Engenco

2017 ANNUAL REPORT

CONTENTS

COMPANY HIGHLIGHTS

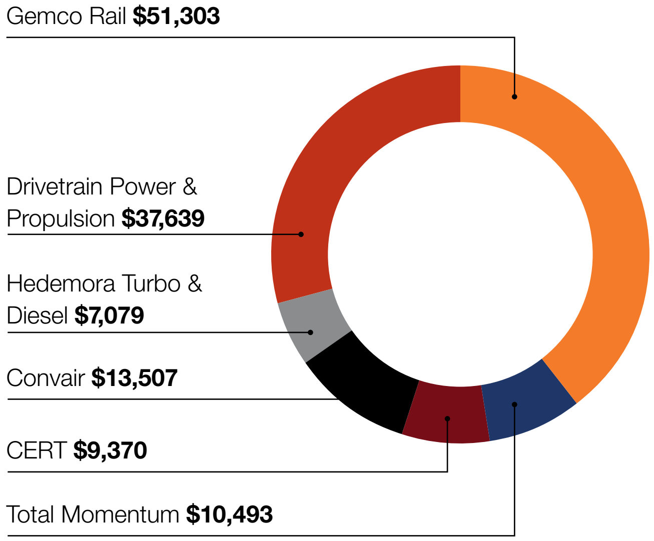
$8,269,000 Total profit for the period

66% Operating income growth

$6,400,000 Net operating cash flow

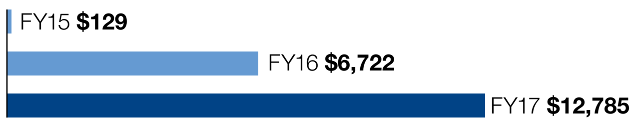
2.67c Basic earnings per share

Revenue by business unit $'000

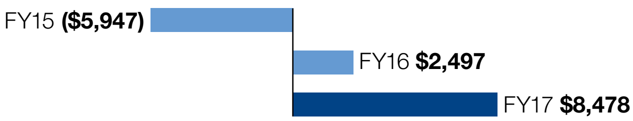


Revenue (from continuing operations) $'000

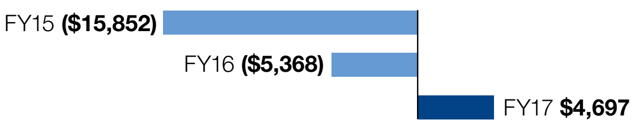
EBITDA (from continuing operations) $'000



NPAT (from continuing operations) $'000



Net Cash/Debt $'000



CHAIRMAN'S REPORT

Engenco reported a net profit after tax of $8.3 million for FY17 which was a significant increase (100%) on the result achieved in the prior year.

Vince De Santis
Chairman

Positive market demand for the Company's products and services together with the ongoing internal efficiencies that have been achieved, not only contributed to a large improvement in overall profitability but also allowed the Company to end the year with a stable balance sheet including no net debt and well positioned for the future.

Good overall progress was once again realised over the past year. Continued material improvement in EBITDA, particularly from continuing operations, was a demonstration of what the Company's underlying core businesses are able to accomplish in a stable operating environment.

We continued to build customer confidence in our suite of products and services which in turn enabled us to solidify existing supplier arrangements and forge new relationships with aligned global manufacturers.

Balance sheet & capital management

Engenco has worked assiduously over the past few years to re-calibrate its balance sheet and reduce borrowings. Only two years ago, the Company's net debt was almost $16 million which should be contrasted to where we ended FY17 with a net positive cash position of $4.7 million.

Apart from the relatively small sum raised from the recently completed Shareholder Purchase Plan ($473,000), this $20 million plus turnaround has been achieved from a combination of improved working capital management and the sale of surplus assets whilst at the same time ensuring that any justified capital expenditure requirements and opportunities have been met.

With the Company's line of credit facility ($10 million) recently extended until 30 April 2019, Engenco is well positioned to take advantage of future growth opportunities, both organic and otherwise, as and when they present themselves.

Dividend

With the much improved financial performance and stability, we are very pleased to declare the Company's first dividend in almost a decade. The relatively modest final dividend of $0.005 per share (fully franked), represents another important milestone in Engenco's progression.

New Board member

In January this year, we were delighted to welcome Alison von Bibra to the Engenco Board following the retirement of Dr Donald Hector at the Company's 2016 Annual General Meeting (AGM). Serving as an independent non-executive director, Alison brings a great complementary range of experience to the Board, especially the deep human resources capability attained in a number of senior roles during her executive career.

Share register administration

Following an amendment to the Engenco Constitution at last year's AGM, the Company initiated a Share Sale Facility (SSF) under which

The Board from left to right: Dale Elphinstone, Vincent De Santis, Kevin Pallas, Alison von Bibra and Ross Dunning.

it was empowered to sell the shares of those shareholders holding unmarketable parcels. That process concluded earlier this month when 389,629 shares were sold and the gross proceeds distributed to the 518 holders of those shares. Importantly, prior to commencing the SSF, all shareholders (including those holding unmarketable parcels), were given the opportunity to top up their shareholdings via a Share Purchase Plan.

Looking ahead

For the past few years, we have consistently referred to the task of turning around the Company's performance. While the quest to improve right across the organisation is never ending, we did make some very good progress over the past year. There is some positive momentum across most of the Company's businesses and subject always to the vagaries of a constantly changing marketplace and global economy, we remain cautiously optimistic that we can continue to make further solid improvement in the year ahead.

Finally, on behalf of the Board, I offer my sincere congratulations and thanks to our people for their hard work and commitment throughout the year. Without their dedicated efforts, Engenco could not have achieved such positive results. Our optimism for the future is very much a function of the strong confidence we have in the Engenco team.

Vince De Santis
Chairman

	2017 $000	2016 $000
Revenue from continuing operations	**129,319**	132,764
EBITDA from continuing operations[2]	**12,785**	6,722
EBIT from continuing operations[1]	**9,137**	2,636
Profit / (loss) after tax from continuing operations	**8,478**	2,497
Profit / (loss) from discontinued operations, net of tax	**(209)**	1,643
Net operating cash flow	**6,400**	11,054
Net assets	**57,011**	49,094
Net cash / (debt)	**4,697**	(5,368)

[1] EBIT is earnings before finance costs and income tax expense.

[2] EBITDA is EBIT before depreciation and amortisation.

Note – EBIT and EBITDA are non-IFRS financial measures, which have not been subject to review or audit by the Group's external auditors. These measures are presented to assist understanding of the underlying performance of the Group.

BUSINESS UNIT OVERVIEW

Power and Propulsion

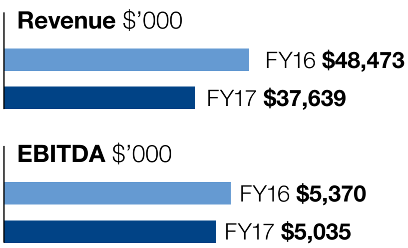
Drivetrain Power and Propulsion

Overview

- Mobile powertrain genuine component and spare parts distribution
- Through-life support solutions
- Technical products and provision of engineering services

Achievements

- Captured demand in the mining sector
- Maintained good volumes in the defence sector
- Enhanced distribution agreements with key suppliers



Outlook

Further growth prospects, particularly in the mining sector; new product and service offerings.

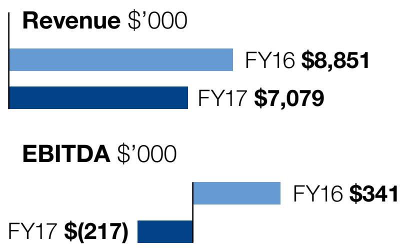
Hedemora Turbo & Diesel

Overview

- Hedemora Diesel Engines full aftermarket services, reconditioning and engineering support
- Design, manufacture and supply of a range of HS Turbocharger products

Achievements

- Development of high performance HS7800 Turbocharger
- Early life-cycle development of HS Turbocharger markets
- Ongoing support of the Hedemora Diesel Engines



Outlook

New generation large engine turbocharger developed and in early stage life-cycle; continued end-of-life support for Hedemora Diesel Engines.

Rail and Road

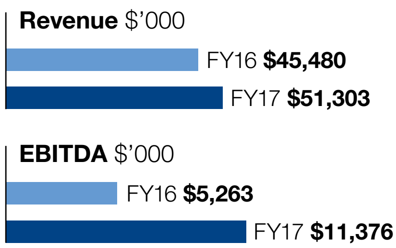
Gemco Rail

Overview

- Locomotive and wagon maintenance and refurbishment services
- Rail sector wheelset, bearing and bogie services
- Engineering, design and manufacturing services

Achievements

- Strong revenue growth in the Forrestfield (Perth) wheel and bearing refurbishment shops
- Increased utilisation of the PQGY wagon fleet
- Establishment of alliances with major rail equipment manufacturers



Outlook

Anticipated growth in rail freight sector; further growth opportunities with key customers through Gemco Rail's strategic locations.

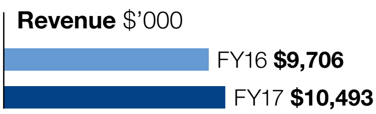
Total Momentum

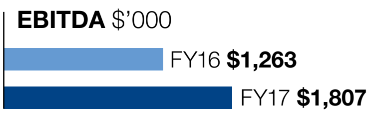
Overview

- Highly skilled rail operations personnel
- Track protection services
- Rail infrastructure maintenance services

Achievements

- Revenue growth from the provision of rail operations workforce services to national freight rail operators seeking outsourced solutions
- Reduction in operational costs delivering improved profitability for the business





Outlook

Revenue growth opportunities from the provision of rail operations workforce services, as national freight rail operators continue to seek flexible staffing arrangements.

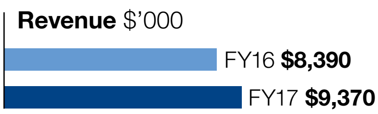
CERT

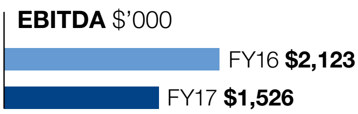
Overview

- Registered Training Organisation (RTO)
- Nationally recognised training services
- Development and implementation of training programs

Achievements

- Significant investment in compliance and courseware development during the period
- Solid revenue performance in Eastern States whilst WA remained subdued after reduction in government funding
- Expansion of the national branch footprint and increased scope of services provided





Outlook

Potential for growth as the National Regulator increases focus on compliance; potential increase in government-funded training programmes.

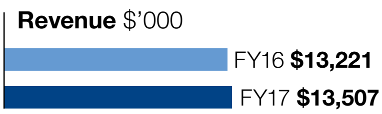
Convair

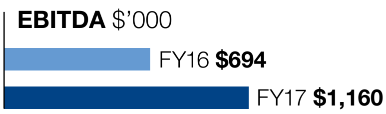
Overview

- Manufacture of dry bulk goods tankers for road transportation
- Distribution of imported aluminium dry bulk tankers
- Maintenance, repair and overhaul, parts sales and servicing capability

Achievements

- Cost saving initiatives (including a new tanker design) resulting in improved production efficiency
- Growth in quality and quantity of orders towards the end of the reporting period
- Steady growth in the fleet servicing and maintenance & repairs business





Outlook

Further development of the Convair high-quality product and associated technologies; potential for revenue growth from a general resurgence in the construction industry.

MANAGING DIRECTOR AND CEO'S REPORT

I am very pleased to be reporting to you on the Group's 2017 financial year performance, which has continued on the positive trajectory that has been the trend in recent periods. Achieving a total profit of $8.3 million for the year demonstrates that the business has reached a far more satisfactory operating position after several years of transformation.

Kevin Pallas
Managing Director and CEO

Net profit generated from continuing operations was $8.5 million – a 240 per cent increase over the 2016 result which was an important milestone for the Company. A combination of internal and external factors has driven this improvement, underpinned by our steadfast strategy and our strong belief in the underlying value of our core business.

Total Group revenue from continuing operations in the year of $129 million was marginally lower than in 2016; however, the improved earnings outcome is in part a function of a higher quality sales mix. In particular, the absence of capital equipment sales into the gas compression market was mainly offset by good revenue growth in the key rail maintenance and drivetrain components and services revenue streams. Operating income growth of 66 per cent is another indicator of improved revenue quality and the effect of operational efficiencies that have been progressively introduced throughout the Group.

