Expenses increased by 4.3% to \$75.6 million in line with the increase of salaries.

The adverse effect of foreign exchange movement contributed to a \$0.5 million loss (2009: \$0.6 million gain). Costs of litigation in 2010 were \$0.5 million (2009: \$1.3 million). Note 23 provides further information on the status of litigation.

The company adjusted to the new market requirements by establishing a Global Leadership Group to enhance regions working together and better delivering all product offerings.

## **Matters subsequent to the end of the financial year**

No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- a) The Group's operations in future financial years, or
- b) The results of those operations in future financial years, or
- c) The Group's state of affairs in future financial years.

## **3. Consolidated balance sheet**

Refer to the 2010 Financial Report.

## **4. Consolidated income statement**

Refer to the 2010 Financial Report.

## **5. Consolidated cash flow statement**

Refer to the 2010 Financial Report.

## **6. Dividends**

Dividends paid to members during the financial year were as follows:

	<b>Date of payment</b>	<b>Cents per share</b>	<b>Total Amount \$ '000</b>
2009 Final dividend ordinary share fully franked	6 October 2009	2.5	3,102
2010 Interim dividend ordinary share fully franked	7 April 2010	1.0	1,241
<b>Total</b>			<b>4,343</b>

No other dividends have been paid or declared since the end of the financial year.

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7. Retained profits	Consolidated	
	2010 \$'000	2009 \$'000
Balance at the beginning of the financial year	8,988	5,413
Net profit for the year	2,288	7,918
Dividends provided for or paid	(4,343)	(4,343)
<b>Balance at the end of the financial year</b>	<b>6,933</b>	<b>8,988</b>

8. Net tangible assets per ordinary share	Consolidated	
	2010 cents	2009 cents
Ordinary shares	10.1	11.6

## 9. Control gain or lost over entities in the financial year

*Name of entities where control was gained in the financial year:*

CJSC Runge (Russian Federation) – control gained 10 December 2009.

Runge LLC (Mongolia) – control gained 23 March 2010.

*Name of entities where control was lost in the financial year:*

Not applicable.

## 10. Audited report

The report is based on audited accounts. The audit opinion is unqualified.

## 11. Statement if Financial Report is audited

The Financial Report has been audited and is not subject to disputes or qualifications.

## 12. Other information

For more detailed information on the consolidated entity's financial performance and financial position, refer to the notes to the 2010 Financial Report.



# FINANCIAL REPORT

Year Ended  
30 June 2010

**RUNGE LIMITED**

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# CORPORATE DIRECTORY

## Directors

**Vince Gauci**  
*Chairman*

**Anthony Kinnane**  
*Managing Director*

**Christian Larsen**  
*Executive Director*

**Dr Ian Runge**  
*Non-executive Director*

**Ross Walker**  
*Non-executive Director*

**Neil Hatherly**  
*Non-executive Director*

## Group General Counsel and Company Secretary

**Ken Lewis**

## Registered Office

Level 12, 333 Ann Street  
Brisbane QLD 4000

Ph: +61 7 3100 7200  
Fax: +61 7 3100 7297  
Web: [www.runge.com](http://www.runge.com)

## Auditor

PKF  
Level 6, 10 Eagle Street  
Brisbane QLD 4000

## Share Registry

Computershare Investment Services Pty Ltd  
Level 19, 307 Queen Street  
Brisbane QLD 4000

## Stock Exchange Listing

The company is listed on the Australian Securities Exchange Limited (ASX:RUL).

# DIRECTORS' REPORT

Your Directors present their report of Runge Limited and the entities it controlled at the end of, or during the year ended 30 June 2010 (referred to hereafter as the "Group").

## 1. Directors

The Directors of Runge Limited at any time during or since the end of the period were:

### Non-executive

Vince Gauci - *Chairman*

Dr Ian Runge

Ross Walker

Neil Hatherly

### Executive

Anthony Kinnane - *Managing Director*

Christian Larsen

## 2. Principal Activities

The Group's principal activities during the financial year consisted of:

- a) Technical and business consulting for the resources industry;
- b) Software licensing and maintenance; and
- c) Training.

There were no significant changes in the nature of the Group's principal activities during the financial year.

## 3. Dividends

Dividends paid during the financial year were as follows:

	Date of payment	Cents per share	Total amount \$ '000
2009 Final dividend ordinary share fully franked	6 October 2009	2.5	3,102
2010 Interim dividend ordinary share fully franked	7 April 2010	1.0	1,241
<b>Total</b>			<b>4,343</b>

No dividends have been paid or declared since the end of the financial year.

## 4. Review and Results of Operations

The Global Financial Crisis reduced confidence of mining companies world-wide. This has been coupled by further uncertainty in Australia surrounding the Resource Super Profits Tax.

In the year ended 30 June 2010 Runge reports revenues of \$79.0 million (2009: \$83.0 million) and net profit after tax of \$2.3 million (2009: \$7.9 million).

### Consulting

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Shares received as a consideration for our consulting services contributed \$1.4 million to 2010 services revenue and \$1.2 million to profit before income tax.

# DIRECTORS' REPORT

## 4. Review and Results of Operations (Continued)

### *Technology*

Runge collects software license fees and software maintenance for its software. There were no large enterprise sales in 2010 (\$2.3 million in 2009).

Sales of desktop products has steadily grown and maintenance increased by 10.2% to \$8 million (2009: \$7.3 million).

### *Other operating revenues*

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### *Operating expenses*

Expenses increased by 4.3% to \$75.6 million in line with the increase of salaries.

The adverse effect of foreign exchange movement contributed to a \$0.5 million loss (2009: \$0.6 million gain). Costs of litigation in 2010 were \$0.5 million (2009: \$1.3 million). Note 23 provides further information on the status of litigation.

The company adjusted to the new market requirements by establishing a Global Leadership Group to enhance regions working together and better delivering all product offerings.

## 5. Significant Changes in the State of Affairs

There was no matter or circumstance during the financial year that has significantly affected the state of affairs of the Group.

## 6. Litigation

The Group has continued to defend litigation against a controlled entity, Runge, Inc doing business as Pincock Allen and Holt (PAH) in the United States. Full details are set out in note 23 of this financial report.

## 7. Matters Subsequent to the End of the Financial Year

No matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- a) The Group's operations in future financial years; or
- b) The results of those operations in future financial years; or
- c) The Group's state of affairs in future financial years.

## 8. Likely Developments and Expected Results of Operations

This financial report does not include information on all developments in the Group or on the expected results of operations for the forthcoming year because the Directors believe that such disclosure would result in unreasonable prejudice to the Group.



# DIRECTORS' REPORT

## 9. Information on Current Directors and Company Secretary

Directors	Experience	Special responsibilities
Vince Gauci	<p>Chairman, Non-executive Director. Joined the Board in February 2008.</p> <p>Previous roles include Managing Director of MIM Ltd and Pancontinental Ltd and Chairman of Centre for Low Emission Technology. Qualifications: B.Eng (Mining).</p> <p>Other current directorships: Liontown Resources Ltd (Non-executive Director since August 2007), Newcrest Mining Limited (Non-executive Director since December 2008) and the Broken Hill Community Foundation (Chairman).</p> <p>Other listed company directorships in last three years: Coates Hire Limited (2006 to 2008).</p>	<p><i>Chairman</i></p> <p><i>Member – Audit and Risk Committee</i></p> <p><i>Member – HR and Remuneration Committee</i></p>
Tony Kinnane	<p>Managing Director, employed by Runge for 23 years. Joined the Board in June 1991.</p> <p>Qualifications: Grad. Dip. M.E. Grad. Dip. Geology, Grad. Dip. BA.</p> <p>Other listed company directorships in last three years: None.</p>	<p><i>Managing Director</i></p> <p><i>Member – HR and Remuneration Committee</i></p>
Christian Larsen	<p>Executive Director. Joined the Board in January 1996, employed by Runge for 23 years.</p> <p>Qualifications: B.E. (Mining Engineering), MBA, FAICD, PE.</p> <p>Other listed company directorships in last three years: None.</p>	<p><i>Executive Director</i></p>
Dr Ian Runge	<p>Non-executive Director, company founder. Director since December 1986.</p> <p>Qualifications: M.E.(Mining Engineering), Ph D. (Economics), FAusIMM, FAICD.</p> <p>Other listed company directorships in last three years: None.</p>	<p><i>Non-executive Director</i></p> <p><i>Member – Audit and Risk Committee</i></p>
Ross Walker	<p>Non-executive Director. Joined the Board in March 2007.</p> <p>Joined Johnston Rorke in 1985, Managing Partner in 1995 - 2008. Predominantly involved in corporate finance, auditing, valuations, capital raisings and mergers and acquisitions for the past 20 years.</p> <p>Qualifications: B Com, FCA</p> <p>Other listed company directorships in last three years: None.</p>	<p><i>Non – executive Director</i></p> <p><i>Member and Chairman – Audit and Risk Committee</i></p>

# DIRECTORS' REPORT

## 9. Information on Current Directors and Company Secretary (Continued)

Neil Hatherly	<p>Non-executive Director. Joined the Board in March 2007. Currently Managing Director of RNH Consulting. Extensive experience in management consulting, performance improvement and computer based modelling. Life long career in and around the mining industry.</p> <p>Qualifications: B Science (Hons), AICD Company Directors' Advanced Diploma, FAICD, FAIM and FAusIMM.</p> <p>Other listed company directorships in last three years: None.</p>	<p><i>Non – executive Director Member and Chairman – HR and Remuneration Committee</i></p>
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All Directors are members of the Nominations Committee.

Ken Lewis, LLB (Group General Counsel) is Company Secretary

## 10. Meetings of Directors

The number of meetings of the company's Board of Directors and of each Board committee held during the year ended 30 June 2010 and the number of meetings attended by each Director were:

	Full meetings of Directors		Audit and Risk Committee		HR and Remuneration Committee	
	Attended	Held	Attended	Held	Attended	Held
Vince Gauci	20	20	2	3	8	8
Dr Ian Runge	18	20	1	3	-	-
Tony Kinnane	15	20	-	-	7	8
Christian Larsen	16	20	-	-	6	8
Ross Walker	18	20	3	3	-	-
Neil Hatherly	20	20	-	-	8	8

## 11. Insurance of Officers

During the financial year, the company paid insurance premiums to insure the Directors and Officers of the company against certain risks associated with their activities as officers of the company. The terms of that policy prohibit disclosure of the nature of liability covered, the limit of such liability and the premium paid.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration;
- B. Details of remuneration;
- C. Share-based compensation; and
- D. Service agreements.

Remuneration and compensation have the same meaning in this report.

### 12A. Principles Used to Determine the Nature and Amount of Remuneration

This report discusses the Company's policies in regard to compensation of key management personnel of the Group. Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group. Key management personnel comprise the Directors of the Company and executives for the Company and the Group and include the five highest remunerated Company and Group executives.

The Board has established an HR and Remuneration Committee to assist with remuneration and incentive policies enabling the Group to attract and retain executives and Directors who will create value for shareholders and support the Group's mission. The HR and Remuneration Committee obtains independent advice on the appropriateness of compensation packages given trends in comparative companies. The Corporate Governance Statement provides further information on the role of this Committee.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic, operational objectives and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel;
- Their ability to control the relevant segment's performance; and
- The segment or Group performance, including:
  - the segment or Group earnings and quality of delivery to customers; and
  - the growth in share price and achievement of constant returns on shareholder wealth.

Compensation packages include a mix of fixed and short-term and long-term performance-based incentives.

In addition to their salaries, the Group also provides non-cash benefits to its key management personnel and contributes to a defined contribution superannuation plan on their behalf.

#### Fixed Compensation

Fixed compensation is calculated on a total cost basis and includes salary, allowances, non-cash benefits, employer contributions to superannuation funds and any fringe benefits tax charges related to employee benefits, including motor vehicles.

Compensation levels are reviewed annually based on evaluation of the individual, segment and overall Group's performance. This review involves external consultants advising the HR and Remuneration Committee on market competitiveness of key management personnel compensation. A senior executive's compensation is also reviewed on promotion.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12A. Principles Used to Determine the Nature and Amount of Remuneration (Continued)

#### Performance Linked Compensation

Performance linked compensation includes both short-term and long-term incentives and is designed to reward key management personnel for meeting and exceeding their key performance indicators (KPIs). The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash, while the long-term incentive (LTI) is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan (ESOP) (see note 27 to the financial statements). The current long-term performance structure was implemented in the 2008 year and amended in 2010 year.

The table below sets out the Group's key management personnel compensation together with earnings for the same period.

Year ended 30 June	Total remuneration \$'000	Net profit \$'000	Dividends \$'000
2006	1,917	4,001	1,904
2007	1,918	5,597	4,823
2008	2,547	5,943	7,447
2009	2,984	7,918	4,343
2010	3,059	2,288	4,343

#### Short-term Incentive Bonus

The Board sets KPIs for the Managing Director and then delegates to the Managing Director to set the remaining KPIs for senior executives. The KPIs generally include measures relating to the Group, relevant segment and the individual. These measures are chosen to directly align the individual's reward to the performance and strategy of the Group and include financial, people, customer, strategy and risk objectives.