Ingraining health and safety

During the past year, we worked hard to further ingrain within our company culture the ethos of personal responsibility for Workplace Health and Safety (WHS). The company and its subsidiaries utilise a shared Safety Management System platform called 'MakeSafe'. MakeSafe is both our system and safety brand, facilitating a shared vision and coordinated cooperative action on WHS within the Engenco Group. Achievement of key measurable WHS objectives and targets, mandatory surveillance activities and regulatory compliance are collaboratively administered on a continual basis. Employee welfare is another cornerstone of our values and our industry leading Employee Assistance Program (EAP) is continuing to help engender a healthy, productive and resilient workforce.

Operational report

Our Power and Propulsion segment provides a wide range of products and services into the heavy engine and drivetrain equipment market. The majority of business streams in the segment performed well during the year in light of a more positive resources sector backdrop. The depressed energy sector demand for capital equipment meant lower total sales for the segment. Notwithstanding, this segment's EBITDA margin performance improved, which was a pleasing outcome and bodes well for the future.

The Drivetrain business unit operates from a well-integrated network of branches and workshops in Australasia, and is highly respected as a premier player in the heavy machinery applications engineering and support industry. During the year, the Mobile Powertrain stream experienced a resurgence in demand for parts and service as machine operators, mainly from the mining sector, recommenced more normal maintenance patterns. Component and parts sales into the defence industry were also buoyant, whilst our proven reputation helped us penetrate into new areas of the market.

We have generated greater volumes of repair and overhaul work in our workshops, and have begun to experience improved operating leverage during the year as a result of the higher throughput. Working closely with our supplier base, we have been able to execute even more our strategy of expanding our product range and have introduced exciting new lines, including some in the gas-compression equipment support space. We are also working closely with the ASC to sustain the extended life of the RAN's Collins Class Submarine fleet, which is powered by Hedemora Diesels.

Hedemora Turbo & Diesel operates from our site in Sweden and is focussed on supporting the legacy Hedemora Diesel engine, and marketing and developing our growing range of HST large engine turbochargers. The business has customers and service agents world-wide, and has a well-developed supply chain for high precision parts and components. Assembly and testing of the products is completed at the facility in Sweden, as is our maintenance and overhaul work. Results for Hedemora were weaker in the year as the population of diesel engines declined, and the revenue growth from turbocharger product sales remained below expectations. During the year we completed the development of our new higher air volume turbocharger and the first units are expected to undergo customer trials shortly.

In our Rail and Road segment we provide rollingstock manufacture and maintenance services; skilled workforce hire and nationally recognised training; and road tankers for bulk product transport. The segment performed well during the year, particularly the Gemco Rail business unit which recorded EBITDA more than double that of the previous year.

Gemco Rail is recognised as a leading independent rail services provider and, with a well-positioned nationwide footprint, offers customers a wide range of flexible, convenient and cost-effective solutions. The on-going introduction of modern technologies and equipment, coupled with hands-on management and a team comprising some of the best skills in the industry, has placed Gemco favourably in the market, especially with the larger rail operators who are increasingly seeking maintenance outsourcing opportunities.

MANAGING
DIRECTOR AND CEO'S REPORT

The higher volume of work executed in all our facilities - particularly in our heavy maintenance Forrestfield and Dynon sites - has led to greater utilisation rates. We have met the increase in activity with further productivity and capacity enhancing investments in plant and equipment, some of which are yet to be brought on-line but from which we expect to see further benefits in the new financial year. Our strategy to forge closer ties with global high-quality rail products manufacturers has helped grow the Product Sales business stream and further position the business favourably with major rail operators including the large miners.

Many national rail operators have adopted a strategy of focussing on their core logistics business processes, and have outsourced many non-core activities. We positioned our Momentum business unit to meet the needs of operators who find value in our provision of flexible and responsive skilled labour hire services. Our dedicated operations management take the pain-points out of our customers' workforce planning and provisioning, whilst providing our flexible worker network with regular deployment. Momentum's FY17 revenue grew modestly and profitability growth was healthy as it realised the benefits of a largely fixed overhead cost structure.

Our Registered Training Organisation, CERT Training, benefitted from reasonably good general demand for rail training services, mainly in the Eastern States, but was still faced with a challenging market in those areas affected by lower government funding availability. Profitability margins for CERT were lower for the year compared to the previous year, mainly due to pricing pressures. During the year we decided to use internal resources to update and modernise our training assets. This investment has helped set CERT's training delivery quality above competitors and has also helped underpin our meeting more stringent ASQA compliance requirements. Our training scope expansion into rail-aligned industries is gaining momentum and our student reach is increasing through the establishment of appropriate training facilities in strategic locations.

Convair faced very tough market conditions in the early part of the financial year, but we continued with our strategy of continuing to reduce manufacturing costs thus allowing us to offer a superior quality product at competitive prices. As the construction market in particular began to recover, we experienced increased demand for tankers, and our investment into a new design Convair tanker was met with enthusiasm by the

market. The new, unique design steel tanker has many appealing benefits to customers and is manufactured using advanced and more efficient manufacturing processes – leading to a more satisfactory outcome for the year and a good order book going into the new year.

Centralised resources

The majority of Group corporate and administration functions are centralised. We continue to develop our common platforms to meet new business requirements. Leveraging these cost-efficient, key centralised resources has provided a variety of advantages to the company including important favourable balance sheet impacts through a focus on working capital management.

Engenco's consolidated EBITDA for the 2017 financial year improved to $12.8 million and we made regular decisions throughout the year to decrease the drawn-down balance of our Elph-supported funding facility. Consequently, the Elph facility, which had a limit of $15 million, reached a balance of $4 million at year-end – a decrease of more than $12.5 million compared to the end of FY16. Additionally, our net cash position improved by more than $10 million to $5 million.

The year ahead

We are working on a number of significant revenue growth opportunities which may require growth capital, but at this stage expect that the new flexible funding arrangements that we have in place, with a facility limit of $10 million, will be adequate. Looking ahead we expect that, subject to general trading conditions remaining favourable, our profit and cash generation outcomes will continue to be positive.

Realising this much-improved set of results is certainly a team-effort and I would like to thank the people who helped make the year a success. The board and senior management have worked tirelessly in leading our business, and our people have all contributed. Our customers and suppliers have been very supportive, as have our shareholders. Overall, we have reached a far more stable state in the development of the company and now look to the future with a good degree of confidence.

Kevin Pallas
Managing Director and CEO

DIRECTORS' REPORT

The directors present their report, together with the consolidated financial statements of the Group, comprising of Engenco Limited ("the Company") and its controlled entities for the financial year ended 30 June 2017 and the auditor's report thereon.

VINCENT DE SANTIS
B.Com LLB (Hons)

CHAIRMAN SINCE 24 MARCH 2016, NON-EXECUTIVE DIRECTOR AND MEMBER OF AUDIT AND RISK COMMITTEE SINCE 19 JULY 2010

Vince is the Managing Director of the Elphinstone Group, which he joined in 2000, initially as the Group's Legal Counsel and Finance & Investment Manager. In addition to his Chairmanship of the Engenco Limited Board, he is also a director of various other Elphinstone Group companies. Prior to commencing with the Elphinstone Group, Vince was a Senior Associate in the Energy, Resources & Projects team at national law firm Corrs Chambers Westgarth in Melbourne. Vince is a member of the University of Tasmania's North West Advisory Board and the Tasmanian Rhodes Scholarship Selection Committee.

KEVIN PALLAS
B.Com, MAICD

MEMBER OF THE BOARD SINCE 17 DECEMBER 2014, MANAGING DIRECTOR & CEO SINCE 1 FEBRUARY 2015

Kevin possesses senior management and leadership experience through a 25 year career in engineering, mining supplies, metals and manufacturing industries. Holding a Bachelor of Commerce degree, Kevin specialised in the areas of financial and cost accounting systems' design and development, and operational and commercial management for a number of multinationals in South Africa, New Zealand, Singapore and Australia prior to joining the Group in 2007. He served in the position of Chief Financial Officer from 1 March 2013 to 31 January 2015. In February 2015, Kevin was appointed Managing Director and Chief Executive Officer.

DALE ELPHINSTONE
FAICD

NON-EXECUTIVE DIRECTOR SINCE 19 JULY 2010

Dale is the Executive Chairman of the Elphinstone Group which he founded in 1975. Dale has considerable experience in the engineering, manufacturing and heavy machinery industries and among other things is one of the longest serving Caterpillar Dealer principals in Australia, having acquired the Caterpillar dealership in Victoria and Tasmania in 1987. Dale is member of the Joint Commonwealth and Tasmanian Economic Council and was a director of the Tasmanian Health Organisation North-West until 30 June 2015. He was a director of Caterpillar subsidiary, Caterpillar Underground Mining Pty Ltd until December 2008 and of the formerly publicly listed Queensland Gas Company Limited from October 2002 to November 2008. Dale was also a director of ASX listed National Hire Group Limited until December 2011.

ALISON VON BIBRA

BSc, MBA, MAICD

INDEPENDENT NON-EXECUTIVE DIRECTOR AND MEMBER OF THE AUDIT AND RISK COMMITTEE SINCE 17 JANUARY 2017

Alison has held key positions at a number of organisations including almost 10 years at ASX listed multi-national, CSL Limited. During her time at CSL, Alison's roles included Senior Director, Human Resources based in the USA and General Manager, Human Resources located at the company's Melbourne head office. Alison also has experience in a range of board roles including, among others, the CSL Superannuation Fund and Westernport Regional Water Corporation. She is currently a Member of the Dental Board of Australia and Director of the Ballarat General Cemeteries Trust.

ROSS DUNNING AC

BE (Hons), B.Com, FIEAust, FIRSE

NON-EXECUTIVE DIRECTOR AND MEMBER OF AUDIT AND RISK COMMITTEE SINCE 8 NOVEMBER 2010, CHAIRMAN OF AUDIT AND RISK COMMMITTEE SINCE 21 FEBRUARY 2017

Ross has extensive exposure to the rail industry having served as the Commissioner for Railways in Queensland, President of the Australian Railways Association and Managing Director of Evans Deakin Industries Limited (the predecessor to the ASX listed company, Downer EDI Limited). Ross has been awarded the Companion of the Order of Australia and has held non-executive positions with a number of ASX listed companies including Toll Holdings Limited and Downer EDI Limited, Government owned corporations in Queensland and New South Wales and on unlisted public companies. Ross is a member of The Council of St John's College within the University of Queensland. He also serves on the Advisory Board of Indec Pty Ltd.

DONALD HECTOR AM *BE (Chem), PhD, FAICD, FIEAust, FIChemE*

RETIRED FROM POSITION OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF AUDIT AND RISK COMMITTEE ON 23 NOVEMBER 2016

Donald has experience in senior executive management and CEO positions with industrial companies. He was Managing Director of Dow Corning Australia Pty Ltd, the Australian subsidiary of Dow Corning Corporation and was Managing Director of Asia Pacific Specialty Chemicals Ltd, an ASX listed chemical company.

MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

	Directors' Meetings		Audit and Risk Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Vincent De Santis	12	12	4	4
Kevin Pallas	12	12	-	-
Dale Elphinstone	12	12	-	-
Alison von Bibra	6	6	2	2
Ross Dunning	12	11	4	4
Donald Hector	5	5	2	2

CHANGES IN DIRECTORS AND EXECUTIVES SUBSEQUENT TO YEAR END

There have been no changes in directors and executives subsequent to 30 June 2017.

DIRECTORS' SHAREHOLDINGS

The directors' shareholding of ordinary shares as at 30 June 2017 are:

	Ordinary Shares
Vincent De Santis	378,951
Kevin Pallas	72,632
Dale Elphinstone	202,406,914
Alison von Bibra	-
Ross Dunning	182,948
Donald Hector	113,163

COMPANY SECRETARY

GRAEME CAMPBELL
BSc, FCA

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER SINCE 1 FEBRUARY 2015

Graeme started his career in audit with PricewaterhouseCoopers in the United Kingdom and has over 20 years' finance experience in different industry sectors. He has held a number of senior finance roles with blue chip companies in the UK including Shepherd Group, Premier Farnell and R&R Ice Cream. Graeme holds a Bachelor of Science in Mathematics from the Imperial College of Science, Technology and Medicine in London. He is a fellow of the Institute of Chartered Accountants in England and Wales.

STEPHEN BOTT *LLB, B.Juris, Dip. General Insurance*

RESIGNED FROM POSITION OF JOINT COMPANY SECRETARY ON 6 JANUARY 2017

Stephen has over 25 years' legal experience. Prior to commencing with Engenco, Stephen held a number of in-house legal and senior leadership roles in retail, power generation and supply, and FMCG companies after commencing his legal career at the industrial law firm Rennick & Gaynor in the Latrobe Valley.