The financial performance objectives include 'earnings before interest, tax and amortisation' (EBITA) compared to budgeted amounts. The non-financial measures vary with the position and responsibility and include, but are not limited to, measures such as achieving strategic outcomes, staff development and customer satisfaction.

At the end of the financial year the Managing Director assesses the actual performance of the Group, the segment and individuals against their KPIs. A percentage of the pre-determined amount is awarded to key management personnel based on the results of such assessments.

Cash bonuses are paid, provided for or forfeited in the year to which they relate.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12A. Principles Used to Determine the Nature and Amount of Remuneration (Continued)

#### *Long-term Incentive*

Options were issued in 2008 and 2010 under the Employee Share Option Plan (ESOP) to key management personnel at the discretion of the Board.

The rules allow the Board to set a timetable for vesting of options in order to reward the longer term performance by setting performance hurdles which must be met for the option holder to be entitled to exercise the options.

The vesting of options issued in 2008 is subject to the following performance hurdles:

- a) The key management personnel continuing to be employed by the Group.
- b) Absolute – Total Shareholder Return (TSR) increase as follows:
  - i) Options vesting on 30 August 2009 – 20% TSR from the Grant Date;
  - ii) Options vesting on 30 August 2010 – 44% TSR from the Grant Date; and
  - iii) Options vesting on 30 August 2011 – 72% TSR from the Grant Date.
- c) Relative – better performance, (TSR), than half of the Group's industry peers listed below:

i) Ausenco Limited	xi) Pearl Street Limited
ii) Cardno Limited	xii) Prophecy International Holdings Limited
iii) Downer EDI Limited	xiii) RCR Tominson Limited
iv) Industrea Limited	xiv) Sedgman Limited
v) ISS Group Limited	xv) Swick Mining Services Ltd
vi) Leighton Holdings Limited	xvi) Technology One Limited
vii) Lycopodium Limited	xvii) Thomas and Coffey Limited
viii) The Mac Services Group Limited	xviii) VDM Group Limited
ix) Macmahon Holdings Limited	xix) Walter Diversified Services Limited
x) Monadelphous Group Limited	xx) Worley Parsons Limited

The measures above were chosen as they provide the Board with an objective means of measuring the Group's performance against its peer group.

Key management personnel also received options issued to all employees vesting in set dates subject to continuing employment condition.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12A. Principles Used to Determine the Nature and Amount of Remuneration (Continued)

The vesting conditions of the options issued in 2010 are subject to the following performance hurdles:

EPS Vesting Condition		EBITA Vesting Condition		TSR Vesting Condition	
EPS average annual growth from FY 2009 to FY 2011 above average annual Australian CPI increase in the corresponding period	% of Options which vest if vesting condition satisfied	2011 EBITA margin	% of Options which vest if vesting condition satisfied	TSR growth above peer comparison group	% of Options which vest if vesting condition satisfied
Less than 4%	0%	Less than 15%	0%	Less than 50th percentile	0%
4% or more, but less than 8%	20% plus an additional 5% for each 1% increment	15% or more but less than 20%	20% plus an additional 4% for each 1% increment	50 <sup>th</sup> percentile or higher but lower than 75 <sup>th</sup> percentile	10% plus, from 51 <sup>st</sup> to 75 <sup>th</sup> percentile, 0.4% for every 1 percentile
8% or more	40%	20% or more	40%	75 <sup>th</sup> percentile or higher	20%

Peer comparison group consists of the following companies:

- |                                 |  |
|---------------------------------|--|
| i) RCR Tomlinson Limited        | x) Thomas & Coffey Limited                   |
| ii) Pearlstreet Limited         | xi) Oakton Limited                           |
| iii) Monadelphous Group Limited | xii) The Mac Services Group Limited          |
| iv) Technology One Limited      | xiii) Iss Group Limited                      |
| v) Cardno Limited               | xiv) DWS Advanced Business Solutions Limited |
| vi) Industrea Limited           | xv) Swick Mining Services Ltd                |
| vii) Lycopodium Limited         | xvi) Coffey International Limited            |
| viii) WDS Limited               | xvii) Ausenco Limited                        |
| ix) Qmastor Limited             | xviii) VDM Group Limited                     |

The Board has a policy that restricts Directors and executives of the Group from entering into financial contracts secured by shares and other securities of the Company. This policy requires the approval of the Chairman of the Board for any financial arrangements or facilities related to company shares held by the Directors and executives.

#### **Non-executive Directors**

Fees and payments to Non-executive Directors reflect the demands which are made on, and the responsibilities of the Directors. Non-executive Directors' fees and payments are reviewed periodically by the Board and are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool currently stands at \$500,000 (2009: \$400,000).

Non-executive Directors' base remuneration was last reviewed with effect from 1 March 2008. Both the Chairman's and Non-executive Directors' remuneration is inclusive of committee fees. An allowance is paid to the Chairman of the Audit and Risk Committee and to the Chairman of the HR and Remuneration Committee from 1 January 2010.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12B. Details of Remuneration

#### **Directors**

##### *Chairman (Non-executive)*

Vince Gauci

##### *Executive Directors*

Anthony Kinnane, Managing Director

Christian Larsen, Executive Director

##### *Non-executive Directors*

Dr Ian Runge

Ross Walker

Neil Hatherly

#### **Other Key Management Personnel**

The following persons were the executives who had the greatest authority and responsibility for planning, directing and controlling all activities of the Group, directly or indirectly, during the financial year:

<b>Name</b>	<b>Position</b>
David Meldrum	Executive General Manager - Business Expansion
John Buffington	General Manager – Asia Pacific
Julia Sloman	Chief Financial Officer/Joint Company Secretary (resigned 6 July 2010)
Ken Lewis	Group General Counsel/Joint Company Secretary
Pat Williams	General Manager – Strategic Development (resigned 30 June 2010)
Scott Henderson	Chief Technology Officer

Details of remuneration of each Director of Runge Limited and each of the other key management personnel of the Group are set out in the following tables.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12B. Details of Remuneration (Continued)

	Short-term benefits			Post - employment benefits		Share-based payment	Total	Proportion of remuneration performance related	Value of options as proportion of remuneration
	Cash salary and fees	STI cash bonus	Non – monetary benefits	Super-annuation	Termination benefits	Options			
2010	\$	\$	\$	\$	\$	\$	\$	%	%
<b>Directors</b>									
A Kinnane	377,951	-	6,966	50,000	-	24,487	459,404	5.3	5.3
C Larsen	288,765	-	-	14,462	-	17,158	320,385	5.4	5.4
V Gauci	119,266	-	7,938	10,734	-	9,360	147,298	6.4	6.4
Dr I Runge	80,000	-	-	-	-	-	80,000	-	-
R Walker	87,500	-	-	-	-	-	87,500	-	-
N Hatherly	87,500	-	-	-	-	-	87,500	-	-
	1,040,982	-	14,904	75,196	-	51,005	1,182,087	4.3	4.3
<b>Other Key Management Personnel</b>									
D Meldrum	211,932	50,000	46,796	53,272	-	17,120	379,120	17.7	4.5
J Buffington	276,895	-	7,938	25,000	-	13,197	323,030	4.1	4.1
J Sloman	244,239	-	-	14,474	-	11,067	269,780	4.1	4.1
K Lewis	244,967	5,000	7,492	22,497	-	11,067	291,023	5.5	3.8
P Williams	280,024	-	14,937	14,462	85,222	182	394,827	-	-
S Henderson	168,521	-	22,826	16,507	-	11,675	219,529	5.3	5.3
	1,426,578	55,000	99,989	146,212	85,222	64,308	1,877,309	6.4	2.9
<b>Total</b>	<b>2,467,560</b>	<b>55,000</b>	<b>114,893</b>	<b>221,408</b>	<b>85,222</b>	<b>115,313</b>	<b>3,059,396</b>	<b>8.4</b>	<b>3.8</b>
<b>2009</b>									
<b>Directors</b>									
A Kinnane	362,749	-	6,423	100,000	-	9,969	479,141	2.1	2.1
C Larsen	328,518	-	-	13,745	-	9,971	352,234	2.8	2.8
V Gauci	119,267	-	5,910	9,840	-	26,560	161,577	16.4	16.4
Dr I Runge	80,000	-	-	-	-	-	80,000	-	-
R Walker	80,000	-	-	-	-	-	80,000	-	-
N Hatherly	80,000	-	-	-	-	-	80,000	-	-
	1,050,534	-	12,333	123,585	-	46,500	1,232,952	3.8	3.8
<b>Other Key Management Personnel</b>									
D Meldrum	247,495	-	38,743	27,179	-	9,895	323,312	3.1	3.1
J Buffington	261,658	-	7,891	49,348	-	9,971	328,868	3.0	3.0
J Sloman	242,004	-	-	15,559	-	4,409	261,972	1.7	1.7
K Lewis	252,250	-	23,671	23,508	-	4,409	303,838	1.5	1.5
P Williams	285,890	-	10,907	13,745	-	10,125	320,667	3.2	3.2
S Henderson	174,725	-	14,595	17,604	-	5,639	212,563	2.6	2.6
	1,464,022	-	95,807	146,943	-	44,448	1,751,220	2.5	2.5
<b>Total</b>	<b>2,514,556</b>	<b>-</b>	<b>108,140</b>	<b>270,528</b>	<b>-</b>	<b>90,948</b>	<b>2,984,172</b>	<b>3.0</b>	<b>3.0</b>



# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12C. Share-based Compensation

All options refer to options over ordinary shares of Runge Limited, which are exercised on a one-for-one basis under the ESOP Plan.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using Black-Scholes option pricing, Trinominal Lattice and Hoadley's Hybrid models that take into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. Model inputs for options granted during the year are disclosed in note 27 in the financial report.

Details of options over ordinary shares in the company provided as remuneration to each director and each of the key management personnel and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Runge Limited. Further information on the options is set out in note 27 to the financial statements.

	Number of options granted during the year	Value of options at grant date* \$	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date** \$
A Kinnane	260,587	111,635	-	37,761	-
C Larsen	168,749	72,292	-	37,751	-
V Gauci	-	-	-	99,000	-
Dr I Runge	-	-	-	-	-
R Walker	-	-	-	-	-
N Hatherly	-	-	-	-	-
D Meldrum	168,749	72,292	-	37,453	-
J Buffington	119,116	51,029	-	37,771	-
J Sloman	119,116	51,029	-	16,500	-
K Lewis	119,116	51,029	-	16,500	-
P Williams	168,749	72,292	-	279,562	-
S Henderson	119,116	51,029	-	21,589	-

\* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

\*\*The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables above.

### 12D. Service Agreements

The Group's policy is that service contracts for key management personnel are unlimited in term, but capable of termination on four weeks notice, except for A. Kinnane, C. Larsen and D. Meldrum, whose termination notice is three months. The key management personnel are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. Compensation levels are reviewed each year to meet the principles of the compensation policy.

# DIRECTORS' REPORT

## 12. Remuneration Report - Audited (Continued)

### 12D. Service Agreements (Continued)

The details of the bonuses included in a service agreement for A Kinnane, Managing Director, are a combination of the following:

- Qualitative performance bonus is limited to \$51,750 dependent on the Group's achievements of qualitative objectives, and
- Quantitative performance bonus is limited to \$89,000 dependent on earnings, defined as EBITA compared against a stretch budget.

### 13. Environmental Legislation

Runge Limited and its controlled entities are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

### 14. Auditor

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

During the year PKF has not performed other services in addition to their statutory duty.

Details of the amounts paid to the auditor of the company, PKF and its related practices for non-audit services provided during the year and previous year are:

Remuneration for Other Services:	Consolidated	
	2010	2009
	\$	\$
PKF Australia (East Coast Practice) Service provided - agreed upon procedures	-	1,850
	-	1,850

### 15. Auditor's Independence Declaration

In accordance with Section 307C of the *Corporations Act 2001*, a copy of the auditor's independence declaration is enclosed on page 15.