PRINCIPAL ACTIVITIES

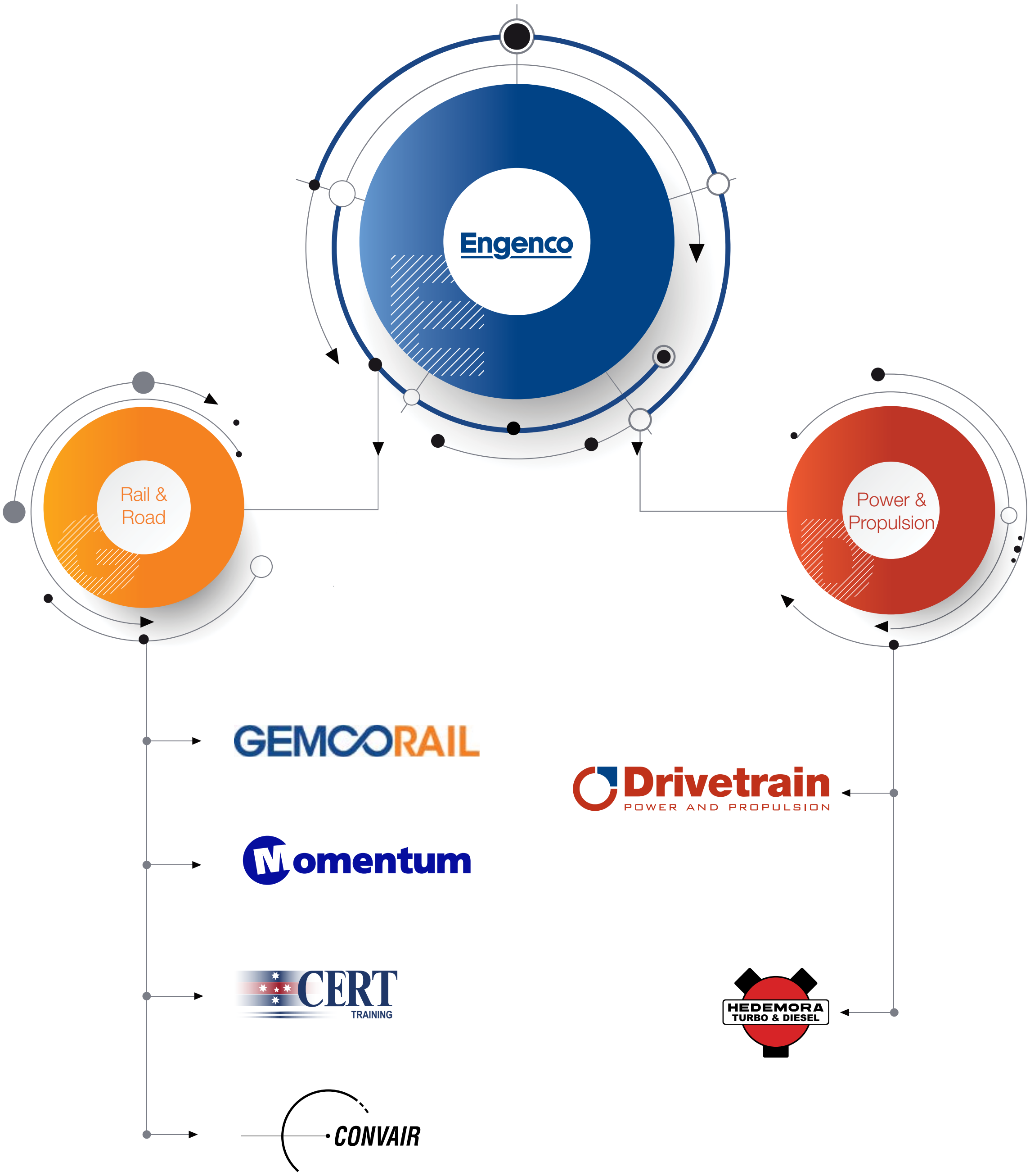
The Group provides a diverse range of engineering services and products through two business segments: 'Power & Propulsion' and 'Rail & Road'. Engenco businesses specialise in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression systems;
- Maintenance, repair and overhaul of locomotives;
- Manufacture and maintenance of wagons, carriages and associated rail equipment;
- Project management, training and workforce provisioning;
- Leasing of wagons and other rail equipment; and
- Manufacture and supply of road transport and storage tankers for dry bulk products.

The Group services a diverse client base across the defence, resources, marine, power generation, rail, heavy industrial and infrastructure sectors.

The Group operates globally and employs over 400 people in nearly twenty locations in three countries.

GROUP STRUCTURE



DRIVETRAIN POWER & PROPULSION (DRIVETRAIN)

Drivetrain's services span the complete engineering product life-cycle for heavy mobile powertrain systems, large-frame turbochargers, heavy diesel and gas power generation and gas compression equipment.

Drivetrain is organised around the following business streams:

- Mobile Powertrain
- Power and Compression
- Hedemora Turbo & Diesel (Sweden)

Services include:

- Maintenance, repair, and overhaul
- Design, installation and commissioning
- Genuine component and spare parts distribution
- Field service
- Technical and engineering services in remote locations
- Equipment life extension

Drivetrain has facilities and service centres in eight locations in the ANZ region. Hedemora Turbo & Diesel is based in Sweden.

GEMCO RAIL

Gemco Rail has been a well-known supplier of quality services and products to the rail sector for many years. Building on this solid reputation and experience, the business specialises in providing fleet-management services to national rail operators and in the manufacture, refurbishment and overhaul of rail equipment. Gemco Rail provides wagon and locomotive scheduled and unscheduled maintenance services and manufactures and supplies custom designed and engineered new and refurbished wagons, bogie component parts and associated rail equipment. Gemco Rail also supplies a broad range of rail track maintenance equipment and parts.

Services include:

- Manufacture and maintenance of freight wagons, other rollingstock and rail equipment
- Locomotive and wagon maintenance, repair and overhaul
- Fleet asset management
- Custom maintenance, modification, retrofit and upgrades
- Bogie, wagon and wheel refurbishment
- Field service crews
- Train inspections
- RailBAM acoustic analysis

The flagship facility in Forrestfield WA is complemented by other facilities strategically located on the rail network in Victoria, South Australia, Queensland and New South Wales.

TOTAL MOMENTUM

Total Momentum offers a range of workforce provisioning services from providing skilled individuals to fully-supervised and equipped crews to carry out rail track construction, maintenance and upgrades. Total Momentum plan, implement and manage safe working solutions for rail clients, from hand-signallers and lookouts to highly experienced Principal Protection Officers and Locomotive Drivers. Operating out of branches in Forrestfield WA, Norwood SA, Thornton NSW and Port Melbourne VIC, Total Momentum's strategic presence is well placed to service the rail and resource sectors.

CENTRE FOR EXCELLENCE IN RAIL TRAINING (CERT)

CERT is a registered training organisation (RTO) that provides responsive, flexible and innovative training, assessment and recertification services to the Australian rail industry. CERT delivers nationally accredited and industry-based training programs on a regular basis, and provides customised courses to suit individual business needs. The business has training centres in Perth, Port Hedland, Sydney, Newcastle, Ipswich, Adelaide and Melbourne with the flexibility to train on-site Australia wide.

CONVAIR ENGINEERING (CONVAIR)

Convair designs and manufactures tankers for the transportation of dry bulk products by road and rail. The business provides repairs, maintains and supplies spare parts for all makes of dry bulk tankers and offers distribution, service and repair of compressors and ancillary equipment used in the support of dry bulk materials handling. Convair is an agent for Feldbinder Spezialfahrzeugwerke GmbH of Germany, supplementing the company's range of products with aluminium dry bulk tankers and stainless steel liquid tankers. With its manufacturing facility based in Melbourne, Convair services customers throughout Australia and New Zealand.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULTS

The Group reported a net profit after tax, including non-controlling interests, of $8,269,000 for the year ended 30 June 2017. The consolidated result for the year is summarised as follows:

	2017 **$000**	2016 $000
Revenue from continuing operations	**129,319**	132,764
EBITDA from continuing operations [2]	**12,785**	6,722
EBIT from continuing operations [1]	**9,137**	2,636
Profit / (loss) after tax from continuing operations	**8,478**	2,497
Profit / (loss) from discontinued operations, net of tax	**(209)**	1,643
Net operating cash flow	**6,400**	11,054
Net assets	**57,011**	49,094
Net cash / (debt)	**4,697**	(5,368)

[1] EBIT is earnings before finance costs and income tax expense.
[2] EBITDA is EBIT before depreciation and amortisation.

Note – EBIT and EBITDA are non-IFRS financial measures, which have not been subject to review or audit by the Group's external auditors. These measures are presented to assist understanding of the underlying performance of the Group.

REVIEW OF PRINCIPAL BUSINESSES AND LIKELY DEVELOPMENTS

Disclosure of information regarding pricipal business performance and likely developments has been made in the Chairman's and Managing Director's letters in this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

DIVIDENDS

The Board of Directors has resolved to pay a final dividend of 0.5 cents per ordinary share (fully franked).

EVENTS SUBSEQUENT TO REPORTING DATE

The Group extended its $2,000,000 multi-option facility with the Commonwealth Bank of Australia on 23 August 2017. This facility now matures on 30 June 2019.

The Group extended the maturity of its $15,000,000 revolving line of credit facility from Elph Pty Ltd (Elph) on 23 August 2017 with this facility now maturing on 30 April 2019. In conjunction with the extension of the maturity date, the Group has also decreased the limit of this facility from $15,000,000 to $10,000,000 and has entered into binding agreements with Elph to effect this change. Under the new arrangement the financial covenant (Debt Service Cover ratio) has been amended to the ratio of EBITDA to gross interest expense, to be greater than 5.0 times.

On 23 August 2017, the Board resolved to declare a final dividend of 0.5 cents per ordinary share (fully franked). Payment of the dividend to shareholders will take place on 28 September 2017.

Other than the above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event which would have a material effect on the financial statements of the Group at 30 June 2017.

ENVIRONMENTAL REGULATION

Group operations are subject to significant environmental regulation under Commonwealth, State and international law, including noise, air emissions and the use, handling, haulage and disposal of dangerous goods and wastes.

The Group follows practices that minimise adverse environmental impacts and complies with environmental requirements.

The Board is not aware of any significant breaches during the periods covered by this report nor does it consider the Group is subject to any material environmental liabilities.

NATIONAL GREENHOUSE AND ENERGY REPORTING GUIDELINES

The Group's environmental obligations are regulated under both Commonwealth and State law. The Group is not subject to the conditions imposed by the registration and reporting requirements of the *National Greenhouse and Energy Reporting Act 2007.*

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has indemnified and paid premiums to insure each of the directors and officers of the Company and its controlled entites against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as directors and officers, other than conduct involving a wilful breach of duty.

NON-AUDIT SERVICES

During the year, KPMG, the Group's auditor, has performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG Australia, and its network firms for audit and non-audit services provided during the year are set out below:

	2017 $
SERVICES OTHER THAN AUDIT AND REVIEW OF FINANCIAL STATEMENTS:	
Other Assurance Services	
Controls assurance services	-
Other Services	
Taxation compliance services	**14,592**
	14,592
AUDIT AND REVIEW OF FINANCIAL STATEMENTS	**377,723**
TOTAL CHARGES FROM KPMG	**392,315**

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 24 and forms part of the Directors' Report for the financial year ended 30 June 2017.

ROUNDING OFF

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 1 April 2016 and in accordance with that Instrument, amounts in the consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

REMUNERATION REPORT - AUDITED

REMUNERATION POLICY

This report details the nature and amount of remuneration for each director of the Company and other key executives of the Group who have a strategic commercial impact upon the Group's activities.

The Board's policy for determining the nature and amount of remuneration for board members and senior executives of the Group is as follows:

- All executive directors and key executives receive a salary package comprised of a base salary, superannuation and other long-term benefits.
- The Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable market information.
- The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits, which are aligned with shareholder value.
- The directors and key executives receive a superannuation guarantee contribution required by law (which was 9.5% during the year) and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase superannuation contributions.
- All remuneration paid to directors and executives is valued at cost to the Group and expensed.
- The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders.
- To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

PERFORMANCE CONDITIONS LINKED TO REMUNERATION

The remuneration level for key management personnel is based on a number of factors, including skills and qualifications, achievements of performance metrics and demonstrated management capability. The contracts for service between the Group and key management personnel are on a continuing basis.