# DIRECTORS' REPORT

## 16. Directors' Interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such investments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Runge Limited	
	Ordinary shares	Options over ordinary shares
V Gauci	853,471	201,000
A Kinnane	10,121,171	332,347
C Larsen	4,634,375	240,519
Dr I Runge	16,091,945	-
R Walker	150,000	-
N Hatherly	-	-

## 17. Rounding of Amounts

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



**Vince Gauci**

Chairman

Brisbane

Dated: 27 August 2010

**AUDITOR'S INDEPENDENCE DECLARATION**

**To:** The Directors of Runge Limited

As lead auditor for the audit of Runge Limited for the year ended 30 June 2010 I declare that, to the best of my knowledge and belief, there have been:

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

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

*PKF*

PKF



**Albert Loots**

Partner

Dated at Brisbane this 27<sup>th</sup> day of August 2010

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The PKF East Coast Practice is a member of the PKF International Limited network of legally independent member firms. The PKF East Coast Practice is also a member of the PKF Australia Limited national network of legally independent firms each trading as PKF. PKF East Coast Practice has offices in NSW, Victoria and Brisbane. PKF East Coast Practice does not accept responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 \$'000	2009 \$'000
<b>Revenue</b>			
Services		61,486	63,063
License sales		8,637	10,546
Software maintenance		8,013	7,272
Other revenue		867	2,132
		<b>79,003</b>	<b>83,013</b>
<b>Expenses</b>			
Amortisation	12	(2,347)	(2,210)
Depreciation	11	(1,711)	(1,279)
Employee benefits expense		(48,460)	(46,625)
Office expenses		(2,945)	(2,870)
Professional services		(2,925)	(4,132)
Rechargeable expenses		(6,235)	(6,487)
Rent		(6,401)	(4,901)
Travel expenses		(1,873)	(1,749)
Other expenses		(2,693)	(2,254)
		<b>(75,590)</b>	<b>(72,507)</b>
<b>Profit before finance costs and income tax</b>		<b>3,413</b>	10,506
Finance income		137	376
Finance expense		(443)	(447)
<b>Net finance costs</b>		<b>(306)</b>	<b>(71)</b>
<b>Profit before income tax</b>		<b>3,107</b>	<b>10,435</b>
Income tax expense	4	(819)	(2,517)
<b>Profit</b>		<b>2,288</b>	<b>7,918</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences		(114)	937
Other comprehensive income / (loss)		(114)	937
<b>Total comprehensive income</b>		<b>2,174</b>	<b>8,855</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)	26	<b>1.8</b>	6.4
Diluted earnings per share (cents)	26	<b>1.8</b>	6.4

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Notes	2010 \$'000	2009 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	9,304	6,689
Trade and other receivables	7	20,740	17,661
Work in progress	8	2,681	1,622
Current tax receivable		2,177	750
Available-for-sale financial assets	10	1,601	-
Other assets	9	1,392	1,336
<b>Total current assets</b>		<b>37,895</b>	<b>28,058</b>
<b>Non-current assets</b>			
Trade and other receivables	7	164	327
Property, plant and equipment	11	8,328	6,701
Deferred tax assets	5	2,356	2,669
Intangible assets	12	32,184	32,182
<b>Total non-current assets</b>		<b>43,032</b>	<b>41,879</b>
<b>Total assets</b>		<b>80,927</b>	<b>69,937</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	8,475	6,222
Borrowings	14	1,807	581
Provisions	15	4,259	4,113
Current tax liabilities		618	1,231
Other liabilities	16	7,680	5,936
<b>Total current liabilities</b>		<b>22,839</b>	<b>18,083</b>
<b>Non-current liabilities</b>			
Borrowings	14	8,826	2,900
Provisions	15	31	34
Deferred tax liabilities	5	162	-
Other liabilities	16	4,400	2,380
<b>Total non-current liabilities</b>		<b>13,419</b>	<b>5,314</b>
<b>Total liabilities</b>		<b>36,258</b>	<b>23,397</b>
<b>Net assets</b>		<b>44,669</b>	<b>46,540</b>
<b>EQUITY</b>			
Contributed equity	17	39,407	39,385
Reserves	18	(1,671)	(1,833)
Retained profits	18	6,933	8,988
<b>Total equity</b>		<b>44,669</b>	<b>46,540</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

	Contributed equity	Reserves	Retained profits	Total equity
	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2009</b>	<b>39,385</b>	<b>(1,833)</b>	<b>8,988</b>	<b>46,540</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>(114)</b>	<b>2,288</b>	<b>2,174</b>
<b>Transactions with owners in their capacity as owners</b>				
Payments received on partly paid shares	22	-	-	22
Employee share options	-	276	-	276
Dividends paid	-	-	(4,343)	(4,343)
	<b>22</b>	<b>276</b>	<b>(4,343)</b>	<b>4,045</b>
<b>Balance at 30 June 2010</b>	<b>39,407</b>	<b>(1,671)</b>	<b>6,933</b>	<b>44,669</b>
<b>Balance at 1 July 2008</b>	<b>39,262</b>	<b>(3,041)</b>	<b>5,413</b>	<b>41,634</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>937</b>	<b>7,918</b>	<b>8,855</b>
<b>Transactions with owners in their capacity as owners</b>				
Payments received on partly paid shares	123	-	-	123
Employee share options	-	271	-	271
Dividends paid	-	-	(4,343)	(4,343)
	<b>123</b>	<b>-</b>	<b>(4,343)</b>	<b>(3,949)</b>
<b>Balance at 30 June 2009</b>	<b>39,385</b>	<b>(1,833)</b>	<b>8,988</b>	<b>46,540</b>

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

# CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		80,495	88,320
Payments to suppliers and employees		(74,247)	(72,929)
		6,248	15,391
Interest received		137	376
Finance costs		(443)	(447)
Income taxes paid		(2,383)	(3,580)
<b>Net cash inflow from operating activities</b>	<b>24</b>	<b>3,559</b>	<b>11,740</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,518)	(5,624)
Payments for intangible assets		(2,463)	(2,192)
Proceeds from sale of property, plant and equipment		43	-
Receipts/ (Payments) from short term deposits		243	(243)
Payments for prior year business combinations		-	(768)
<b>Net cash outflow from investing activities</b>		<b>(3,695)</b>	<b>(8,827)</b>
<b>Cash flows from financing activities</b>			
Proceeds from partly paid shares		22	123
Repayment of finance leases		(15)	(108)
Proceeds from borrowings		12,600	7,550
Repayment of borrowings		(5,466)	(12,582)
Dividends paid		(4,343)	(4,343)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>2,798</b>	<b>(9,360)</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>		<b>2,662</b>	<b>(6,447)</b>
Cash and cash equivalents at the beginning of the financial year		6,689	12,652
Effects of exchange rate changes on cash and cash equivalents		(47)	484
<b>Cash and cash equivalents at the end of the financial year</b>	<b>6</b>	<b>9,304</b>	<b>6,689</b>

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



# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial report comprises the consolidated entity ("Group") consisting of Runge Limited and its subsidiaries. Separate financial statements of Runge Limited as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*. Limited financial information for the parent entity however, is disclosed in Note 28. It has been prepared on the same basis as the consolidated financial statements.

### (a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (AASBs), including Australian Interpretations, adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets at fair value. The method used to measure fair values is discussed further below.

#### *Financial statement presentation*

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

### (b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Runge Limited as at 30 June 2010 and the results of all controlled entities for the year then ended. Runge Limited and its controlled entities together are referred to in this financial report as the "consolidated entity" or the "Group".

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Runge Limited.

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (c) Income Tax

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

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

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

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

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

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

#### *Tax consolidation legislation*

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable or payable to other entities in the Group. Details about the tax funding agreements are disclosed in note 4.

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

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (d) Segment reporting

The Group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2009 have been restated.

### (e) Foreign Currency Translation

#### i) *Functional and presentation currency*

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

#### ii) *Transactions and balances*

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

#### iii) *Controlled foreign entities*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates from 1 July 2009 to 31 December 2009 and from 1 January 2010 to 30 June 2010 at actual exchange rates prevailing on the transaction dates; and
- all resulting exchange differences are recognised in other comprehensive income.

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

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (f) Revenue Recognition

#### *i) Sale of licenses*

Revenue from the sale of licenses is recognised when the amount can be reliably measured and all significant risks and rewards of ownership have been transferred to the buyer. In most cases this coincides with the transfer of legal title or the passing of possession to the buyer.

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

#### *ii) Consulting*

Revenue from the provision of consulting services is recognised on an accruals basis in the period in which the consulting service is provided. Revenue from the provision of these services is calculated with reference to the professional staff hours incurred on each client assignment adjusted for any time that may not be recoverable.

#### *iii) Software maintenance*

When the outcome of a transaction involving software maintenance can be estimated reliably, revenue associated with the transaction is recognised on a straight-line basis over the service period.

#### *iv) Interest revenue*

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

### (g) Trade Receivables

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

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

### (h) Work in Progress

Work in progress represents costs incurred and profit recognised on client assignments and services that are in progress at balance date. Work in progress is valued at net realisable value after providing for any foreseeable losses.

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (i) Available-for-sale financial assets

Available-for-sale financial assets comprising of marketable equity securities are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Details on how the fair value of financial instruments is determined are disclosed in note 10.

### (j) Leases

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

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight line basis over the lease term.

### (k) Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (k) Business Combinations (Continued)

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

#### *Change in accounting policy*

A revised AASB 3 Business Combinations became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previously acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

### (l) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (l) Impairment of Assets (Continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (m) Cash and Cash Equivalents

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

### (n) Property, Plant and Equipment

Property, plant and equipment is measured on a cost basis. Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its estimated useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets. The estimated useful lives are as follows:

Furniture and fittings	2 - 12 years
Office equipment	3 - 12 years
Computer equipment	2 - 10 years
Motor vehicles	8 years
Plant and equipment under lease	3 - 5 years

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the assets. These are included in profit or loss.

### (o) Intangible Assets

#### i) *Software developed or acquired for sales and licensing*

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

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (o) Intangible Assets (Continued)

#### ii) *Software – internal management systems*

Software licenses used in internal management systems, whether acquired or internally developed are stated at cost less amortisation. They are amortised on a straight line basis over the useful life from 2.5 to 5 years.

#### iii) *Patents and trademarks*

Costs associated with patents and trademarks are expensed as incurred.

#### iv) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/business at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

#### v) *Client relationships and customer contracts*

Customer relationships and client contracts acquired as part of a business combination are recognised separately from goodwill. The customer relationships and client contracts are carried at their fair value at the date of acquisition less accumulated amortisation. Amortisation is calculated on the straight line basis and utilises an estimated useful life of the customer relationships and client contracts, which is estimated to be 1.25 - 5 years.

### (p) Trade and Other Payables

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

### (q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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

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



# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (r) Borrowing Costs

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

### (s) Employee Benefits

#### i) Short term obligations

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

#### ii) Other long-term employee benefit obligations

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

#### iii) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### iv) Superannuation

The Group has a defined contribution superannuation plan for its eligible employees. Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### v) Share-based payments

Share-based compensation benefits are provided to employees via the Runge Limited employee share option plan (ESOP) and an employee share purchase plan. Information relating to these schemes is set out in note 27.

The fair value of options granted under the ESOP is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions, but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (s) Employee Benefits (Continued)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### (t) Value Added Taxes (including Goods and Services Tax)

Revenues, expenses and assets are recognised net of the amount of VAT, except where the amount of VAT is not recoverable from the relevant tax authority. In these circumstances the VAT is recognised as part of the cost of acquisition of the asset or as part of the item as expense.

Receivables and payables are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the relevant tax authority is included as a current asset or liability in the statement of financial position.

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

### (u) Contributed Equity

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

### (v) Financial Guarantee Contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

### (w) Comparative Figures

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

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (x) Critical Accounting Estimates and Significant Judgments

The preparation of the financial report in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes in the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial report such as:

- intangible assets, including goodwill (note 12),
- assessment of the fair value of available-for-sale financial assets (notes 10 & 25(d)), and
- impairment of receivables (note 7).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparation of the financial report are reasonable.

### (y) New Accounting Standards and Interpretations not yet adopted

Relevant accounting standards and interpretations that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2010, are as follows:

Standard/Interpretation	Application date*	Application date for the Group*
AASB 9 <i>Financial Instruments – revised</i> and consequential amendments to other accounting standards resulting from its issue	1 Jan 2013	1 Jul 2013
AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 Jan 2010	1 Jul 2010
AASB 2009-8 <i>Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions</i>	1 Jan 2010	1 Jul 2010
AASB 2010-3 <i>Amendments to Australian Accounting Standards Arising from the Annual Improvements Project</i>	1 Jul 2010	1 Jul 2010
AASB 2010-4 <i>Amendments to Australian Accounting Standards Arising from the Annual Improvements Project</i>	1 Jan 2011	1 Jul 2011

\* Application date is for annual reporting periods beginning on or after the date shown in the above table.

The Directors anticipate that the adoption of these Standards and Interpretations in future years may have the following impacts:

AASB 9 – This revised standard provides guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but upon realisation those accumulated changes in value are not recycled to the statement of comprehensive income. Changes in the fair value of all other financial assets carried at fair value are reported in the statement of comprehensive income. The Group is yet to assess the impact of the new standard.

# NOTES ON THE FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies (Continued)

### (y) New Accounting Standards and Interpretations not yet adopted (Continued)

AASB 2009-5 – These amendments affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments are not expected to have a significant impact on the financial statements.

AASB 2009-8 - Introduces amendments to incorporate the requirements previously included in Interpretation 8 and Interpretation 11. The amendments require an entity that receives goods and services in 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 are not expected to have a significant impact on the financial statements.

AASB 2010-3 and AASB 2010-4 – These amendments introduce various changes to IFRSs. The Directors have not yet assessed the impact of the amendments, if any.

## 2. Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Director in order to make decisions about resource allocations and to assess performance of the Group. The reports are split into geographical areas.

The Managing Director monitors the following segments: Australia (Brisbane, Sydney, Maitland and Perth), Asia (China, Indonesia and Hong Kong), North America (Canada, United States of America), South America (Chile, Brasil) and Africa (South Africa).