CONSEQUENCES OF PERFORMANCE ON SHAREHOLDER WEALTH

There are currently no non-discretionary short-term incentives available to key management personnel.

The following table shows the gross revenue, profits and dividends for the last 5 years for Engenco Limited, as well as the share prices at the end of the respective financial years.

	2013 $	2014 $	2015 $	2016 $	**2017** **$**
Revenue	176,088,000	140,273,000	133,834,000	135,318,000	**129,399,000**
NPAT attributable to members	(87,731,000)	(11,257,000)	(27,593,000)	3,828,000	**8,309,000**
EBITDA	(67,008,000)	1,692,000	(20,668,000)	11,078,000	**12,765,000**
EBIT	(79,642,000)	(8,836,000)	(30,128,000)	5,503,000	**9,117,000**
Operating income growth [1]	(194%)	89%	(241%)	n/a	**66%**
Share price at year-end	$0.14	$0.12	$0.10	$0.10	**$0.21**
% Change in share price	(72%)	(18%)	(17%)	0%	**121%**
Capital employed [2]	93,306,000	80,348,000	46,448,000	49,988,000	**57,565,000**
Return on capital employed [3]	(85%)	(11%)	(65%)	11%	**16%**
Dividends paid	-	-	-	-	**-**

[1] Operating income growth is the movement in EBIT year-on-year
[2] Capital employed is total assets less current liabilities
[3] Return on capital employed is EBIT over capital employed

NON-EXECUTIVE DIRECTORS

Total compensation for all non-executive directors was last voted upon by shareholders at the 2016 Annual General Meeting. The base fee for the Chairperson is $160,000 per annum. Base fees for other non-executive directors do not exceed $80,000 per annum.

Directors' base fees cover all main board activities. Non-executive director members who sit on a committee receive an additional fee of $6,000 per annum. Non-executive director members who hold the position of Chairperson on a committee receive an additional fee of $6,000 per annum.

Non-executive directors do not receive performance-related compensation and are not provided with retirement benefits apart from statutory superannuation.

REMUNERATION REPORT - AUDITED (cont'd)

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION DETAILS FOR YEAR ENDED 30 JUNE 2017

Details of the nature and amount of each major element of remuneration for each director of the Company, and other key management personnel of the Group, are:

		Short-Term					Post-Employment	Other Long-Term			
		Salary and Fees $	Non-Monetary Benefits $	Other Benefits $	Discretionary Performance Benefit $	Sub-Total $	Super-annuation Benefit $	Long Service Leave $	Termination Benefit $	**Total $**	% Remuneration Performance Related
DIRECTORS											
NON-EXECUTIVE DIRECTORS											
V De Santis	**2017**	**167,200**	**-**	**-**	**-**	**167,200**	**7,885**	**-**	**-**	**175,085**	**-**
Chairman [1]	2016	45,100	-	-	-	45,100	-	-	-	45,100	-
D Elphinstone	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Chairman [1]	2016	130,800	-	-	-	130,800	-	-	-	130,800	-
V De Santis	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2016	64,500	-	-	-	64,500	-	-	-	64,500	-
D Elphinstone	**2017**	**80,000**	**-**	**-**	**-**	**80,000**	**3,800**	**-**	**-**	**83,800**	**-**
	2016	20,000	-	-	-	20,000	-	-	-	20,000	-
D Hector: retired 23 Nov 2016 [2]	**2017**	**36,570**	**-**	**-**	**-**	**36,570**	**3,474**	**-**	**-**	**40,044**	**-**
	2016	92,000	-	-	-	92,000	8,740	-	-	100,740	-
R Dunning	**2017**	**62,076**	**-**	**-**	**-**	**62,076**	**34,872**	**-**	**-**	**96,948**	**-**
	2016	51,269	-	-	-	51,269	42,901	-	-	94,170	-
A von Bibra: appointed 17 Jan 2017	**2017**	**37,707**	**-**	**-**	**-**	**37,707**	**3,582**	**-**	**-**	**41,289**	**-**
	2016	-	-	-	-	-	-	-	-	-	-
SUB-TOTAL NON-EXECUTIVE DIRECTORS' REMUNERATION	**2017**	**383,553**	**-**	**-**	**-**	**383,553**	**53,613**	**-**	**-**	**437,166**	**-**
	2016	403,669	-	-	-	403,669	51,641	-	-	455,310	-
EXECUTIVE DIRECTORS											
K Pallas	**2017**	**368,629**	**-**	**-**	**54,795**	**423,424**	**40,224**	**9,621**	**-**	**473,269**	**11.6%**
Managing Director & CEO	2016	356,164	-	-	-	356,164	33,835	7,030	-	397,029	-
SUB-TOTAL EXECUTIVE DIRECTORS' REMUNERATION	**2017**	**368,629**	**-**	**-**	**54,795**	**423,424**	**40,224**	**9,621**	**-**	**473,269**	**-**
	2016	356,164	-	-	-	356,164	33,835	7,030	-	397,029	-
TOTAL DIRECTORS' REMUNERATION	**2017**	**752,182**	**-**	**-**	**54,795**	**806,977**	**93,837**	**9,621**	**-**	**910,435**	**-**
	2016	759,833	-	-	-	759,833	85,476	7,030	-	852,339	-

REMUNERATION REPORT - AUDITED (cont'd)

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION DETAILS FOR YEAR ENDED 30 JUNE 2017 (cont'd)

		Short-Term					Post-Employment	Other Long-Term			
		Salary and Fees $	Non-Monetary Benefits $	Other Benefits $	Discretionary Performance Benefit $	Sub-Total $	Superannuation Benefit $	Long Service Leave $	Termination Benefit $	**Total $**	% Remuneration Performance Related
EXECUTIVES											
G Campbell	**2017**	**249,634**	**-**	**-**	**18,265**	**267,899**	**20,519**	**12,911**	**-**	**301,329**	**6.1%**
Chief Financial Officer/Company Secretary	2016	241,216	-	-	-	241,216	18,783	-	-	259,999	-
G Thorn	**2017**	**329,987**	**-**	**-**	**18,265**	**348,252**	**33,083**	**-**	**-**	**381,335**	**4.8%**
Executive General Manager – Rail	2016	323,557	-	6,430	-	329,987	31,348	-	-	361,335	-
J Källström: appointed 1 Feb 2016	**2017**	**123,850**	**-**	**16,498**	**-**	**140,348**	**12,385**	**-**	**-**	**152,733**	**-**
General Manager – Hedemora Turbo & Diesel (Sweden)	2016	48,224	-	7,043	-	55,267	4,822	-	-	60,089	-
D Bentley	**2017**	**234,526**	**-**	**11,700**	**-**	**246,226**	**34,237**	**4,826**	**-**	**285,289**	**-**
General Manager – Drivetrain P&C	2016	237,079	-	11,700	-	248,779	31,577	4,844	-	285,200	-
P Gale	**2017**	**218,821**	**-**	**-**	**18,265**	**237,086**	**22,523**	**5,090**	**-**	**264,699**	**6.9%**
General Manager – Drivetrain MPT	2016	217,308	-	2,696	-	220,004	20,388	4,237	-	244,629	-
P Swann	**2017**	**224,565**	**18,993**	**30,506**	**-**	**274,064**	**30,319**	**8,469**	**-**	**312,852**	**-**
General Manager – Convair	2016	226,027	-	28,353	-	254,380	35,000	3,158	-	292,538	-
M Haigh	**2017**	**156,892**	**100,662**	**1,950**	**-**	**259,504**	**35,249**	**6,304**	**-**	**301,057**	**-**
General Manager – CERT	2016	157,817	92,792	1,950	-	252,559	34,921	3,474	-	290,954	-
R Edwards [3]	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General Manager – Momentum/ Greentrains	2016	76,390	-	-	-	76,390	7,257	1,463	-	85,110	-

REMUNERATION REPORT - AUDITED (cont'd)

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION DETAILS FOR YEAR ENDED 30 JUNE 2017 (cont'd)

		Short-Term					Post-Employment	Other Long-Term			
		Salary and Fees $	Non-Monetary Benefits $	Other Benefits $	Discretionary Performance Benefit $	Sub-Total $	Super-annuation Benefit $	Long Service Leave $	Termination Benefit $	**Total $**	% Remuneration Performance Related
FORMER											
G Northeast: retired 24 May 2016	**2017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
General Manager – DTSE & DTUSA	2016	135,263	-	-	-	135,263	37,171	-	-	172,434	-
S Bott: resigned 22 Dec 2016	**2017**	**71,264**	**-**	**-**	**-**	**71,264**	**17,300**	**-**	**-**	**88,564**	**-**
Legal Counsel/Company Secretary	2016	128,971	-	-	-	128,971	31,029	-	-	160,000	-
TOTAL EXECUTIVE OFFICERS' REMUNERATION	**2017**	**1,609,539**	**119,655**	**60,654**	**54,795**	**1,844,643**	**205,615**	**37,600**	**-**	**2,087,858**	**-**
	2016	1,791,852	92,792	58,172	-	1,942,816	252,296	17,176	-	2,212,288	-
TOTAL DIRECTORS' & EXECUTIVE OFFICERS' REMUNERATION	**2017**	**2,361,721**	**119,655**	**60,654**	**109,590**	**2,651,620**	**299,452**	**47,221**	**-**	**2,998,293**	**-**
	2016	2,551,685	92,792	58,172	-	2,702,649	337,772	24,206	-	3,064,627	-

[1] V De Santis was appointed Chairman on 24 March 2016. D Elphinstone returned to the position of Non-Executive Director effective the same date. Fees for the services of V De Santis and D Elphinstone are paid via agreements with Elphinstone Group (Aust) Pty Ltd which is a related party of the Company.

[2] Fees to D Hector were paid via an agreement with Grassick SSG Pty Ltd which is a related party of the Company.

[3] R Edwards was appointed Group HR & Safety Manager (previously General Manager – Momentum/Greentrains) and ceased to be a member of the Key Management Personnel on 1 November 2015.

LOANS TO KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

The balance of loans to key management personnel and their related parties outstanding as at 30 June 2017 is $NIL (2016: $NIL).

REMUNERATION REPORT - AUDITED (cont'd)

SERVICE CONTRACTS

The employment conditions of key management personnel are formalised in contracts of employment. The employment contract does not stipulate a term of employment period but does stipulate a notice period for resignation and periods of remuneration and conditions under termination. Termination payments are not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at any time.

	Terms of Agreement	Termination Benefit
V De Santis	Ongoing director agreement	N/A - Non-Executive Director
D Elphinstone	Ongoing director agreement	N/A - Non-Executive Director
D Hector	Ongoing director agreement	N/A - Non-Executive Director
R Dunning	Ongoing director agreement	N/A - Non-Executive Director
A von Bibra	Ongoing director agreement	N/A - Non-Executive Director
K Pallas	Permanent employment contract	8 weeks' pay
G Campbell	Permanent employment contract	8 weeks' pay
G Thorn	Permanent employment contract	8 weeks' pay
J Källström	Permanent employment contract	3 months' pay
D Bentley	Permanent employment contract	12 months' pay
P Gale	Permanent employment contract	3 months' pay
P Swann	Permanent employment contract	5 weeks' pay
M Haigh	Permanent employment contract	1 months' pay
R Edwards	Permanent employment contract	5 weeks' pay
G Northeast	Permanent employment contract	3 months' pay
S Bott	Permanent employment contract	4 weeks' pay

OPTIONS AND RIGHTS OVER EQUITY INSTRUMENTS GRANTED

In the 2016 and 2017 financial years no executive directors, non-executive directors or key management personnel had any options or rights.

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

A number of key management personnel, or their relates parties, hold positions in other entities that result in them having control or joint control over the financial or operating policies of those entities.

A number of these entities transacted with the Group during the year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's-length basis.

From time to time, directors of the Group, or their related entities, may purchase goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

REMUNERATION REPORT - AUDITED (cont'd)

MOVEMENTS IN SHARES

The movement during the reporting period in the number of ordinary shares in Engenco Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2017	Balance 1 July 2016	Received as compensation	Other changes*	Balance 30 June 2017
V De Santis	300,003	-	**78,948**	**378,951**
D Elphinstone	202,249,018	-	**157,896**	**202,406,914**
D Hector	113,163	-	-	**113,163**
R Dunning	104,000	-	**78,948**	**182,948**
A von Bibra	-	-	-	-
K Pallas	20,000	-	**52,632**	**72,632**
G Campbell	-	-	-	-
S Bott	-	-	-	-
G Thorn	10,000	-	**468,948**	**478,948**
G Northeast	18,983	-	-	**18,983**
D Bentley	-	-	-	-
P Gale	-	-	-	-
P Swann	25,275	-	-	**25,275**
M Haigh	-	-	-	-
R Edwards	-	-	-	-
J Källström	-	-	-	-

*Other changes represent shares that were purchased or sold during the year.

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

Vincent De Santis

Chairman
Dated 24 August 2017

DIRECTORS' DECLARATION

1. In the opinion of the directors of Engenco Limited (the Company):
    a. the consolidated financial statements and notes that are set out on pages 34 - 76 and the Remuneration Report on pages 17 to 22 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
        i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
        ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
    b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2017.

3. The directors draw attention to Note 1 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Board of Directors:

V De Santis

Vincent De Santis
Chairman
Dated 24 August 2017

AUDITOR'S INDEPENDENCE DECLARATION

KPMG

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

To the Directors of Engenco Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Engenco Limited for the financial year ended 30 June 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne
24 August 2017

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To the shareholders of Engenco Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Engenco Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matter*** we identified was:

- Valuation of wagon fleet.

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of wagon fleet ($8,429K)

Refer to Note 15 to the Financial Report

The key audit matter	How the matter was addressed in our audit
A key audit matter for us was the Group's impairment assessment of its wagon fleet, given the size of the balance (approximately 10% of total assets) as at 30 June 2017 and the market conditions. In particular, the wagon rental market in which the Group operates has been depressed in recent years. This resulted in a majority of the Group's wagon lease tenure towards short to medium term, hence increasing the risk of inaccurate forecast utilisation and cash flows. We focused on the significant forward-looking and other assumptions the Group applied in the impairment assessment for the wagon fleet.	Our procedures included: • We considered the appropriateness of the impairment review methodology applied by the Group against the requirements of the accounting standards. • We compared the forecast cash flows to Board approved forecasts, and considered the key events included in the Board approved plan and strategy. • We challenged the Group's significant forecast cash flow and wagon fleet utilisation assumptions. We compared forecast assumptions to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our industry experience. • We assessed the accuracy of previous Group forecasts to inform our evaluation of the Group's current period forecasts. • We involved our senior audit team members to evaluate the external independent valuation obtained by the Group regarding the carrying value of the wagon fleet at reporting date by assessing the valuation methodology adopted and competence of the external expert. • We assessed the disclosures in the financial report using our understanding of this key audit matter obtained from our testing and

	against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Engenco Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Engenco Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 17 to 22 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our Audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne
24 August 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	**Consolidated Group 2017 $000**	Consolidated Group 2016 $000
Revenue	5	**129,319**	132,764
Other income	5	**1,052**	1,454
Changes in inventories of finished goods and work in progress		**2,745**	(3,251)
Raw materials and consumables used		**(58,662)**	(58,258)
Employee benefits expense	6	**(43,818)**	(45,008)
Depreciation and amortisation expense		**(3,648)**	(4,086)
Reversal / (impairment) of property, plant and equipment		**-**	41
Reversal / (impairment) of inventory		**(208)**	(1,954)
Finance costs	6	**(783)**	(426)
Subcontract freight		**(1,079)**	(1,257)
Repairs and maintenance		**(1,329)**	(1,148)
Insurances		**(1,214)**	(1,424)
Rent and outgoings		**(6,218)**	(6,832)
Foreign exchange movements		**46**	143
Other expenses		**(7,734)**	(8,408)
Share of profit / (loss) of equity-accounted investee, net of tax	14	**(115)**	(140)
PROFIT / (LOSS) BEFORE INCOME TAX		**8,354**	2,210
Income tax benefit / (expense)	7	**124**	287
PROFIT / (LOSS) FROM CONTINUING OPERATIONS		**8,478**	2,497
DISCONTINUED OPERATIONS			
Profit / (loss) from discontinued operations, net of tax	4	**(209)**	1,643
TOTAL PROFIT / (LOSS) FOR THE PERIOD		**8,269**	4,140
Profit / (loss) attributable to:			
Owners of the Company		**8,309**	3,828
Non-controlling interest		**(40)**	312
		8,269	4,140
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of overseas subsidiaries		**(811)**	85
Other comprehensive income for the period, net of tax		**(811)**	85
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**7,458**	4,225
Total comprehensive income attributable to:			
Owners of the Company		**7,498**	3,913
Non-controlling interest		**(40)**	312
		7,458	4,225
EARNINGS PER SHARE		**Cents**	Cents
Basic earnings per share (cents per share)	8	**2.67**	1.23
Diluted earnings per share (cents per share)	8	**2.67**	1.23
From continuing operations:			
Basic earnings per share (cents per share)	8	**2.72**	0.80
Diluted earnings per share (cents per share)	8	**2.72**	0.80

The notes on pages 34 to 76 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CURRENT ASSETS			
Cash and cash equivalents	9	**8,960**	11,517
Trade and other receivables	10	**26,009**	18,865
Inventories	11	**28,940**	26,195
Other current assets	12	**3,020**	3,134
Assets held for sale	13	**100**	6,300
TOTAL CURRENT ASSETS		**67,029**	66,011
NON-CURRENT ASSETS			
Financial assets		**7**	7
Equity-accounted investee	14	**-**	106
Property, plant and equipment	15	**17,376**	18,489
Deferred tax assets	7	**295**	125
Intangible assets	17	**398**	657
TOTAL NON-CURRENT ASSETS		**18,076**	19,384
TOTAL ASSETS		**85,105**	85,395
CURRENT LIABILITIES			
Trade and other payables	18	**15,919**	11,284
Financial liabilities	19	**4,263**	16,885
Current tax liabilities	7	**750**	537
Provisions	20	**6,609**	6,701
TOTAL CURRENT LIABILITIES		**27,541**	35,407
NON-CURRENT LIABILITIES			
Provisions	20	**481**	421
Deferred tax liabilities	7	**72**	473
TOTAL NON-CURRENT LIABILITIES		**553**	894
TOTAL LIABILITIES		**28,094**	36,301
NET ASSETS		**57,011**	49,094
Issued capital	23	**302,719**	302,260
Reserves		**(122)**	689
Retained earnings / (accumulated losses)		**(239,757)**	(248,066)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**62,840**	54,883
Non-controlling interest		**(5,829)**	(5,789)
TOTAL EQUITY		**57,011**	49,094

The notes on pages 34 to 76 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital Ordinary Shares $000	Retained Earnings / (Accumulated Losses) $000	Foreign Currency Translation Reserve $000	Sub-Total $000	Non-controlling Interest $000	Total Equity $000
BALANCE AT 1 JULY 2015	302,260	(251,894)	604	50,970	(6,101)	44,869
Profit / (loss)	-	3,828	-	3,828	312	4,140
Other comprehensive income	-	-	85	85	-	85
TOTAL COMPREHENSIVE INCOME	-	3,828	85	3,913	312	4,225
BALANCE AT 30 JUNE 2016	302,260	(248,066)	689	54,883	(5,789)	49,094
BALANCE AT 1 JULY 2016	**302,260**	**(248,066)**	**689**	**54,883**	**(5,789)**	**49,094**
Profit / (loss)	**-**	**8,309**	**-**	**8,309**	**(40)**	**8,269**
Other comprehensive income	**-**	**-**	**(811)**	**(811)**	**-**	**(811)**
TOTAL COMPREHENSIVE INCOME	**-**	**8,309**	**(811)**	**7,498**	**(40)**	**7,458**
Shares issued during the year	**473**	**-**	**-**	**473**	**-**	**473**
Transaction costs	**(14)**	**-**	**-**	**(14)**	**-**	**(14)**
TOTAL CONTRIBUTIONS AND DISTRIBUTIONS	**459**	**-**	**-**	**459**	**-**	**459**
BALANCE AT 30 JUNE 2017	**302,719**	**(239,757)**	**(122)**	**62,840**	**(5,829)**	**57,011**

The notes on pages 34 to 76 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	**Consolidated Group 2017 $000**	Consolidated Group 2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**137,326**	155,887
Payments to suppliers and employees		**(129,766)**	(143,020)
Interest received		**46**	51
Finance costs		**(972)**	(1,650)
Income tax received / (paid)		**(234)**	(214)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	25(b)	**6,400**	11,054
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of non-current assets		**5,635**	997
Purchase of non-current assets		**(2,429)**	(1,789)
Proceeds from sale of investment		**-**	222
NET CASH FROM / (USED IN) INVESTING ACTIVITIES		**3,206**	(570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		**473**	-
Payment of transaction costs related to issue of share capital		**(14)**	-
Repayment of borrowings		**(12,674)**	(3,336)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES		**(12,215)**	(3,336)
Net increase / (decrease) in cash and cash equivalents		**(2,609)**	7,148
Cash (net of bank overdrafts) at beginning of financial year		**11,306**	4,158
CASH (NET OF BANK OVERDRAFTS) AT END OF FINANCIAL YEAR	25(a)	**8,697**	11,306

The notes on pages 34 to 76 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained here within, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

REPORTING ENTITY

Engenco Limited (the 'Company') is domiciled in Australia. The Company's registered office is at Level 22, 535 Bourke Street, Melbourne, VIC 3000. These consolidated financial statements comprise the Company and its subsidiaries (collectively 'the Group' and individually 'Group companies'). The Group is a for-profit entity and is involved in the delivery of a diverse range of engineering services and products.

BASIS OF ACCOUNTING

Statement of Compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 24 August 2017.

Functional and Presentation Currency

These consolidated financial statements are presented in AUD, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Use of Judgements and Estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the year ending 30 June 2017 is included in the following notes:

- Note 7 - Tax. Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors' understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, pending an assessment by taxable authorities in relevant jurisdictions.
- Note 10 - Trade and Other Receivables. Trade receivables are reviewed and impaired where significant uncertainty is identified as to the recoverability of amounts due, and where the amounts to which the uncertainty relates can be quantified.
- Note 11 - Inventories. Inventory and WIP values are determined using the net realisable value, where the cost is in excess of this value.
- Note 15 - Property, Plant and Equipment. The recoverable amount of certain wagons (part of 'Property, Plant and Equipment') is determined using an external valuation report which utilises multiple valuation techniques with a primary focus on depreciated replacement cost approach. Impairment is recognised when the carrying amount exceeds the recoverable amount. Where rollingstock is held by the Group, but the leasing opportunities are limited due to market conditions, the assets are held at recoverable value.

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for non-derivative financial instruments at fair value through profit or loss, which are measured at fair value.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Going Concern

The consolidated financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity, and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As at 30 June 2017, all of the Group's borrowings were classified as current as they were due for repayment within 12 months subsequent to 30 June 2017.

- The Group extended its $2,000,000 multi-option facility (bank overdraft facility and bank guarantees) with the Commonwealth Bank of Australia (CBA) on 23 August 2017. This facility now expires on 30 June 2019.
- The Group extended its funding facility (Elph Funding Facility) with Elph Pty Ltd (Elph) on 23 August 2017. This facility now expires on 30 April 2019. Elph, and its related entity Elph Investments Pty Ltd, together hold 64.59% of the issued shares in Engenco Limited. The Elph Funding Facility is subject to one covenant and secured by certain assets of the Group. The covenant was complied with at all times during the financial year ended 30 June 2017.

The ability of the Group to remain within the limits and covenant terms of its funding arrangements will be determined by operational trading results and cash flows from operations. The directors have assessed the forecast trading results and cash flows for the Group. These forecasts are necessarily based on best estimate assumptions at the date of the financial report. The directors are satisfied that the Group will have sufficient cash and undrawn facilities to continue to operate and pay its debts as and when they fall due (for at least the 12 month period from the date of signing this financial report) and to comply with the covenant terms of its funding arrangements.

SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Consolidation

Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 1(c)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see Note 19).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in the profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Non-Controlling Interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Interests in Equity-Accounted Investees

The Group's interests in equity-accounted investees comprise of interest in a joint venture.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in the joint venture is accounted for using the equity method. It is recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income (OCI) of equity-accounted investees, until the date on which joint control ceases.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Construction Contracts in Progress

Construction contracts in progress represents the gross amount expected to be collected from customers for contract work performed to date. It is measured at costs incurred plus profits recognised to date (see Note 5) less progress billings and recognised losses.