Malaysia is combined with the Brisbane office for segment reporting purposes as it primarily operates in conjunction with Brisbane in the development and testing of software products.

GeoGAS operations are based in Australia (Wollongong and Mackay) and are reported separately as it provides different services and is managed separately.

Segment revenue, expenses and results include transfers between segments. Such transfers are priced on an “arms-length” basis and are eliminated on consolidation. Each segment sells all the products and services provided by the Group.

Reconciliation of segment profit to reported net profit:

	2010 \$'000	2009 \$'000
Segment profit	19,334	23,926
Adjustments:		
Amortisation	(2,347)	(2,210)
Foreign exchange gains/(losses)	(457)	620
Unallocated corporate cost, including employee benefits	(13,117)	(11,830)
Net finance costs	(306)	(71)
Profit before income tax	3,107	10,435
Income tax expense	(819)	(2,517)
Net profit	<b>2,288</b>	<b>7,918</b>

# NOTES ON THE FINANCIAL STATEMENTS

## 2. Operating Segments (Continued)

2010	Australia	GeoGAS	Asia	South America	North America	South Africa	Eliminations	Group
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>								
External sales	38,207	6,057	13,105	2,396	13,800	4,571	-	78,136
Inter-segment sales	8,970	12	361	308	1,573	74	(11,298)	-
<b>Total sales</b>	<b>47,177</b>	<b>6,069</b>	<b>13,466</b>	<b>2,705</b>	<b>15,372</b>	<b>4,645</b>	<b>(11,298)</b>	<b>78,136</b>
Unallocated revenue								867
<b>Total revenue</b>								<b>79,003</b>
<b>Expenses</b>								
Salaries	25,381	2,008	3,204	1,179	7,092	1,781	-	40,645
Other expenses	12,061	1,144	6,947	1,227	5,889	2,187	(11,298)	18,157
	37,442	3,152	10,151	2,406	12,981	3,968	(11,298)	<b>58,802</b>
<b>Segment profit</b>	<b>9,735</b>	<b>2,917</b>	<b>3,315</b>	<b>298</b>	<b>2,392</b>	<b>677</b>	<b>-</b>	<b>19,334</b>
<b>2009</b>								
<b>Revenue</b>								
External sales	40,278	4,264	9,228	3,355	18,496	5,260	-	80,881
Inter-segment sales	7,271	-	59	418	1,541	985	(10,274)	-
<b>Total sales</b>	<b>47,549</b>	<b>4,264</b>	<b>9,287</b>	<b>3,773</b>	<b>20,037</b>	<b>6,245</b>	<b>(10,274)</b>	<b>80,881</b>
Unallocated revenue								2,132
<b>Total revenue</b>								<b>83,013</b>
<b>Expenses</b>								
Salaries	24,530	1,713	2,146	1,066	8,306	1,725	-	39,486
Other expenses	11,579	707	2,958	2,292	6,963	3,244	(10,274)	17,469
<b>Total Expenses</b>	<b>36,109</b>	<b>2,420</b>	<b>5,104</b>	<b>3,358</b>	<b>15,269</b>	<b>4,969</b>	<b>(10,274)</b>	<b>56,955</b>
<b>Segment profit</b>	<b>11,440</b>	<b>1,844</b>	<b>4,183</b>	<b>415</b>	<b>4,768</b>	<b>1,276</b>	<b>-</b>	<b>23,926</b>

# NOTES ON THE FINANCIAL STATEMENTS

## 3. Profit Before Income Tax

Profit before income tax includes the following specific expenses / (income)	2010 \$'000	2009 \$'000
Defined contributions superannuation expense	2,707	2,321
Impairment of receivables	94	120
Reduction in provision for impairment of receivables	(67)	(130)
Legal costs - USA litigation	540	1,323
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	5,172	4,337
Net loss on disposal of plant and equipment	74	141
Foreign exchange (gains) / losses	457	(620)
<i>Finance costs</i>		
Interest expense on borrowings measured at amortised cost	443	447

## 4. Income Tax Expense

### *Income tax expense*

Current tax	790	3,877
Deferred tax	271	(883)
Adjustments to prior periods	(242)	(477)
<b>Income tax expense</b>	<b>819</b>	<b>2,517</b>

### *Numerical reconciliation of income tax expense to prima facie tax*

Profit before income tax	3,107	10,435
Tax at the Australian tax rate of 30% (2009 - 30%)	932	3,130
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Attributed income	76	46
Non-deductible expense / (non-assessable income)	(16)	86
Tax losses not recognized	71	-
Research and development deduction	(61)	(243)
	1,002	3,019
Difference in overseas tax rates	59	(25)
Adjustments to prior periods	(242)	(477)
<b>Income tax expense</b>	<b>819</b>	<b>2,517</b>

# NOTES ON THE FINANCIAL STATEMENTS

## 4. Income Tax Expense (Continued)

### *Tax consolidation legislation*

Runge Limited and its wholly-owned Australian controlled entities implemented the tax consolidation regime from 13 March 2007.

On adoption of the tax consolidation legislation, the entities in the tax consolidated Group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Runge Limited.

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

## 5. Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	2010 \$'000	2009 \$'000
Provision for impairment of receivables	73	111
Employee benefits provision	1,617	1,314
Lease incentive liabilities	1,369	729
Tax loss	240	224
Unearned income	283	47
Accrued expenses	862	993
Share capital raising costs	586	892
Other deferred tax assets	235	300
Development costs – software	(1,279)	(748)
Work in progress	(618)	(361)
Intangibles	(418)	(822)
Property, plant and equipment	(480)	22
Prepayments	(235)	(7)
Other deferred tax liabilities	(41)	(25)
Deferred tax assets	2,356	2,669
Deferred tax liabilities	(162)	-
<b>Net tax assets/(liabilities)</b>	<b>2,194</b>	<b>2,669</b>
<b>Movements</b>		
Balance at 1 July	2,669	(182)
Recognised in profit and loss	(271)	883
Adjustments to prior periods	(204)	(1,968)
Balance at 30 June	<b>2,194</b>	<b>2,669</b>

# NOTES ON THE FINANCIAL STATEMENTS

<b>6. Cash and Cash Equivalents</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	9,157	5,641
Deposits	147	1,048
	<b>9,304</b>	<b>6,689</b>
<b>7. Trade and Other Receivables</b>		
<b>Current</b>		
Trade receivables	20,814	17,174
Provision for impairment of receivables	(233)	(306)
	<b>20,581</b>	<b>16,868</b>
Short term deposits	-	243
Other receivables	159	550
	<b>20,740</b>	<b>17,661</b>
<b>Non-current</b>		
Other receivables - refundable deposits	<b>164</b>	327
	<b>164</b>	<b>327</b>
The aging of the trade receivables past due at the reporting date but not impaired was:		
Past due less than 30 days	3,099	1,809
Past due between 31-90 days	2,526	1,073
Past due more than 90 days	2,136	2,244
	<b>7,761</b>	<b>5,126</b>
The movement in the provision for impairment of trade receivables was as follows:		
Balance at 1 July	306	564
Provision no longer required	(67)	(130)
Debtors written off	(95)	(270)
Impairment loss recognised	94	120
Effect of foreign exchange	(5)	22
Balance at 30 June	<b>233</b>	<b>306</b>
<b>8. Work in Progress</b>		
Work in progress	<b>2,681</b>	<b>1,622</b>
<b>9. Other Assets</b>		
Prepayments	<b>1,392</b>	<b>1,336</b>



# NOTES ON THE FINANCIAL STATEMENTS

## 10. Available-for-sale Financial Assets

### Current

Equity securities at fair value

1,601

-

On 24 June 2010 the Group received 4,000,000 ordinary shares in Element92 Resources, Corp. ("Element") as consideration for consulting services in respect of a customer in China. Element is a company incorporated in Wyoming USA and quoted on the OTC Bulletin Board. In 2010 Element acquired all the issued capital of Joyous Fame International Limited which holds the mining assets in China relating to consultancy work carried out by the Group.

The shares in Element are recorded at fair value. The Directors believe that there is not a sufficiently active market of Element's shares to use the OTC quoted prices to assess the fair value of the Element's shares. For this purpose management determined the fair value of the Element shares based on an internal assessment of the mining assets held by Element post acquisition and applying a discount for the Group's minority shareholding and lack of marketability. The Element shares are being held in escrow for six months.

There are a number of different methods used to value gold mining assets, such as discounted cashflows and comparable market evidence.

Given the limited data available regarding these mine sites, management adopted a multiple to the estimated size of the resource. The main gold project in China is currently in early stage exploration to define the gold mineralization within the lease area.

The major inputs used by Runge in their internal fair value measurement of the shares in Element included:

- Estimate of the tonnes of gold within the resource at the two mine sites in China, based on local geological reports;
- Valuation multiple of USD \$1.5 million per contained gold tonne within the resource;
- Discount applied for minority shareholding (30%) and for non-negotiability (20%); and
- USD exchange rate of USD \$1.00 to AUD \$0.85.

If the estimate of the tonnes of gold within the resource had changed by +/- 15% from the estimates used in the fair value measurement, with all other variables held constant, the fair value of the available-for-sale financial asset would have increased/decreased by \$330,000 with a corresponding increase/(decrease) in profit before income tax.

Subsequent movements in the fair value assessment of available-for-sale financial assets will be taken to a reserve.

# NOTES ON THE FINANCIAL STATEMENTS

## 11. Property, Plant and Equipment

	2010 \$'000	2009 \$'000
Plant and Equipment - at cost	12,906	9,648
Less: accumulated depreciation	(4,658)	(3,032)
	8,248	6,616
Plant and equipment under finance lease	129	129
Less: accumulated depreciation	(49)	(44)
	80	85
	<b>8,328</b>	<b>6,701</b>

	Plant and equipment		
	Owned	Under finance lease	Total
	\$'000	\$'000	\$'000
<b>2010</b>			
Balance at 1 July 2009	6,616	85	6,701
Exchange differences	(24)	(2)	(26)
Additions	1,518	-	1,518
Non-cash additions	1,922	41	1,963
Disposals	(99)	(18)	(117)
Depreciation	(1,685)	(26)	(1,711)
<b>Balance at 30 June 2010</b>	<b>8,248</b>	<b>80</b>	<b>8,328</b>
<b>2009</b>			
Balance at 1 July 2008	2,157	164	2,321
Exchange differences	167	9	176
Additions	5,596	31	5,624
Disposals	(53)	(88)	(141)
Depreciation	(1,248)	(31)	(1,279)
<b>Balance at 30 June 2009</b>	<b>6,616</b>	<b>85</b>	<b>6,701</b>

# NOTES ON THE FINANCIAL STATEMENTS

<b>12. Intangible Assets</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Software developed for sale and licensing – at cost	3,940	3,096
Less: accumulated amortisation	(1,275)	(764)
	<b>2,665</b>	<b>2,332</b>
Software acquired for sale and licensing – at cost	3,133	3,133
Less: accumulated amortisation	(1,821)	(1,195)
	<b>1,312</b>	<b>1,938</b>
Software – internal management systems – at cost	4,960	3,401
Less: accumulated amortisation	(2,343)	(1,773)
	<b>2,617</b>	<b>1,628</b>
Client relationships and contracts – at cost	3,372	3,372
Less: accumulated amortisation	(2,375)	(1,787)
	<b>997</b>	<b>1,585</b>
Goodwill – at cost	24,593	24,699
<b>Total</b>	<b>32,184</b>	<b>32,182</b>

	Software			Client relationships and contracts	Goodwill	Total
	Developed	Acquired	Internal systems			
	\$'000	\$'000	\$'000			
<b>2010</b>						
Balance at 1 July 2009	2,332	1,938	1,628	1,585	24,699	32,182
Additions	844	-	1,619	-	-	2,463
Exchange differences	-	-	(8)	-	(106)	(114)
Amortisation	(511)	(626)	(622)	(588)	-	(2,347)
<b>Balance at 30 June 2010</b>	<b>2,665</b>	<b>1,312</b>	<b>2,617</b>	<b>997</b>	<b>24,593</b>	<b>32,184</b>
<b>2009</b>						
Balance at 1 July 2008	1,999	2,635	753	2,067	24,324	31,778
Additions	757	-	1,435	-	-	2,192
Exchange differences	-	-	47	-	375	422
Amortisation	(424)	(697)	(607)	(482)	-	(2,210)
<b>Balance at 30 June 2009</b>	<b>2,332</b>	<b>1,938</b>	<b>1,628</b>	<b>1,585</b>	<b>24,699</b>	<b>32,182</b>

## Impairment Tests for Goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) according to business unit and the country of operation.

In the current and prior years the recoverable amount of the CGUs has been determined by value-in-use calculations. These calculations were based on the following key assumptions:

# NOTES ON THE FINANCIAL STATEMENTS

## 12. Intangible Assets (Continued)

### Impairment Tests for Goodwill (Continued)

- Cash flows were projected based on actual operating results and the 2011 year forecast for four years using 4% annual growth rate (2009: 10%);
- Cash flows thereafter were extrapolated using a constant growth rate of 4% (2009: 4%); and
- The cashflows have been discounted using a pre-tax discount rate of 15% (2009: 15%).