In the Statement of Financial Position, construction contracts in progress are presented as work in progress. Advances received from customers are presented as deferred income/revenue.

c. Impairment

Non-Derivative Financial Assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers and issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

The Group considers evidence of impairment for financial assets measured at amortised cost at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Non-Financial Assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

d. Foreign Currency

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- Available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in OCI are reclassified to profit or loss);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the functional currency at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

e. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the Statement of Profit or Loss and OCI in the period in which they are incurred.

f. Finance Income and Finance Costs

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- The net gain or loss on financial assets at fair value through profit or loss;
- The foreign currency gain or loss on financial assets and financial liabilities; and
- Impairment losses recognised on financial assets (other than trade receivables).

Interest income or expense is recognised using the effective interest method.

g. Government Grants

Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

h. Goods and Services Tax (GST)

Revenues, expenses and non-financial assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

i. Comparative Figures

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

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a Statement of Financial Position as at the beginning of the earliest comparative period will be disclosed.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j. Rounding of Amounts

The Group has applied the relief available to it under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, amounts in the financial statements and Directors' Report have been rounded off to the nearest thousand dollars (unless otherwise indicated).

k. New Accounting Standards and Interpretations

NEW ACCOUNTING STANDARDS ADOPTED

The Group has adopted the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for the current reporting period.

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Group include:

- *AASB 2015-3 Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality.*

The adoption of these standards resulted in expanded disclosures in the financial statements but did not have a material financial impact on the current reporting period or the prior comparative reporting period.

The following standards, amendments to standards and interpretations which may be relevant to the Group were available for early adoption but have not been applied by the Group in these financial statements:

IFRS 9: *Financial Instruments*

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9: *Financial Instruments*.

The effective date of IFRS 9 is reporting periods commencing on or after 1 January 2018, with early adoption permitted. IFRS 9 will become applicable to the Group from the annual reporting period beginning on 1 July 2018.

The Group has commenced the initial assessment of the potential impact of the adoption of IFRS 9 on the Group's consolidated financial statements and the assessment is still ongoing. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

As the Group currently does not apply hedge accounting for its foreign currency transactions, this component of IFRS 9 is not expected to impact the consolidated financial statements unless the Group decides to implement hedge accounting in future reporting periods.

i. Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets:

- Measured at amortised cost;
- Measured at fair value through other comprehensive income (FVOCI); and
- Measured at fair value through profit or loss (FVTPL).

The existing categories of held to maturity, loans and receivables, and available-for-sale are removed. The existing requirements for financial liabilities is largely retained.

A financial asset is classified as being subsequently measured at amortised cost if the asset is held within a business model whose objective is to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI).

The Group currently classifies its non-derivative financial assets into the categories of FVTPL, loans and receivables, and available-for-sale. With the removal of loans and receivables and available-for-sale categories under IFRS 9, loans and receivables will likely become measured at amortised cost and be subject to the business model and SPPI criterion assessments. These criterion assessments are yet to be performed. Available-for-sale assets will likely become measured at FVTPL.

ii. Impairment

IFRS 9 replaces the 'incurred cost' model with an 'expected credit loss' model. The new model uses a dual measurement approach, under which the loss allowance is measured as either:

- 12-month expected credit losses (result from possible default events within the 12 months after the reporting date); or
- Lifetime expected credit losses (result from all possible default events over the expected life of a financial instrument).

A simplified approach is available for trade receivables, contract assets and lease receivables, allowing or requiring the recognition of lifetime expected credit losses at all times.

The Group currently only recognises a credit loss when there is objective evidence that impairment has occurred. The new expected credit loss model requires estimates of 12-month or lifetime expected credit losses to be recognised upon initial recognition of the financial asset, and when there is a significant change in credit risk. The Group has not yet finalised the impairment method that it will apply under IFRS 9 but expect the initial application of the new model may result in a negative financial impact, depending on the size and nature of the existing credit profile at the time of initial application.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

iii. **Presentation and disclosure**

IFRS 9 introduces new presentation requirements and extensive new disclosure requirements, particularly surrounding credit risk and expected credit losses. The Group's ongoing preliminary assessments include an analysis to identify data gaps in the existing processes to enable the capturing of the required data.

iv. **Transition**

The general principle in IFRS 9 is for retrospective application of the standard upon initial application. Retrospective application means that the new requirements are applied to transactions, other events and conditions as if those requirements had always been applied.

IFRS 9 contains certain exemptions from full retrospective application for the classification and measurement requirements, including impairment. These include an exemption from the requirement to restate comparative information. If an entity does not restate comparative information in prior periods, it recognises any difference between the previous carrying amount and the carrying amount at the date of initial application in the opening retained earnings balance. Entities are allowed to restate comparatives only if this is possible without the use of hindsight.

The Group plans to utilise the above mentioned exemptions upon initial application.

IFRS 15: *Revenue from Contracts with Customers*

The International Accounting Standards Board released the new revenue recognition standard, IFRS 15: *Revenue from Contracts with Customers*, in 2014. The new standard provides a framework that replaces existing revenue recognition guidance, including IAS 18: *Revenue*, IAS 11: *Construction Contracts* and IFRIC 13: *Customer Loyalty Programs*.

New qualitative and quantitative disclosure requirements aim to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Entities will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- Over time, in a manner that depicts the entity's performance; or
- At a point in time, when control of the goods or services is transferred to the customer.

The effective date of IFRS 15 is reporting periods commencing on or after 1 January 2018, with early adoption permitted. IFRS 15 will become applicable to the Group from the annual reporting period beginning on 1 July 2018.

The initial assessment of the potential impact of the adoption of IFRS 15 on the Group's consolidated financial statements is ongoing. The new standard will require the Group to revise its accounting processes, system and internal controls related to contracts with customers and revenue reporting, and these changes are not yet complete.

Preliminary assessments have identified the following potential implications on the main revenue streams of the Group.

i. **Sale of goods**

The Group engages in the sale of spare parts and components for various rail, road, powertrain and gas compression industry sectors. The Group currently recognises revenue from the sale of goods when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated, there is no continuing management involvement with the goods, and the amount of revenue can be reliably measured. Revenue is measured net of returns, trade discounts and volume rebates.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods. The Group does not expect there to be a significant impact to the recognition of revenue on the sale of goods domestically. Depending on the freight arrangements in place with customers, there may be some impact on the timing of revenue recognition on the sale of goods internationally. This may lead to the recognising of revenue earlier or later than at present.

ii. **Rendering of services**

The Group currently performs a number of services to various industry sectors, including maintenance, repairs and overhauls. The Group currently recognises revenue from the rendering of these services with reference to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed.

Under IFRS 15, the total consideration in service contracts will be allocated to all services based on their stand-alone selling prices. The stand-alone selling prices will be determined based on the prices at which the Group sells the services in separate transactions. Preliminary assessments have indicated there will be an impact to the Group's accounting for revenue from the rendering of services due to:

- Contracts often containing the provisioning of various services, sometimes as bundles;
- Variances in the stand-alone selling prices to those in large contracts; and
- Variable consideration is often included in customer contracts.

Changes under IFRS 15 may also lead to the recognition of revenue from the rendering of services earlier or later than at present, depending on the terms of the customer contracts.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

iii. **Rental income**

The Group leases out its fleet of rollingstock and certain items of property, plant and equipment to customers. Rental income is currently recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Customer contracts which fall within the scope of IFRS 16: *Leases* are not within scope for IFRS 15. The Group's rental income will continue to be subject to the lessor accounting requirements under IFRS 16, and as there are limited changes enacted under the new leasing standard for lessors, the impact on the Group is not expected to be significant.

iv. **Construction contracts**

The Group is involved in the manufacture of wagons, carriages, rail equipment and dry bulk tankers. Contract revenue currently includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be reliably measured. Revenue is then recognised in profit or loss with reference to the stage of completion on the contract, which is assessed based on surveys of work performed.

Under IFRS 15, claims and variations will be included in the contract accounting when they are approved. Revenue can only be recognised over time if it satisfies one of three criteria, otherwise revenue is to be recognised at a point in time. There is likely to be an impact to the Group's revenue recognition from construction contracts, both in terms of consideration and timing. The assessment of this impact is ongoing.

v. **RTO training and government grants**

The Group's RTO entity (CERT) delivers nationally accredited and industry-based training courses. It may also receive government grants for the delivery of its training courses. Currently, the revenue from these grants is recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

The Group does not expect the changes under IFRS 15 to have a significant impact on the current revenue accounting for training or government grants. Expenses are only incurred as the customer receives and benefits from the services being performed.

vi. **Transition**

The Group plans to adopt IFRS 15 using the Modified Retrospective (Cumulative Effect) approach. As a result, the Group will not be required to restate its prior year comparatives. Instead, the cumulative impact of adopting IFRS 15 will be adjusted through opening retained earnings.

This transitional approach requires the following additional disclosures in the notes to the Group's consolidated financial statements:

- The amount by which each financial statement line item is affected in the current year as a result of applying IFRS 15; and
- A qualitative explanation of the significant changes between reported results under the IFRS 15 and the previous revenue guidance.

The Group plans to use the practical expedient for contract modifications upon initial application of IFRS 15. This means that for contracts that were modified before the beginning of the earliest period presented in the consolidated financial statements, an entity may reflect the aggregate effect of all contract modifications when identifying separate performance obligations and determining and allocating the transaction price on transition.

IFRS 16: *Leases*

In January 2016, the International Accounting Standards Board issued the new leasing standard IFRS 16: *Leases*. The new standard requires entities to bring most leases on-balance sheet, recognising new assets and liabilities. There are also changes in accounting treatment over the life of the lease, in particular recognising a front-loading pattern of expenses on most leases even when the rental payments are constant.

The effective date of IFRS 16 is reporting dates commencing on or after 1 January 2019, with early adoption only permitted if IFRS 15: *Revenue from Contracts with Customers* is also adopted. IFRS 16 will become applicable to the Group from the annual reporting period beginning on 1 July 2019.

The Group has commenced its initial impact assessment of the potential impact on its consolidated financial statements. The Group holds leasing arrangements as both a lessee and lessor. Whilst the changes to lessor accounting is minimal and is not expected to have a significant impact on the Group, the changes to lessee accounting is substantial and will have a significant impact on the Group's consolidated financial statements as well as policies and controls.

The key change under IFRS 16, and impact on the Group, is the requirement that operating leases be recognised on-balance sheet through the recognition of a Right-of-Use (ROU) Asset and Lease Liability. Lease expenditure is also no longer recognised as operating expenditure, but instead as depreciation and interest. This change directly impacts EBITDA (earnings before finance costs, income tax expense, and depreciation and amortisation), which is a key metric used by the Group.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (cont'd)

i. Lease definition

IFRS 16 eliminates the current operating/finance lease dual accounting model for leases. Instead, there is a single, on-balance sheet accounting model, similar to current finance lease accounting. The assessment of whether a contract contains a lease determines whether the arrangement is recognised on- or off-balance sheet.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. There are three key elements of the new lease definition, and all three must be met in order for the contract to contain a lease and the entity therefore be able to apply lease accounting under IFRS 16:

- Contract contains an identified asset;
- The lessee obtains substantially all the economic benefits from the use of the asset; and
- The lessee directs the use of the asset.

As at the reporting date, the Group has non-cancellable operating lease commitments of $22,777,000, mainly relating to the land and buildings the Group leases for the purposes of operating its various businesses. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16 and the Group will recognise the right-of-use asset and the corresponding liability in respect of these leases unless they meet the exemption criteria as short-term leases or leases of low value assets. Furthermore, under IFRS 16, the Group will recognise the depreciation charge for right-of-use assets and interest expense on lease liabilities.

ii. Transition

On transition to IFRS 16, a lessee is permitted to use one of two approaches:

- Retrospective approach; or
- Modified retrospective approach with practical expedients.

The Group has not yet determined which transition approach to apply. The Group has not yet quantified the impact on its reported assets and liabilities upon adoption of IFRS 16. The impact will depend on the transition method chosen, the extent to which the Group applies practical expedients and recognition exemptions, and any additional lease arrangements entered into prior to adoption of IFRS 16.