The calculations at balance date indicated no impairment of goodwill.

If pre-tax discount rate applied to the cash projections of all CGUs was increased by 500 basis points to 20% or if annual growth rate changed to zero, the recoverable amount of any CGU's goodwill is still greater than its carrying amount.

A segment level summary of the goodwill is presented below.

	2010 \$'000	2009 \$'000
Asia and NSW	15,418	15,418
Australia – GeoGAS	4,921	4,921
Australia – WA	2,129	2,129
USA	1,735	1,830
South Africa	390	401
	<b>24,593</b>	<b>24,699</b>

## 13. Trade and Other Payables

### Current

Trade payables	2,428	1,739
Other payables and accruals	6,047	4,483
	<b>8,475</b>	<b>6,222</b>

# NOTES ON THE FINANCIAL STATEMENTS

## 14. Borrowings

	2010 \$'000	2009 \$'000
<b>Current</b>		
Lease liabilities (note 22)	7	15
Bank loans - secured	1,800	566
	<b>1,807</b>	<b>581</b>
<b>Non-current</b>		
Lease liabilities (note 22)	26	-
Bank loans - secured	8,800	2,900
	<b>8,826</b>	<b>2,900</b>

### Terms and Conditions

Borrowing facilities	Currency	Nominal interest rate	Maturity	2010		2009	
				Facility \$'000	Utilised \$'000	Facility \$'000	Utilised \$'000
Secured loan	AUD	5.78%	Mar 2012	3,100	3,100	4,900	2,900
Secured loan	AUD	5.73%	Nov 2011	15,000	7,500	10,000	-
Secured loan	USD	LIBOR +2%	Mar 2010	-	-	566	566
Finance leases	AUD/CAD	4.90%	2014	33	33	15	15
<b>Loans and Borrowings</b>				<b>18,133</b>	<b>10,633</b>	<b>5,481</b>	<b>3,481</b>
<b>Other facilities</b>							
Bank guarantee	AUD	2%		3,112	2,609	1,912	1,870

The Australian dollar loan facilities including the bank guarantee are secured by a first registered equitable mortgage over the Group's assets. The loan maturing in March 2012 requires quarterly repayments of \$450,000 until maturity.

The US dollar denominated subsidiary loan was secured by a fixed and floating charge across the assets of Runge, Inc and Runge Limited.

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

## 15. Provisions

	2010 \$'000	2009 \$'000
<b>Current</b>		
Employee benefits	4,259	4,113
<b>Non-current</b>		
Employee benefits	31	34

# NOTES ON THE FINANCIAL STATEMENTS

## 16. Other Liabilities

	2010 \$'000	2009 \$'000
<b>Current</b>		
Unearned income - software maintenance	5,021	4,310
Unearned income - consulting and other	2,231	1,522
Lease incentive and make good obligations	428	104
	<b>7,680</b>	<b>5,936</b>
<b>Non-current</b>		
Lease incentive and make good obligations	<b>4,400</b>	<b>2,380</b>

## 17. Contributed Equity

	2010 Number	2009 Number	2010 \$'000	2009 \$'000
<b>Share capital</b>				
Ordinary shares - fully paid	123,971,410	123,935,922	39,381	39,353
- partially paid	108,590	144,078	26	32
	<b>124,080,000</b>	<b>124,080,000</b>	<b>39,407</b>	<b>39,385</b>

### Movements in Share Capital:

Date	Notes	Ordinary shares	
		Number	\$'000
01/07/08	Balance	124,080,000	39,262
	Partly paid shares paid up	-	123
30/06/09	Balance	124,080,000	39,385
	Partly paid shares paid up	-	22
30/06/10	Balance	124,080,000	39,407

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

### Options

Information relating to the Runge Employee Share Option Plan (ESOP), including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of financial year, is set out in note 27.

### Capital Risk Management

The Group's objectives when managing capital include safeguarding the ability to continue as a going concern, so they continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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

# NOTES ON THE FINANCIAL STATEMENTS

## 17. Contributed Equity (Continued)

### Capital Risk Management (Continued)

Consistent with the industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	Notes	2010 \$'000	2009 \$'000
Total borrowings, trade and other payables		19,108	9,703
Less: cash and cash equivalents	6	(9,304)	(6,689)
Net debt		9,804	3,014
Total equity		44,669	46,540
<b>Total capital</b>		<b>54,473</b>	<b>49,554</b>
Gearing ratio		18%	6%

# NOTES ON THE FINANCIAL STATEMENTS

## 18. Reserves and Retained Profits

<b>Reserves</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee option reserve (i)	572	296
Foreign currency translation reserve (ii)	(708)	(594)
Revaluation reserve	18	18
Reserve arising from an equity transaction (iii)	(1,553)	(1,553)
	<b>(1,671)</b>	<b>(1,833)</b>

### Nature and Purpose of Reserves

#### (i) Employee option reserve

The fair value of options issued to employees is recognised as an employment cost during the option vesting period with corresponding increase in equity recognised in the employee option reserve.

#### (ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in accounting policy note 1(e).

#### (iii) Reserve arising from an equity transaction

This reserve arose from the acquisition of an additional interest in the controlled entity, MRM Mining Services (Pty) Ltd. The amount of goodwill arising on the additional interest has been restricted to the goodwill that was determined when control was first attained. The balance of the goodwill is considered an equity transaction and is recognised in reserves.

### Movement in Reserves

	<b>Employee Options</b>		<b>Foreign Currency Translation</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at 1 July	296	25	(594)	(1,531)
Options expensed	276	271	-	-
Foreign currency translation differences	-	-	(114)	937
Balance at 30 June	<b>572</b>	<b>296</b>	<b>(708)</b>	<b>(594)</b>

There were no other movements in reserves in 2010 and 2009.

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Retained Profits</b>		
Balance at 1 July	8,988	5,413
Net profit for the year	2,288	7,918
Dividends provided for or paid	(4,343)	(4,343)
<b>Balance at 30 June</b>	<b>6,933</b>	<b>8,988</b>



# NOTES ON THE FINANCIAL STATEMENTS

## 19. Dividends

	2010 \$'000	2009 \$'000
Dividends paid in cash during the year were:		
Interim dividend of 1.0 cents per share fully franked paid on 7 April 2010	1,241	-
Final dividend of 2.5 cents per share fully franked paid on 6 October 2009	3,102	-
Final dividend of 1.5 cents per share fully franked paid on 6 October 2008	-	1,861
Interim dividend of 2.0 cents per share fully franked paid on 7 April 2009	-	2,482
	4,343	4,343

No dividends have been paid or declared since the end of the financial year.

### Franked Dividends

The franked portions of dividends will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2010.

Franking credits available for subsequent financial years based on a tax rate of 30% (2009 – 30%)	(1,277)	1,157
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for any:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date;
- (d) franking credits that may be prevented from being distributed in subsequent financial years; and
- (e) franking credits acquired with subsidiaries that form a tax consolidated group with the parent entity.

# NOTES ON THE FINANCIAL STATEMENTS

## 20. Key Management Personnel Disclosures

### (a) Key Management Personnel Compensation

	2010	2009
	\$	\$
Short term employee benefits	2,637,453	2,622,696
Post-employment benefits	221,408	270,528
Termination benefits	85,222	-
Share-based payments	115,313	90,948
	<b>3,059,396</b>	<b>2,984,172</b>

### (b) Shareholdings by Key Management Personnel

The number of shares and options over shares in the Company held during the financial year by each Director of Runge Limited and each of the other key management personnel of the Group, including their personally-related entities, is set out below:

#### (i) Ordinary Shares

	Balance 1 July 2008	Sold during the year	Acquired during the year *	Balance 30 June 2009	Sold during the year	Acquired during the year *	Balance 30 June 2010
<b>Directors</b>							
V Gauci	500,000	-	165,000	665,000	-	188,471	853,471
A Kinnane	9,785,173	-	295,998	10,081,171	-	40,000	10,121,171
C Larsen	4,419,275	-	215,000	4,634,375	-	-	4,634,375
Dr I Runge	15,810,389	-	281,556	16,091,945	-	-	16,091,945
R Walker	50,000	-	-	50,000	-	100,000	150,000
N Hatherly	-	-	-	-	-	-	-
<b>Other key management personnel of the Group</b>							
D Meldrum	5,692,910	-	-	5,692,910	-	-	5,692,910
J Buffington	2,230,790	-	-	2,230,790	-	-	2,230,790
J Sloman	15,000	-	-	15,000	-	-	15,000
K Lewis	-	-	-	-	-	-	-
P Williams	822,616	-	-	822,616	-	-	822,616
S Henderson	16,820	-	-	16,820	-	-	16,820

\* Acquired on market

# NOTES TO THE FINANCIAL STATEMENTS

## 20. Key Management Personnel Disclosures (Continued)

### (ii) Options

Name	Balance 1 July 2008	Options granted as compensation	Options exercised	Balance 30 June 2009	Options granted as compensation	Options expired	Balance 30 June 2010
<b>Directors</b>							
V Gauci	300,000	-	-	300,000	-	(99,000)	201,000
A Kinnane	109,521	-	-	109,521	260,587	(37,761)	332,347
C Larsen	109,521	-	-	109,521	168,749	(37,751)	240,519
Dr I Runge	-	-	-	-	-	-	-
R Walker	-	-	-	-	-	-	-
N Hatherly	-	-	-	-	-	-	-
<b>Other key management personnel of the Group</b>							
D Meldrum	108,905	-	-	108,905	168,749	(37,453)	240,201
J Buffington	109,541	-	-	109,541	119,116	(37,771)	190,886
J Sloman	50,000	-	-	50,000	119,116	(16,500)	152,616
K Lewis	50,000	-	-	50,000	119,116	(16,500)	152,616
P Williams	110,813	-	-	110,813	168,749	(279,562)	-
S Henderson	60,177	-	-	60,177	119,116	(21,589)	157,704

### (c) Other Transactions with Key Management Personnel

The Group employs the services of Johnston Rorke Chartered Accountants, an entity associated with Ross Walker. Johnston Rorke received \$56,790 (2009: \$93,310) for taxation and advisory services.

Aggregate amounts of each of the above types of other transactions with key management personnel of Runge Limited:

	2010 \$	2009 \$
<b>Amounts recognised as expense</b>		
Professional fees	56,790	93,310
	56,790	93,310

# NOTES TO THE FINANCIAL STATEMENTS

## 21. Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditors of the Group, and its related entities.

	2010	2009
	\$	\$
Audit services - Audit and review of the financial reports:		
Auditor of the parent entity:		
PKF Australia (East Coast Practice)	167,100	164,607
Auditors of subsidiaries:		
PKF Malaysia	2,538	2,339
PKF South Africa	21,657	12,894
CWCC Hong Kong	4,440	-
	195,735	179,840
Non- audit services:		
PKF Australia (East Coast Practice) – other assurance services	-	1,850
	-	1,850

# NOTES TO THE FINANCIAL STATEMENTS

## 22. Commitments

### (a) Non-cancellable Operating Leases

The Group leases various offices under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal the terms of the lease are generally renegotiated. Excess office space is sub-let to third parties also under non-cancellable operating leases.

#### Commitments for minimum lease payments in relation to non-cancellable operating leases are payable:

	2010 \$'000	2009 \$'000
Within one year	5,053	4,821
Later than one year but not later than 5 years	19,069	16,921
Later than 5 years	3,638	7,672
Commitments not recognised in the financial statements	<b>27,760</b>	<b>29,414</b>

#### Sub-lease payments

#### Future minimum lease payments to be received in relation to non-cancellable sub-leases of operating leases:

Within one year	452	643
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### (b) Finance Leases

Commitments in relation to finance leases are payable:

Within one year	7	15
Later than one year but not later than 5 years	30	-
Minimum lease payments	37	15
Less: future finance charges	4	-
Recognised as a liability	33	15
<b>Representing lease liabilities:</b>		
Current	7	15
Non-current	26	-
	33	15

Finance leases relate to motor vehicles which have residual payments with options to purchase at the end of the lease term.

## 23. Contingent Liabilities

On 21 September 2007 Standard Bank Plc filed an action against a controlled entity of Runge Limited, Runge, Inc trading as Pincock Allen and Holt (PAH) in the United States District Court of Colorado Civil Action No. 07-CV-01989-RPM-MJW. The lawsuit involved a coal mine in southern Indiana upon which PAH had worked in 2005-2006. Standard Bank advanced a series of loans to a third party amounting to US \$43 million to finance the purchase of the mine.

In January 2010 the Federal Judge in the District Court of Colorado granted judgment in favour of PAH and against the Plaintiff Standard Bank. The Judge dismissed the civil action (07-CV-01989-RPM-MJW) brought against PAH.

On 17 February 2010 the Plaintiff filed a Notice of Appeal. It is presently estimated that the appeal will be heard and determined by June 2011.

# NOTES TO THE FINANCIAL STATEMENTS

## **23. Contingent Liabilities (Continued)**

PAH believes that the District Court's order granting judgment in its favor was correct and should be affirmed on appeal. Runge Limited was not named in the suit and was not involved in the underlying work which allegedly gave rise to the suit.

In addition, pre IPO shareholders approved the placement of 5 million shares in Runge Limited with the trustee of RS Trust (the Trust Shares). The Trust Shares are to be held in trust for a minimum of four years or until the earlier resolution of the claim against PAH. Runge may require all or part of the Trust Shares to be sold in certain circumstances that relate to the outcome of the claim. The proceeds from the sale of the Trust Shares, after allowing for any associated tax expense, can be used by Runge for any purpose.

# NOTES TO THE FINANCIAL STATEMENTS

## 24. Reconciliation of Net Profit to Net Cash Inflow from Operating Activities

	2010 \$'000	2009 \$'000
<b>Net profit</b>	<b>2,288</b>	<b>7,918</b>
Depreciation and amortisation	4,058	3,489
Provision for impairment of receivables	(73)	(258)
Net loss on sale of non-current assets	74	141
Non cash financing and investment activities*	(3,564)	-
Unrealised loss/(gain) on foreign exchange	(64)	62
Employee share options	276	271
<b>Change in operating assets and liabilities</b>		
Decrease / (increase) in trade and other receivables	(2,916)	(2,407)
Decrease / (increase) in current tax asset	(1,427)	-
Decrease / (increase) in deferred tax asset	313	(1,881)
Decrease / (increase) in work in progress	(1,059)	1,436
Decrease / (increase) in other assets	(56)	(557)
Increase / (decrease) in trade and other payables	2,253	(466)
Increase / (decrease) in other liabilities	3,764	2,770
Increase / (decrease) in current tax liabilities	(613)	1,769
Increase / (decrease) in deferred tax liability	162	(952)
Increase / (decrease) in provisions	143	405
<b>Net cash inflow from operating activities</b>	<b>3,559</b>	<b>11,740</b>
* Non cash financing and investment activities include:		
Acquisition of plant and equipment by way of finance lease;	41	31
Acquisition of available-for-sale financial assets for services rendered (note 10)	1,601	-
Additions to plant and equipment	1,922	-
<b>Total non cash financing and investment activities</b>	<b>3,564</b>	<b>31</b>

## 25. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk.

The Board of Directors is ultimately responsible for reviewing, ratifying and monitoring systems of internal controls and risk management. The Board has established an Audit and Risk Committee, which is responsible for overseeing risk management systems.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Financial Risk Management (Continued)

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's finance division is responsible for development and maintenance of policies which deal with each type of risk related to use of financial instruments.

The Group holds the following financial instruments:

	2010 \$'000	2009 \$'000
<b>Financial assets</b>		
Cash and cash equivalents *	9,304	6,689
Trade and other receivables *	20,904	17,888
Available-for-sale financial assets	1,601	-
	31,809	24,677
<b>Financial liabilities</b>		
Trade and other payables **	8,475	6,222
Borrowings **	10,633	3,481
	19,108	9,703

\* Loans and receivables

\*\* At amortised cost

### (a) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. For the parent entity it also arises from receivables due from its subsidiaries.

Cash and cash equivalents are held in banks or financial institutions with a minimum 'A' external rating by Standard and Poor's or Moody's.

The Group does not require guarantees or collateral of its trade and other receivables. In some foreign regions the Group works on a prepayment basis to avoid credit risk.

The Group has established an allowance for impairment that represents an estimate of incurred losses in respect of trade receivables. This allowance is determined based on the specific information regarding conditions of a particular individual debt. The information regarding the receivables ageing is monitored by both finance and operations management.

The maximum credit risk exposure of financial assets of the Group is represented by the carrying amounts of financial assets set out above. The Group had no significant concentrations of credit risk with any single counterparty or group of counterparties, other than banks or financial institutions.

75 % of trade receivables are held with 'A', 'BBB' or 'BB' – rated customers (2009: 75%). The ratings used are set by Standard and Poor's as at the end of the financial year. Analysis of the maximum exposure to credit risk for financial assets at balance date by counterparties' credit rating:

A - rated counterparties	18,033	15,320
B - rated counterparties	2,309	3,135
Unrated counterparties	11,467	6,222
	31,809	24,677



# NOTES TO THE FINANCIAL STATEMENTS

## 25. Financial Risk Management (Continued)

### (b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group regularly reviews cashflow forecasts, maintains sufficient cash on demand and has unutilised borrowing facilities disclosed in note 14.

Contractual maturities of the Group's financial liabilities, including interest thereon, is as follows:

	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Secured bank loans	10,600	11,514	1,324	1,172	9,018	-	-
Finance lease liabilities	33	36	3	3	7	23	-
Trade and other payables	8,475	8,475	8,475	-	-	-	-
	<b>19,108</b>	<b>20,025</b>	<b>9,802</b>	<b>1,175</b>	<b>9,025</b>	<b>23</b>	-
<b>2009</b>							
Secured bank loans	3,466	3,691	445	250	2,996	-	-
Finance lease liabilities	15	15	15	-	-	-	-
Trade and other payables	6,222	6,222	6,222	-	-	-	-
	<b>9,703</b>	<b>9,928</b>	<b>6,682</b>	<b>250</b>	<b>2,996</b>	-	-

### (c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group manages its exposure to interest rate and foreign currency fluctuations through a policy approved by the Board of Directors. There are no other significant market risks affecting the Group.

#### **Interest Rate Risk**

Based on the expected movement of 100 basis points, the net financial liability position is not material.

#### **Currency Risk**

The current policy is not to take any forward positions. At 30 June 2010 and 2009 the Group had not entered into any derivative contracts to hedge these exposures. The Group does not engage in any significant transactions which are speculative in nature.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Financial Risk Management (Continued)

As a multinational corporation, the Group maintains operations in foreign countries and as a result of these activities, the Group is exposed to changes in exchange rates which affect its results of operations and cash flows. In addition, the Group has a \$582,000 (2009: \$582,000) interest bearing liability denominated in US dollars that is hedged by revenues generated in US dollars.

The Group's exposure to foreign currency risk at balance date was as follows:

2010	USD \$'000	CAD \$'000	ZAR \$'000	Other \$'000	Total \$'000
Cash and deposits	2,748	523	889	1,528	5,688
Trade and other receivables	7,630	1,371	1,405	262	10,668
Available-for-sale financial assets	1,601	-	-	-	1,601
Trade and other payables	(1,090)	(120)	(289)	(402)	(1,901)
Interest bearing liabilities	-	(33)	-	-	(33)
Net balance sheet exposure	10,889	1,741	2,005	1,388	16,023
<b>2009</b>					
Cash and deposits	1,058	555	1,934	1,217	4,764
Trade and other receivables	5,219	610	939	651	7,419
Trade and other payables	(524)	(67)	(238)	(12)	(841)
Interest bearing liabilities	(566)	(15)	-	-	(581)
Net balance sheet exposure	5,187	1,083	2,635	1,856	10,761

A 10 percent strengthening of the Australian dollar against the following currencies at 30 June 2010 based on assets and liabilities at 30 June 2010 would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

	Equity		Profit/ (loss)	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
USD	(532)	(177)	(459)	(341)
CAD	(33)	(64)	(126)	(44)
ZAR	(160)	(151)	(58)	(112)
Other	129	(167)	(318)	(19)
	(596)	(559)	(961)	(516)

A 10 percent weakening of the Australian dollar against the above currencies at 30 June 2010 would have had equal but opposite effect on the above currencies to the amounts shown above.

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Financial Risk Management (Continued)

### Interest Rate Risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. These borrowings were offset by interest bearing deposits which effectively make interest rate risk immaterial at the end of 2009 year. In 2010 year should the interest rates increase by 200 basis points the net effect on profit before income tax will decrease by \$177,000. If interest rates decrease by 200 basis points, the change will have an equal but opposite effect on the profit before income tax.

As at the reporting date, the Group had the following variable rate cash deposits and borrowings:

	Weighted average interest rate		Balance	
	2010 %	2009 %	2010 \$'000	2009 \$'000
Interest bearing deposits	4.76	2.86	1,727	1,283
Bank loans	5.74	3.92	(10,600)	(3,466)

An analysis by maturity is provided in note (b) above.

### (d) Fair Value Estimation

The carrying amounts of receivables and financial liabilities at amortised cost are assumed to approximate their fair values due to their short-term nature or their terms and conditions including interest receivable or payable at variable rates.

As of 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:-

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE FINANCIAL STATEMENTS

## 25. Financial Risk Management (Continued)

The following tables analyses the Group's financial instruments carried at fair value by the measurement levels set out above:

2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Available-for-sale financial assets	-	-	1,601	1,601
Total assets	-	-	1,601	1,601

The valuation technique for available-for-sale financial assets is based on significant unobservable inputs as set out in note 10). The following tables present the changes in level 3 instruments for the year ended 30 June 2010:-

	2010 \$'000	2009 \$'000
<b>Available-for-sale financial assets</b>		
Opening balance	-	-
Shares received as consideration for consulting services (note 10)	1,601	-
Gains recognised in other comprehensive income	-	-
Gains recognised in profit and loss	-	-
Closing balance	1,601	-

## 26. Earnings Per Share

	2010 Cents	2009 Cents
Basic earnings per share	1.8	6.4
Diluted earnings per share	1.8	6.4

### Earnings used in Calculating Earnings Per Share

	2010 \$'000	2009 \$'000
Profit attributable to the ordinary equity holders used in calculating earnings per share	2,288	7,918

	2010 Number '000	2009 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	124,080	124,080

Options were not considered to be "potential ordinary shares" in 2010 and 2009, as the average share price in 2010 and 2009 was below the exercise price of the options.

# NOTES TO THE FINANCIAL STATEMENTS

## 27. Share Based Payments

### **Tax Exempt Share Plan**

The Employee Share Scheme enables the Board to issue up to \$1,000 of shares tax free per employee of the Group each year.

There were no shares issued under \$1,000 Share Purchase Plan in 2010 or 2009.

Eligibility for the tax exempt share plan is approved by the board having regard to individual circumstances and performance. No directors or key management personnel are eligible for the Tax Exempt Share Plan.

### **Employee Share Option Plan (ESOP)**

The Employee Share Option Plan (ESOP) was approved by the Board of Directors on 5 February 2008 and amended 7 October 2009.

Eligible participants of the ESOP include any person who is employed by, or is a director, officer or executive, of the Group and whom the Board or its nominee determines is eligible to participate in the Option Plan. Options are granted at the discretion of the Board of Directors.

Consideration for granting options, grant periods, vesting and exercise dates and exercise periods are determined by the Board of Directors in each case. Options issued under the plan may not exceed 5% of the total number of the diluted ordinary shares of the Company at the date of issue and carry no dividend or voting rights.

Options are not transferable and lapse following the resignation of employees before vesting date. The terms and conditions of the options are that all options are to be settled by the physical delivery of shares.

The vesting conditions attached to the options are set out in the Remuneration Report (12A) of the Directors Report.

# NOTES TO THE FINANCIAL STATEMENTS

## 27. Share Based Payments (Continued)

The number and weighted average exercise prices of share options are as follows:

Grant date	Vesting date	Exercise Price \$	Number beginning of year	Granted	Forfeited	Expired	Exercised	Number at end of year
<b>2010</b>								
<i>Options granted to eligible employees</i>								
21/05/2008	30/08/2009	1.00	598,098	-	(75,800)	(522,298)	-	-
21/05/2008	30/08/2010	1.00	597,924	-	(141,330)	-	-	456,594
<i>Options granted to management</i>								
21/05/2008	30/08/2009	1.00	545,500	-	(545,500)	-	-	-
21/05/2008	30/08/2010	1.15	545,500	-	(49,500)	-	-	496,000
21/05/2008	30/08/2011	1.32	559,000	-	(51,000)	-	-	508,000
12/01/2010	1/09/2011	0.88	-	827,209	(83,041)	-	-	744,168
12/01/2010	1/09/2012	0.88	-	827,201	(83,041)	-	-	744,160
12/01/2010	1/09/2013	0.88	-	827,190	(83,039)	-	-	744,151
<b>Total</b>			<b>2,846,022</b>	<b>2,481,600</b>	<b>(1,112,251)</b>	<b>(522,298)</b>	<b>-</b>	<b>3,693,073</b>
Weighted average exercise price			1.09	0.88	0.99	1.00		0.99
<b>2009</b>								
<i>Options granted to eligible employees</i>								
21/05/2008	30/08/2009	1.00	648,199	-	(50,101)	-	-	598,098
21/05/2008	30/08/2010	1.00	648,009	-	(50,085)	-	-	597,924
<i>Options granted to management</i>								
21/05/2008	30/08/2009	1.00	545,500	-	-	-	-	545,500
21/05/2008	30/08/2010	1.15	545,500	-	-	-	-	545,500
21/05/2008	30/08/2011	1.32	559,000	-	-	-	-	559,000
<b>Total</b>			<b>2,946,208</b>	<b>-</b>	<b>(100,186)</b>	<b>-</b>	<b>-</b>	<b>2,846,022</b>
Weighted average exercise price			1.09		1.00			1.09

The fair values at grant date for non market options (EBITA & EPS vesting conditions) were estimated using a Trinomial Lattice model which defines the conditions under which employees are expected to exercise their options after vesting in terms of the stock price reaching a specified multiple of the exercise price. The fair values at grant date for market options (TSR vesting condition) were estimated using a Monte Carlo simulation and a trinomial tree (Hoadley's Hybrid Employee Share Option model - outperform index).