Other Accounting Standards

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- *Accounting for Acquisitions of Interests in Joint Operations (Amendments to AASB 11)*
- *Clarification of Acceptable Methods of Depreciation and*
- *Amortisation (Amendments to IAS 16 and IAS 38)*
- *Equity Method in Separate Financial Statements (Amendments to IAS 27)*
- *Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*
- *Investment Entities: Applying the Consolidation Exception (Amendments to AASB 10, AASB 12 and IAS 28)*
- *Disclosure Initiative (Amendments to IAS1).*
- *Application of Australian Accounting Standards (AASB 1057).*

NOTE 2 – CONTROLLED ENTITIES

Note: Subsidiaries are indented beneath their parent entity	Country of Incorporation	Date of Control	Percentage Owned 2017	Percentage Owned 2016
Engenco Limited	Australia			
Convair Engineering Pty Ltd	Australia	1 Jul 06	100	100
Engenco Logistics Pty Ltd	Australia	1 Jul 06	100	100
Asset Kinetics Pty Ltd	Australia	1 Jul 06	100	100
Engenco Investments Pty Ltd	Australia	18 Apr 07	100	100
Australian Rail Mining Services Pty Ltd	Australia	30 Apr 07	100	100
Centre for Excellence in Rail Training Pty Ltd	Australia	30 Apr 07	100	100
EGN Rail Pty Ltd	Australia	30 Apr 07	100	100
EGN Rail (NSW) Pty Ltd	Australia	30 Apr 07	100	100
Midland Railway Company Pty Ltd	Australia	30 Apr 07	100	100
Momentum Rail (Vic) Pty Ltd	Australia	30 Apr 07	100	100
Momentum Rail (WA) Pty Ltd	Australia	30 Apr 07	100	100
Sydney Railway Company Pty Ltd	Australia	30 Apr 07	100	100
Greentrains Limited [1]	Australia	17 Jul 09	81	81
Greentrains Leasing Pty Ltd	Australia	18 Jun 08	100	100
Drivetrain Power and Propulsion Pty Ltd	Australia	1 Jul 06	100	100
Drivetrain Australia Pty Ltd	Australia	1 Jul 06	100	100
DTPP Energy Pty Ltd	Australia	25 May 10	100	100
Drivetrain Philippines Inc	Philippines	1 Jul 07	100	100
Drivetrain Singapore Pte Ltd	Singapore	1 Jul 07	100	100
Drivetrain Limited	New Zealand	1 Jul 07	100	100
Drivetrain USA Inc	USA	31 Dec 08	100	100
Hyradix Inc	USA	31 Dec 08	100	100
Hedemora Investments AB	Sweden	1 Jul 06	100	100
Hedemora Turbo & Diesel AB	Sweden	1 Jul 06	100	100
Gemco Rail Pty Ltd	Australia	1 Jul 07	100	100
Railway Bearings Refurbishment Services Pty Ltd	Australia	1 Jul 07	100	100
New RTS Pty Ltd	Australia	3 Dec 08	100	100
Hedemora Pty Ltd	Australia	1 Jul 06	100	100
Industrial Powertrain Pty Ltd	Australia	1 Jul 07	100	100
PC Diesel Pty Ltd	Australia	1 Jul 06	100	100
Total Momentum Pty Ltd	Australia	30 Apr 07	100	100

[1] Total Engenco Group ownership of Greentrains Ltd is 81% (split between Engenco Investments Pty Ltd, 61%, and Engenco Ltd, 20%).

NOTE 3 - OPERATING SEGMENTS

BASIS OF SEGMENTATION

Identification of Reportable Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director/CEO (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of service offerings since the diversification of the Group's operations inherently has notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Types of Products and Services by Segment

The chief operating decision maker considers the business from a Business Line perspective and has identified six (6) reportable segments as follows:

a. Drivetrain Power & Propulsion

Drivetrain Power & Propulsion is a provider of technical sales and services to the mining, oil & gas, rail, transport, defence, marine, construction, materials handling, automotive, agriculture, and power generation industries. A broad product and service offering includes engine and powertrain maintenance, repair and overhaul, new components and parts, power generation design and construction, technical support, professional engineering and training services.

b. Centre for Excellence in Rail Training (CERT)

CERT provides specialist rail training including the provision of competency based training; issuing of certificates of competency; rail incident investigation training; security (transit guard) training; first aid training; company inductions and course design; management of apprenticeship and trainee schemes to major infrastructure and rail clients.

c. Convair Engineering (Convair)

Convair is a manufacturer of pneumatic road tankers and mobile silos for the carriage and storage of construction materials, grains, and other dry bulk materials. Additional services include maintenance, repair and overhaul, provisioning of ancillary equipment and spare parts sales.

d. Total Momentum

Total Momentum is a provider of personnel and project management services to freight rail and mining rail infrastructure managers. Services include professional recruitment, workforce solutions, including provisioning of track construction and maintenance projects.

e. Gemco Rail

Gemco Rail specialises in the maintenance, repair and overhaul of locomotives, wagons, bearings and other rail products for rail operators and maintainers. Gemco Rail provides wheel-set, bogie and in-field wagon maintenance and manufactures new and refurbished wagons, bogie component parts, customised remote controlled ballast car discharge gates, and a range of rail maintenance equipment and spares.

f. Greentrains

Greentrains leases rollingstock to freight rail operators throughout Australia. This segment has been classified as a discontinued operation in the previous financial year.

g. All Other

This includes the parent entity and consolidation / inter-segment elimination adjustments.

Basis of Reporting by Operating Segments

a. Basis of reporting

Unless stated otherwise, all amounts reported to the Managing Director/CEO as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

b. Inter-segment transactions

An internal transfer price is set for all inter-segment sales. This price is set based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

c. Segment assets

Unless indicated otherwise in the segment assets note, deferred tax assets have not been allocated to operating segments.

d. Segment liabilities

Liabilities are allocated to segments where there is nexus between the incurrence of the liability and the operations of the segment. Unless indicated otherwise in the segment liabilities note, deferred tax liabilities have not been allocated to operating segments.

e. Unallocated items

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

- Deferred tax assets and liabilities.

NOTE 3 – OPERATING SEGMENTS (cont'd)

INFORMATION ABOUT REPORTABLE SEGMENTS

Information related to each reportable segment is set out below. Segment EBITDA is used to measure performance because management believes this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

I. SEGMENT PERFORMANCE

YEAR ENDED 30 JUNE 2017

	Continuing Operations							Discontinued Operation	
Reportable Segments	Drivetrain Power & Propulsion $000	CERT $000	Convair $000	Total Momentum $000	Gemco Rail $000	All Other $000	Sub-Total $000	Greentrains $000	Consolidated Group $000
REVENUE									
External revenue	44,506	9,334	13,506	10,456	51,271	119	129,192	80	129,272
Inter-segment revenue	202	36	-	37	32	-	307	-	307
Interest revenue	10	-	1	-	-	116	127	-	127
TOTAL SEGMENT REVENUE	44,718	9,370	13,507	10,493	51,303	235	129,626	80	129,706
Reconciliation of segment revenue to Group revenue:									
Inter-segment elimination	-	-	-	-	-	(307)	(307)	-	(307)
TOTAL GROUP REVENUE	44,718	9,370	13,507	10,493	51,303	(72)	129,319	80	129,399
SEGMENT EBITDA excluding significant items	4,818	1,526	1,160	1,807	11,376	(7,902)	12,785	(20)	12,765
Reconciliation of segment EBITDA excluding significant items to Group net profit / (loss) before tax:									
Depreciation and amortisation	(564)	(75)	(241)	(93)	(2,142)	(533)	(3,648)	-	(3,648)
Finance costs	(41)	(33)	(6)	(1)	(5)	(697)	(783)	(189)	(972)
NET PROFIT / (LOSS) BEFORE TAX	4,213	1,418	913	1,713	9,229	(9,132)	8,354	(209)	8,145

NOTE 3 – OPERATING SEGMENTS (cont'd)

YEAR ENDED 30 JUNE 2016

	Continuing Operations							Discontinued Operation	
Reportable Segments	Drivetrain Power & Propulsion $000	CERT $000	Convair $000	Total Momentum $000	Gemco Rail $000	All Other $000	Sub-Total $000	Greentrains $000	Consolidated Group $000
REVENUE									
External revenue	57,137	8,355	13,213	9,694	44,118	114	132,631	2,554	135,185
Inter-segment revenue	169	35	-	15	1,362	255	1,836	-	1,836
Interest revenue	18	-	8	-	-	107	133	-	133
TOTAL SEGMENT REVENUE	57,324	8,390	13,221	9,709	45,480	476	134,600	2,554	137,154
Reconciliation of segment revenue to Group revenue:									
Inter-segment elimination	-	-	-	-	-	(1,836)	(1,836)	-	(1,836)
TOTAL GROUP REVENUE	57,324	8,390	13,221	9,709	45,480	(1,360)	132,764	2,554	135,318
SEGMENT EBITDA excluding significant items	5,711	2,123	694	1,263	5,263	(8,332)	6,722	4,356*	11,078
Reconciliation of segment EBITDA excluding significant items to Group net profit / (loss) before tax:									
Depreciation and amortisation	(786)	(72)	(217)	(20)	(2,265)	(726)	(4,086)	(1,489)	(5,575)
Finance costs	(54)	(25)	(9)	(1)	(5)	(332)	(426)	(1,224)	(1,650)
Significant items:									
Intercompany loan debt forgiveness	4,568	-	-	-	-	(4,568)	-	-	-
NET PROFIT / (LOSS) BEFORE TAX	9,439	2,026	468	1,242	2,993	(13,958)	2,210	1,643	3,853

* Includes reversal of impairment of property, plant and equipment of $2,652,000.

NOTE 3 – OPERATING SEGMENTS (cont'd)

II. SEGMENT ASSETS

AS AT 30 JUNE 2017

	Continuing Operations							Discontinued Operation	
Reportable Segments	Drivetrain Power & Propulsion $000	CERT $000	Convair $000	Total Momentum $000	Gemco Rail $000	All Other $000	Sub-Total $000	Greentrains $000	Consolidated Group $000
ASSETS									
Segment assets (excl. capital expenditure, investments and intangibles)	**45,446**	**8,247**	**15,302**	**4,854**	**32,080**	**(19,337)**	**86,592**	**112**	**86,704**
Capital expenditure	**232**	**139**	**558**	**205**	**972**	**338**	**2,444**	-	**2,444**
Investments	**7**	-	-	-	-	-	**7**	-	**7**
Intangibles	-	-	-	-	-	**398**	**398**	-	**398**
Reconciliation of segment assets to Group assets:									
Segment eliminations	-	-	-	-	-	-	**(4,743)**	-	**(4,743)**
Unallocated Items:									
Deferred tax assets	-	-	-	-	-	-	**295**	-	**295**
TOTAL ASSETS	**45,685**	**8,386**	**15,860**	**5,059**	**33,052**	**(18,601)**	**84,993**	**112**	**85,105**

NOTE 3 – OPERATING SEGMENTS (cont'd)

AS AT 30 JUNE 2016

	Continuing Operations							Discontinued Operation	
Reportable Segments	Drivetrain Power & Propulsion $000	CERT $000	Convair $000	Total Momentum $000	Gemco Rail $000	All Other $000	Sub-Total $000	Greentrains $000	Consolidated Group $000
ASSETS									
Segment assets (excl. capital expenditure, investments and intangibles)	44,889	7,481	15,931	3,446	27,080	(15,984)	82,843	5,884	88,727
Capital expenditure	424	21	216	4	476	325	1,466	443	1,909
Investments	7	-	-	-	-	106	113	-	113
Intangibles	-	-	-	-	-	657	657	-	657
Reconciliation of segment assets to Group assets:									
Segment eliminations	-	-	-	-	-	-	(6,136)	-	(6,136)
Unallocated Items:									
Deferred tax assets	-	-	-	-	-	-	125	-	125
TOTAL ASSETS	45,320	7,502	16,147	3,450	27,556	(14,896)	79,068	6,327	85,395

NOTE 3 – OPERATING SEGMENTS (cont'd)

III. SEGMENT LIABILITIES

AS AT 30 JUNE 2017

	Continuing Operations							Discontinued Operation	
Reportable Segments	Drivetrain Power & Propulsion $000	CERT $000	Convair $000	Total Momentum $000	Gemco Rail $000	All Other $000	Sub-Total $000	Greentrains $000	Consolidated Group $000
LIABILITIES									
Segment liabilities	**54,961**	**784**	**4,386**	**710**	**83,729**	**(132,398)**	**12,172**	**20,593**	**32,765**
Reconciliation of segment liabilities to Group liabilities:									
Segment eliminations	-	-	-	-	-	-	(4,743)	-	(4,743)
Unallocated Items:									
Deferred tax liabilities	-	-	-	-	-	-	72	-	72
TOTAL LIABILITIES	**54,961**	**784**	**4,386**	**710**	**83,729**	**(132,398)**	**7,501**	**20,593**	**28,094**

NOTE 3 – OPERATING SEGMENTS (cont'd)

AS AT 30 JUNE 2016

	Continuing Operations							Discontinued Operation	
Reportable Segments	Drivetrain Power & Propulsion $000	CERT $000	Convair $000	Total Momentum $000	Gemco Rail $000	All Other $000	Sub-Total $000	Greentrains $000	Consolidated Group $000
LIABILITIES									
Segment liabilities	57,343	693	5,403	505	86,333	(118,239)	32,038	9,926	41,964
Reconciliation of segment liabilities to Group liabilities:									
Segment eliminations	-	-	-	-	-	-	(6,136)	-	(6,136)
Unallocated Items:									
Deferred tax liabilities	-	-	-	-	-	-	473	-	473
TOTAL LIABILITIES	57,343	693	5,403	505	86,333	(118,239)	26,375	9,926	36,301

NOTE 3 – OPERATING SEGMENTS (cont'd)

IV. GEOGRAPHICAL INFORMATION

The geographical information analyses the Group's revenue and assets by the Company's country of domicile and other countries. In presenting the geographical information, segment revenue has been based on the geographical location of the selling party and segment assets were based on the geographical location of the assets.