# NOTES TO THE FINANCIAL STATEMENTS

## 27. Share Based Payments (Continued)

The model inputs for options granted during the 2008 and 2010 financial years included:

	Options with TSR hurdles		Options without TSR hurdles	
	2010	2008	2010	2008
<i>Fair value of share options and assumptions</i>				
Fair value of options granted 21/05/2008	-	\$0.17	-	\$0.20
Fair value at grant date Options vesting 1/09/2011	\$0.35	-	\$0.4276	-
Fair value at grant date Options vesting 1/09/2012	\$0.35	-	\$0.4521	-
Fair value at grant date Options vesting 1/09/2013	\$0.35	-	\$0.4643	-
Share price	\$0.965	1.00	\$0.965	1.00
Exercise price	\$0.88	1.00	\$0.88	1.00
Expected volatility (weighted average volatility)	77%	40%	77%	40%
Option life (expected weighted average life)	2 years	2.25 years	2 years	2.25 years
Expected dividends	5%	5%	5%	5%
Risk-free interest rate (based on government bonds)	5.18%	6.94%	5.18%	6.94%

The expected price volatility is based on the historic volatility since listing to January 2010, that of similar listed companies and the remaining life of the options. This has been adjusted to take into consideration the recent extreme market movements using a mean reversion tendency of volatilities (the concept of volatility returning to normal levels after going to an extreme).

### Employee Expenses

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Share-based payment expense recognised during the financial year</b>		
Options issued under employee option plan	276	271
Shares issued under employee share scheme	-	-
	<b>276</b>	<b>271</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 28. Parent Entity Disclosures

As at and throughout the financial year ending 30 June 2010 the parent entity of the Group was Runge Limited.

### Summary financial information

The individual financial statements for the parent entity show the following aggregation:

	2010 \$'000	2009 \$'000
Profit/(loss)	1,912	6,131
Total comprehensive income	1,912	6,131
<b>Financial position</b>		
Current assets	32,314	17,544
Total assets	79,543	62,567
Current liabilities	24,648	14,891
Total liabilities	39,725	20,011
Net assets	39,818	42,556
Issued capital	39,403	39,385
Reserves	10	(314)
Retained profits	405	3,485
Total Shareholders' equity	39,818	42,556
Contingent liabilities	-	-
Contractual commitments for the acquisition or property, plant or equipment	-	-

The parent entity has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect of banking facilities, approved deeds and property lease rentals. The guarantees are for the terms of the facilities, deeds and leases. The periods covered by the guarantees range from one to five years.

No deficiency of net assets existed in the controlled entities at 30 June 2010 or 30 June 2009. No liability was recognised by the parent entity in relation to these guarantees, as the fair value of the guarantee is immaterial.



## DIRECTORS' DECLARATION

In the opinion of the Directors of Runge Limited:

- a) the accompanying financial statements and notes are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Company's and the Consolidated entity's financial position at as 30 June 2010 and of their performance for the year ended on that date;
- b) at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Vince Gauci,  
Chairman

Brisbane

Dated this 27<sup>th</sup> day of August 2010



Chartered Accountants  
& Business Advisers

## INDEPENDENT AUDITOR'S REPORT

To the members of Runge Limited

### Report on the Financial Report

We have audited the accompanying financial report of Runge Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' declaration for both Runge Limited ("the company") and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

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

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**Auditor's Opinion**

In our opinion:

- (a) the financial report of Runge Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Emphasis of Matter Regarding Litigation**

Without qualification to the opinion expressed above, we draw attention to Note 23 to the financial report. A controlled entity of Runge Limited, Runge Inc trading as PAH, has been named as the defendant in a lawsuit filed in a United States District Court. The claim alleges that PAH was negligent in preparing certain due diligence reports and seeks an unspecified amount in damages. PAH has lodged a defense denying any negligence. As stated in Note 23 to the financial report, 5 million ordinary shares in the company were issued to a trust prior to the IPO. The company may require, for any purpose, all or part of the shares to be sold in certain circumstances that relate to the outcome of the claim. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result and no accrual for any possible reimbursement that may be received has been made in the financial report.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 13 of the Directors' report for the year ended 30 June 2009. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion the Remuneration Report of Runge Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

**PKF**

Albert Loots  
Partner

Dated this 27<sup>th</sup> day of August 2010

Brisbane

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# CORPORATE GOVERNANCE STATEMENT

The Board and management believe that it is crucial to the Company's economic, social and ethical objectives that it meet the highest standards of governance and business conduct across its operations in Australia and internationally.

The key aspects of the Group's corporate governance framework are outlined in this section. The Company's policies meet the requirements of both the *Corporations Act 2001* and the Listing Rules of the Australian Stock Exchange (ASX) and, in the opinion of the Board, comply with best practice including the ASX Principles, except where noted.

## PRINCIPLE 1: – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board is committed to protecting the interests of the shareholders and other stakeholders of the Company, promoting and maintaining good corporate governance structures while managing risk, acting effectively, honestly and fairly and acting in accordance with all applicable laws. The Board is responsible for setting the strategic direction of the Group; Group executives are responsible for day-to-day management of the operations of the Group within the strategic framework that the Board sets.

As set out in more detail in the Board Charter, the key functions reserved to the Board are to:

- a) oversee the Company, including its control and accountability systems.
- b) oversee the business and strategic direction of the Company in order to maximise performance and generate appropriate levels of shareholder return.
- c) appoint, evaluate and remove the Chairman, the Managing Director, any other Executive Director, the Company Secretary, and where appropriate, senior executives.
- d) review, ratify and monitor systems of internal controls, risk management, codes of conduct and legal compliance.
- e) provide input into and final approval of management's development of corporate strategy and performance objectives.
- f) review the performance and implementation of corporate strategies by senior management and ensure that senior management have the necessary resources to do so.
- g) approve and monitor progress of major capital expenditure, capital management, acquisitions and divestments.
- h) approve and monitor annual budgets and strategic plans.
- i) approve and monitor financial and other reporting made to shareholders and the ASX under the continuous disclosure regime.

The Board Charter can be found on the Company's website, at:

[http://www.runge.com/en/investor\\_relations/corporate\\_governance/board\\_charters](http://www.runge.com/en/investor_relations/corporate_governance/board_charters).

The Board delegates specific responsibilities to various Board Committees. The Board has established the following Committees:

- An Audit and Risk Committee, which is among other things responsible for overseeing the external and internal auditing functions of the Company's activities;
- An HR and Remuneration Committee, which is responsible for making recommendations to the Board on remuneration packages for executives, senior managers, Non-executive Directors and overseeing the HR policies of the Company; and

# CORPORATE GOVERNANCE STATEMENT

- A Nominations Committee, which is responsible for making recommendations to the Board on the composition of the Board and appointment and evaluation of the Managing Director.

The Charter of each of the above listed Committees can be found on the Company's website, at:

[http://www.runge.com/en/investor\\_relations/corporate\\_governance/board\\_charters](http://www.runge.com/en/investor_relations/corporate_governance/board_charters).

The performance of the Group's Managing Director and senior executives has been assessed this year in accordance with the process adopted by the Board. The process is as set out below.

In relation to the performance of the Managing Director, he presents an annual self-assessment to the Chairman of the Board. The assessment this year was in accordance with the performance criteria set out in the Managing Director's employment contract and included the following factors: evolution and execution of strategy, meeting operational and financial targets, Board communications and relations, recruitment and retention of staff and other factors. The Chairman presents the assessment to the Board for its comment.

The Managing Director will assess, at least annually, the performance of all key executives mentioned in the Directors' report. Both qualitative and quantitative measures are used consistent with KPIs set annually by the Managing Director in consultation with the key executives. The Managing Director reports to the HR and Remuneration Committee on the performance of these key executives. The HR and Remuneration Committee then approves changes to remuneration and to the establishment of new KPIs.

## **PRINCIPLE 2: – STRUCTURE THE BOARD TO ADD VALUE**

The names of the Directors of the Company in office at the date of this report, specifying which are independent, are set out below. The Chairman of the Board is independent, and the Chairman and the Managing Director are different persons.

The Board is committed to ensuring that there will be at least five Directors of whom a majority will be Non-executive Directors and as far as possible, at least two will be independent Directors.

A Director is regarded as independent if that Director is a Non-executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. When determining the independent status of a Director, the Board has considered whether the Director:

- a) is a substantial shareholder of the Company or an officer of, or otherwise associated directly with a substantial shareholder of the Company;
- b) within the last three years has been employed or has previously been employed in an executive capacity by the Company or another group member;
- c) within the last three years has been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- d) is a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- e) has a material contractual relationship with the Company or another Group member other than as a Director of the Company.

# CORPORATE GOVERNANCE STATEMENT

## Current Board Composition

Voting Director	Board membership	Date of appointment
A Kinnane	Managing Director	June 1991
C Larsen	Executive	January 1996
V Gauci	Independent Chairman	February 2008
N Hatherly	Independent	October 2007
Dr I Runge	Non-executive	December 1986
R Walker	Independent	March 2007

The Board has determined, on an individual by individual basis, that each of the three Voting Directors designated as independent Directors above satisfy all of the above criteria. In addition the Board comprises a Non-executive Director and two Executive Directors.

The Board presently does not comprise a majority of independent Directors, but the Board believes that the current individuals on the Board are able to make quality and independent judgements in the best interests of the Company on all relevant issues. The Company may consider appointing an additional independent Director if and when the scale of its operations justifies such an appointment and an appropriate candidate becomes available. The criteria used to assess independence are reviewed from time to time.

The Non-executive Directors understand the benefits of conferring regularly without management present, and do so.

The Board is also committed to ensuring that all Directors, whether independent or not, bring an independent judgment to bear on Board decisions. To facilitate this, the Board has agreed on a procedure for Directors to have access, in appropriate circumstances, to independent professional advice at the Company's expense.

The Board is committed to ensuring that its members have a broad range of skills, experience and expertise. This will assist the Board to maximise performance and ensure appropriate levels of shareholder return.

The Board has, in accordance with ASX Recommendation 2.4 and as stated above, established a Nominations Committee. The primary purpose of the Nominations Committee is to assist the Board to discharge its responsibilities with regard to the following areas:

- overseeing the composition of the Board and competencies of Board members;
- providing recommendations of appointment and evaluation of the Managing Director;
- ensuring that appropriate procedures exist to assess the performance levels of the Chairman, Non-executive Directors, Executive Directors; and
- developing succession plans for the Board and overseeing development by management of succession planning for senior executives.

The Nominations Committee Charter can be found on the Company's website, at:

[http://www.runge.com/en/investor\\_relations/corporate\\_governance/board\\_charters](http://www.runge.com/en/investor_relations/corporate_governance/board_charters).

The Charter requires that a majority of members of the Nominations Committee must, as far as possible, be independent Non-executive Directors. The Chairman of the Nominations Committee is an independent Director. The current members of the Nominations Committee are the entire Board, so the Committee is not comprised of a majority of independent Directors. The Board is of the view that the entire Board brings the appropriate mix of skills and experience to satisfy the responsibilities under the Committee's Charter

It is the responsibility of the Board and its Committees to review their performance (group and individually) annually to ensure that they are operating effectively and in the best interests of the Company.

# CORPORATE GOVERNANCE STATEMENT

The skills, experience and length of appointment relevant to each Director is set out in the Directors' Report, section "Information on Current Directors and Company Secretary".

The names of each of the Directors considered to be independent and the materiality thresholds are set out in this Statement under 2.1. The relevant transactions with independent Directors, namely Ross Walker are set out in note 20(c) of the financial statements. The Board considers that the transactions involving Ross Walker are not material.

There is a procedure for Directors to take independent advice.

A record of all Board and Committee meetings held and the attendance of each Director at those meetings is set out in section 10 of the Directors' Report.

A performance review of the Board and its Committees was conducted during the year.

No changes to independence status occurred during the financial year.

The Company Secretary monitors whether Board policy and procedures are being followed, and co-ordinates timely completion and despatch of Board agenda and briefing material.

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

The Board fully supports a strong commitment to ethical and responsible decision-making, and in this regard the Company has established a Code of Conduct Policy setting out the standards of ethics and conduct to which all Group Directors, executives and employees must adhere whilst conducting their duties. The Code of Conduct Policy can be found on the Company's website, at:

[http://www.runge.com/en/shareholders/corporate\\_governance/policies](http://www.runge.com/en/shareholders/corporate_governance/policies).

The Code of Conduct Policy, among other things, requires the Directors, executives and employees of the Group to:

- a) act with high standards of honesty, integrity, fairness and equity in all aspects of their employment;
- b) comply fully with the content and spirit of all laws and regulations which govern its operations, its business environment and its employment practices;
- c) not directly or indirectly offer, pay, solicit or accept bribes, secret commissions or other similar payments or benefits in the course of conducting business;
- d) not divulge any information about the Company without appropriate authorisation;
- e) not participate in insider trading by using knowledge not generally available to the market to gain unfair advantage in the buying or selling of the Company's securities;
- f) not knowingly participate in any illegal or unethical activity; and
- g) not enter into any arrangement or participate in any activity that would conflict with the interests of the Company or prejudice the performance of professional duties.

The Managing Director ensures that all employees are made aware of all procedures and policies and takes any necessary reporting steps. All new employees are provided with a copy of the Code of Conduct Policy during induction.

The Company is committed to ensuring that employees may raise concerns regarding illegal conduct or unethical behaviour and will support employees who report violations in good faith. All reports received will be thoroughly investigated and any necessary action taken.

Internal audits will be undertaken to ensure compliance.

# CORPORATE GOVERNANCE STATEMENT

The Company has established a Securities Trading Policy in respect of trading in Company shares by the Group's Directors, executives and employees. The Policy can be found on the Company's website, at: [http://www.runge.com/en/shareholders/corporate\\_governance/policies..](http://www.runge.com/en/shareholders/corporate_governance/policies..)

The Securities Trading Policy provides that all Group officers, employees and Directors are prohibited from dealing in any Company securities, except while not in possession of unpublished price sensitive information. It is also contrary to the Policy for Directors, executives and employees to engage in short term trading of the Company's securities. Directors and other officers may only deal in the Company's securities during specified periods, between 24 hours and 45 days after the release of the Company's results, or AGM, or while the Company has a disclosure document on issue ("Trading Window"). Directors and other officers are prohibited from trading in securities, except in exceptional circumstances, in the period between the close of books and the release of half year or full year financial results and at other times when the company is aware of, or has under consideration, a market sensitive matter ("Blackout Period"). Directors and other officers must obtain the approval of a Clearance Committee prior to dealing in the Company's securities except during a Trading Window.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has established an Audit and Risk Committee. The Committee consists of three Non-executive Directors, two of whom are independent. The Committee Chair is not the Chairman of the Board. The current composition of the Audit and Risk Committee is:

Mr Ross Walker	Committee Chair (Non-executive and independent)
Mr Vince Gauci	Member (Non-executive and independent)
Dr Ian Runge	Member (Non-executive)

Each Director has an appropriate knowledge of the Company's affairs and has the financial and business expertise to enable the Committee to discharge its mandate effectively. The qualifications of each member of the Audit and Risk Committee are set out on page 4.

The Audit and Risk Committee's formal Charter, which complies with ASX Principles, can be found on the Company's website, at: [http://www.runge.com/en/investor\\_relations/corporate\\_governance/board\\_charters](http://www.runge.com/en/investor_relations/corporate_governance/board_charters).

The primary purpose of the Audit and Risk Committee is to assist the Board to discharge its responsibilities with regard to:

- monitoring and reviewing the effectiveness of the control environment in the Group in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting; and
- providing an independent and objective review of financial and other information prepared by management, in particular that to be provided to members and/or filed with regulators.

Further, the Audit and Risk Committee leads the review of the performance of the external auditors, and sets the procedures for both the selection and appointment of external auditors and the rotation of external audit engagement partners.

The members of the Committee have direct access to employees, external auditors and financial and legal advisers without management present. The Committee meets as often as required, and at least four times per year. Attendance at Audit and Risk Committee meetings is set out in the Directors' Report. The Audit and Risk Committee met five times during the reporting period. The Audit and Risk Committee keeps minutes of its meetings and includes them for the next full Board Meeting.



# CORPORATE GOVERNANCE STATEMENT

The Company does not publish on its website the procedures for the selection and appointment of external auditors, and for the rotation of external audit engagement partners. The Company has had no need to formalise these procedures at this stage although it recognises the need to develop such procedures.

## **PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

The Board supports continuous disclosure consistent with ASX Principles. The Company's Board approved a Continuous Disclosure Policy and Market Disclosure Guidelines which are designed to ensure that:

- shareholders have equal and timely access to material information concerning the Company; and
- Company announcements are clear, concise, factual and balanced.

A copy of the Continuous Disclosure Policy and market Disclosure Guidelines can be found on the Company's website, at: [http://www.runge.com/en/shareholders/corporate\\_governance/policies](http://www.runge.com/en/shareholders/corporate_governance/policies).

The Board has overall responsibility for ensuring compliance with the Continuous Disclosure Policy and Market Disclosure Guidelines. The Board has established a Disclosure Committee, consisting of the Chairman, the Managing Director, the Company Secretary and the Global Communications Manager, to assist the Board in ensuring compliance with the Continuous Disclosure Policy and Market Disclosure Guidelines. The Disclosure Committee in turn appoints reporting officers, and those officers are required to:

- Immediately disclose any material information which may need to be disclosed under Listing Rule 3.1; and
- Ensure awareness of and compliance with the Continuous Disclosure Policy and Market Disclosure Guidelines.

## **PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

Shareholder communication is conducted in accordance with the Company's Continuous Disclosure Policy and the Company's Shareholder Communications Policy. Both policies can be found on the Company's website, at: [http://www.runge.com/en/shareholders/corporate\\_governance/policies](http://www.runge.com/en/shareholders/corporate_governance/policies).

Releases made to the ASX are posted on the Company's website. The Company's website also contains general information regarding the Company and its activities, notices of future meetings, announcements, half yearly and annual reports and the Chairman's AGM addresses since listing.

Shareholders are encouraged to attend and actively participate at General Meetings. The Company's Directors and the Chairmen of all Committees plus senior management will be present at each AGM to answer shareholder questions. The Company's auditor is also present at each AGM to answer any shareholder questions.

# CORPORATE GOVERNANCE STATEMENT

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

As disclosed in previous financial reports, the Board instructed the Group General Counsel to conduct a review of the previously adopted Risk Management Policy and the group's risk management systems. The Group General Counsel, working with an external enterprise risk management expert, completed this review and delivered to the Board a draft new enterprise risk management policy manual reflecting the Group's risk profile, describing the elements of the Group's risk management and internal control system and setting out the steps to be taken to manage the Group's material business risks. The policy manual was prepared based on the principles of International Standard ISO 31000: 2009 Risk Management – Principles and Guidelines. After reviewing the draft policy manual, the Board established a Board Sub-committee to work with management to finalise the enterprise risk management policy manual. The Sub-committee completed its work and submitted a revised policy manual to the full Board for their consideration, and the Board adopted this revised policy in August 2010 (the adopted policy manual, the ERM Policy).

The ERM Policy sets out the Company's commitment to manage risks on an enterprise-wide basis in accordance with ISO 31000:2009 Risk Management - Principles and Guidelines, by:

- Involving all stakeholders, including the Board, management, employees, contractors and shareholders;
- Complying with all applicable regulatory obligations in each country in which the Group conducts business;
- Maintaining an up-to-date risk register to identify, prioritise and manage the material risks facing the Group;
- Preparing risk management improvement plans, with management accountability and responsibility;
- Incorporating enterprise risk management into the Company's strategic planning and decision making processes;
- Conducting regular enterprise risk management training and risk control reviews to deliver continuous risk improvement; and
- Developing and maintaining up-to-date business continuity plans.

The ERM Policy requires management to maintain the Group's current risk management systems and internal controls, and to continuously improve those systems and controls as required in order to manage the Group's material business risks.

The ERM Policy requires the Group General Counsel (in conjunction with the Audit and Risk Committee) to prepare an annual report for the Board that confirms whether:

- the Group's risk management systems effectively identify all areas of material risk for the Group;
- management has designed and implemented effective systems and controls to manage identified areas of material risk;
- audits have been undertaken to confirm the effectiveness of and compliance with the Group's risk management systems and controls;
- in respect of identified areas of ineffectiveness or non-compliance, remedial measures have been taken or are being taken to address the identified issues; and
- all major risks have mitigation plans in place.

The ERM Policy further requires the Group General Counsel to table for consideration at each Board meeting each risk identified in the ERM Policy as "extreme" and "high."

# CORPORATE GOVERNANCE STATEMENT

The Group General Counsel provides a written monthly Risk Management Report to the Board concerning the effectiveness of the company's management of its material business risks.

The Board has received declarations from the Managing Director and Acting CFO pursuant to s295A of the *Corporations Act* which state that the financial statements are founded on sound risk management and internal controls and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company has established an Audit and Risk Committee in accordance with the ASX Principles and sets out a summary of the Policy/s under this principle. A copy of the Audit and Risk Committee Charter can be found on the Company's website, at

[http://www.runge.com/en/investor\\_relations/corporate\\_governance/board\\_charters](http://www.runge.com/en/investor_relations/corporate_governance/board_charters).

The Company does not have an internal audit function. The Directors have assessed a need to establish an internal audit function this year and believe that sufficient internal control mechanisms currently exist in the Company.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Company has established a Human Resources and Remuneration Committee ("HR and Remuneration Committee") to assist the Board in establishing appropriate remuneration levels for the Group's employees. The Committee is comprised of three Directors, two of whom are independent. The Chairman of the Committee is an independent Director. The current composition of the committee is as follows:

- Mr Neil Hatherly            Committee Chairman (independent)
- Mr Vince Gauci            Board Chairman (independent)
- Mr Tony Kinnane            Managing Director

The HR and Remuneration Committee, among other things:

- assists the Board in setting remuneration, recruitment, retention, development and termination policies for senior executives;
- recommends to the Board remuneration packages for Executive Directors;
- recommends to the Board a remuneration framework for Directors and all employees in the Group; and
- recommends to the Board appropriate superannuation arrangements.

The Company clearly distinguishes the structure of Non-executive Director remuneration from that of Executive Directors and senior executives. Non-executive Directors are paid a set fee as agreed by the Board annually, and do not receive performance based fees or retirement benefits. The remuneration of Non-executive Directors is not more than the aggregate fixed sum determined by the Company's shareholders in a general meeting.

The remuneration structure for Executive Directors and senior executives is balanced between fixed salary and incentive schemes that are designed to align as closely as possible with the Company's short term and long term objectives.

The Remuneration Report provides a detailed disclosure of Non-executive Directors, Executive Directors and senior Executives in accordance with reporting obligations.

The Directors' Report sets out the number of meetings of the HR and Remuneration Committee and attendance at those meetings.

There is not any scheme for retirement benefits, other than superannuation, for Non-executive Directors.

A copy of the HR and Remuneration Committee Charter can be found on the Company's website at:

[http://www.runge.com/en/investor\\_relations/corporate\\_governance/board\\_charters](http://www.runge.com/en/investor_relations/corporate_governance/board_charters).

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 July 2010.

## A. Distribution of Equity Securities

Analysis of number of equity security holders by size of holding:

	Ordinary Shares	Options
1 – 1,000	84	25
1,001 – 5,000	495	139
5,001 – 10,000	371	1
10,001 – 100,000	599	22
100,001 – and over	102	15
	<b>1,651</b>	<b>202</b>

The number of shareholdings held in less than marketable parcels of 1,205 shares is 104.

## B. Equity Security Holders

*Twenty largest quoted security holders*

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number held	Percentage of
Runge International Pty Ltd atf Runge Family A/c	15,012,899	12.10
National Nominees Limited	11,573,451	9.33
J P Morgan Nominees Australia Limited	9,487,129	7.65
Mr A Kinnane and Mrs P Kinnane atf A & P Kinnane S/F A/c	8,298,442	6.69
RS Company Pty Ltd	5,000,000	4.03
Mrs Debra Larsen	3,740,546	3.01
Mr David Meldrum	3,667,105	2.96
Mr Ian Desmond Perks	3,317,650	2.67
Cogent Nominees Pty Limited	2,940,000	2.37
Anajam Pty Ltd	1,723,544	1.39
ACN 065903335 Pty Ltd	1,495,246	1.21
Mr John Francis Buffington	1,317,127	1.06
Mr Anthony Kinnane + Mrs Paula Kinnane	1,287,282	1.04
Mrs Tracy Anne Rowlands	1,250,705	1.01
Mr Andre Joan Phillips	1,246,508	1.00
Chrysalis Investments Pty Ltd	1,173,504	0.95
Citicorp Nominees Pty Limited < Cwlth Bank Off Super A/c>	1,171,947	0.94
Mrs Donna Margaret Luxton	1,112,825	0.90
Mr Russell Stevens Rogers	1,036,412	0.84
Mr Olaf Wyberneit	958,336	0.77
	<b>76,810,658</b>	<b>61.90</b>

*Unquoted equity securities*

3,693,073 options over unissued shares: for further details see note 28.

# SHAREHOLDER INFORMATION

## C. Substantial Holders

The names of the substantial shareholders listed in the holding register are:

	Number held	Percentage
Runge International Pty Ltd atf Runge Family Trust	16,091,945	12.97
Acorn Capital Limited	14,467,952	11.66
Mr and Mrs A Kinnane	10,121,171	8.16
Aviva Investors Australia Limited	8,767,940	7.07

## D. Voting Rights

Refer to note 17 for voting rights attached to ordinary shares.

## E. Voluntary Escrow

Details of ordinary shares under voluntary escrow are as follows:

Expiry Date	Number held	Number of Holders
21 May 2012	5,000,000	1