Revenue	Consolidated Group 2017 $000	Consolidated Group 2016 $000
Australasia	**122,320**	126,413
Europe	**7,079**	8,851
United States of America	**-**	54
TOTAL REVENUE	**129,399**	135,318

Assets	Consolidated Group 2017 $000	Consolidated Group 2016 $000
Australasia	**72,590**	72,119
Europe	**12,451**	13,190
United States of America	**64**	86
TOTAL ASSETS	**85,105**	85,395

V. MAJOR CUSTOMERS

Revenues from one customer of the Group, across multiple segments, represents greater than 10% of the Group's total revenue in the current year.

NOTE 4 – DISCONTINUED OPERATION

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations; and
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative Statement of Profit or Loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

The Greentrains segment was first classified as a discontinued operation in the previous financial year, and continues to be classified as such.

Results of Discontinued Operation	2017 $000	2016 $000
Revenue	**80**	2,554
Other income	**-**	296
Reversal / (impairment) of property, plant and equipment	**350**	2,652
Expenses	**(639)**	(3,859)
RESULTS FROM OPERATING ACTIVITIES	**(209)**	1,643
Income tax	**-**	-
PROFIT / (LOSS) FROM DISCONTINUED OPERATION, NET OF TAX	**(209)**	1,643
Basic earnings per share (cents)	**(0.05)**	0.43
Diluted earnings per share (cents)	**(0.05)**	0.43

Cash Flows from / (used in) Discontinued Operation	2017 $000	2016 $000
Net cash from / (used in) operating activities	**(919)**	1,427
Net cash from / (used in) investing activities	**5,482**	191
Net cash from / (used in) financing activities	**(4,766)**	(1,668)
NET CASH FLOW FOR THE YEAR	**(203)**	(50)

NOTE 5 – REVENUE AND OTHER INCOME

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

Rendering of Services

The Group recognises revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed.

Rental Income

Rental income from leased plant and equipment is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Construction Contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be estimated reliably, then contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. The stage of completion is assessed with reference to surveys of work performed. Otherwise, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Contract expenses are recognised as incurred unless they create an asset related to future contract activity (see Note 1(b)). An expected loss on a contract is recognised immediately in profit or loss.

	Continuing Operations		**Discontinued Operation**		**Total Consolidated Group**	
	2017 $000	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
SALES REVENUE						
Sales of goods and services	**126,013**	132,261	**-**	-	**126,013**	132,261
Lease rental income	**3,179**	370	**80**	2,554	**3,259**	2,924
TOTAL SALES REVENUE	**129,192**	132,631	**80**	2,554	**129,272**	135,185
OTHER REVENUE						
Interest received – external	**127**	133	**-**	-	**127**	133
TOTAL OTHER REVENUE	**127**	133	**-**	-	**127**	133
TOTAL REVENUE	**129,319**	132,764	**80**	2,554	**129,399**	135,318
OTHER INCOME						
Gain on disposal of property, plant and equipment	**46**	138	**-**	-	**46**	138
Other gains	**1,006**	1,316	**-**	296	**1,006**	1,612
TOTAL OTHER INCOME	**1,052**	1,454	**-**	296	**1,052**	1,750

NOTE 6 – EXPENSES

	Continuing Operations		Discontinued Operation		Total Consolidated Group	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
FINANCE COSTS						
Interest – external	**-**	33	**-**	-	**-**	33
Interest – related parties	**308**	-	**189**	1,224	**497**	1,224
Other finance costs	**475**	393	**-**	-	**475**	393
TOTAL FINANCE COSTS	**783**	426	**189**	1,224	**972**	1,650
EMPLOYEE BENEFITS EXPENSE						
Wages and salaries	**38,323**	38,734	**-**	-	**38,323**	38,734
Annual leave expense	**1,779**	1,882	**-**	-	**1,779**	1,882
Long service leave expense	**375**	555	**-**	-	**375**	555
Termination costs	**93**	555	**-**	-	**93**	555
Defined contribution plan	**3,248**	3,282	**-**	-	**3,248**	3,282
TOTAL EMPLOYEE BENEFITS EXPENSE	**43,818**	45,008	**-**	-	**43,818**	45,008
RENTAL EXPENSE ON OPERATING LEASES						
Minimum lease payments	**4,828**	5,249	**-**	-	**4,828**	5,249
TOTAL RENTAL EXPENSE ON OPERATING LEASES	**4,828**	5,249	**-**	-	**4,828**	5,249

NOTE 7 – TAX

Tax Consolidation

Engenco Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities/assets and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 31 October 2007. The tax consolidated group has entered into a tax funding arrangement whereby each company in the group contributes to the income tax payable by the group in proportion to their contribution to the group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

Income tax expense/benefit comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or OCI.

Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

NOTE 7 – TAX (cont'd)

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CURRENT		
Income tax payable	**750**	537
TOTAL	**750**	537

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
a. **The components of tax expense / (benefit) comprise:**		
Current income tax expense / (benefit)		
– Current income tax expense / (benefit)	**447**	342
– Adjustment for prior years	**-**	(46)
Deferred income tax expense / (benefit)		
– Origination and reversal of temporary differences	**(571)**	(583)
Income tax expense / (benefit) on continuing operations reported in the Statement of Profit or Loss and OCI	**(124)**	(287)
b. **A reconciliation between tax expense / (benefit) and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:**		
Accounting profit / (loss) before tax from continuing operations	**8,354**	2,210
At the Company's statutory domestic income tax rate of 30% (2016: 30%)	**2,506**	663
Add / (Less) tax effect of:		
– Foreign tax rate adjustment	**(4)**	(134)
– Losses for which no deferred tax asset is recognised	**-**	423
– Utilisation of tax losses not previously recognised	**(2,394)**	(804)
– Other assessable items	**-**	-
– Other non-allowable items	**103**	562
– Adjustment for prior years	**-**	(24)
– Movements in unrecognised temporary differences	**(335)**	(973)
INCOME TAX EXPENSE / (BENEFIT)	**(124)**	(287)

The tax receivable and payable relate to the Group companies outside the Australian Tax Consolidated Group.

NOTE 7 – TAX (cont'd)

	Consolidated Group						
	Opening Balance $000	Balance Acquired $000	Charged to Income $000	Charged Directly to Equity $000	Changes in Tax Rate $000	Exchange Differences $000	Closing Balance $000
NON-CURRENT							
Deferred tax liabilities:							
Other	1,112	-	(639)	-	-	-	473
BALANCE AT 30 JUNE 2016	1,112	-	(639)	-	-	-	473
Other	**473**	**-**	**(401)**	**-**	**-**	**-**	**72**
BALANCE AT 30 JUNE 2017	**473**	**-**	**(401)**	**-**	**-**	**-**	**72**
Deferred tax assets:							
Provisions	178	-	(36)	-	-	-	142
Accruals	7	-	(7)	-	-	-	-
Losses	-	-	-	-	-	-	-
Other	(4)	-	(13)	-	-	-	(17)
BALANCE AT 30 JUNE 2016	181	-	(56)	-	-	-	125
Provisions	**142**	**-**	**153**	**-**	**-**	**-**	**295**
Accruals	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other	**(17)**	**-**	**17**	**-**	**-**	**-**	**-**
BALANCE AT 30 JUNE 2017	**125**	**-**	**170**	**-**	**-**	**-**	**295**

The Company has estimated carry forward operating tax losses of $111,390,565 at June 2017 (2016: $119,159,128) which are not recognised. The ability to utilise the operating tax losses will be subject to satisfying relevant eligibility criteria for the recoupment of carry forward tax losses.

NOTE 8 – EARNINGS PER SHARE

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
a. **RECONCILIATION OF EARNINGS TO PROFIT OR LOSS**		
Profit / (loss) for the year	**8,269**	4,140
(Profit) / loss for the year, attributable to non-controlling interest	**40**	(312)
Earnings used to calculate basic EPS	**8,309**	3,828
Earnings used in the calculation of dilutive EPS	**8,309**	3,828
b. **RECONCILIATION OF EARNINGS TO PROFIT OR LOSS FROM CONTINUING OPERATIONS**		
Profit / (loss) for the year from continuing operations	**8,478**	2,497
(Profit) / loss for the year, attributable to non-controlling interest in respect of continuing operations	**-**	-
Earnings used to calculate basic EPS from continuing operations	**8,478**	2,497
Earnings used to in the calculation of dilutive EPS from continuing operations	**8,478**	2,497
c. **RECONCILIATION OF EARNINGS TO PROFIT OR LOSS FROM DISCONTINUED OPERATIONS**		
Profit / (loss) for the year from discontinued operations	**(209)**	1,643
(Profit) / loss for the year, attributable to non-controlling interest in respect of discontinued operations	**40**	(312)
Earnings used to calculate basic EPS from discontinued operations	**(169)**	1,331
Earnings used to in the calculation of dilutive EPS from discontinued operations	**(169)**	1,331
	No. '000	No. '000
d. **WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING DURING THE YEAR USED IN CALCULATING BASIC EPS**	**311,192**	310,891
Weighted average number of dilutive options outstanding	**-**	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**311,192**	310,891

NOTE 9 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts, where the Group does not have the legal right and the intention to settle on a net basis, are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CASH AT BANK AND IN HAND	**8,960**	11,517
	8,960	11,517

As at the reporting date, where the Group has the legally enforceable right of set-off and the intention to settle on a net basis within the CBA facility, the Group has set-off bank overdrafts of $23,746,799 (2016: $20,956,922) against cash and cash equivalents of $28,784,487 (2016: $24,909,385) resulting in a net positive cash position of $5,037,688 (2016: $3,952,463).

NOTE 10 – TRADE AND OTHER RECEIVABLES

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CURRENT		
Trade receivables	**24,864**	18,327
Provision for impairment of receivables	**(405)**	(368)
Total trade receivables	**24,459**	17,959
Accrued income	**1,402**	780
Sundry receivables	**148**	126
Total other receivables	**1,550**	906
TOTAL CURRENT TRADE AND OTHER RECEIVABLES	**26,009**	18,865

a. Provision for Impairment of Receivables

Current trade and other receivables are non-interest bearing and generally on terms of 30 to 60 days from end of month. Trade and other receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in impairment of accounts receivable and other expenses in the Statement of Profit or Loss and OCI.

Movement in the provision for impairment of receivables is as follows:

	Consolidated Group			
2017	Opening Balance 1 Jul 2016 $000	Charge for the Year $000	Amounts Written Off $000	Closing Balance 30 Jun 2017 $000
Current trade receivables	**(368)**	**(147)**	**110**	**(405)**
	(368)	**(147)**	**110**	**(405)**

	Consolidated Group			
2016	Opening Balance 1 Jul 2015 $000	Charge for the Year $000	Amounts Written Off $000	Closing Balance 30 Jun 2016 $000
Current trade receivables	(530)	71	91	(368)
	(530)	71	91	(368)

NOTE 10 – TRADE AND OTHER RECEIVABLES (cont'd)

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group. The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

	Consolidated Group						
			Past due but not impaired				
	Gross amount $000	Past due and impaired $000	< 30 days $000	31 - 60 days $000	61 - 90 days $000	>90 days $000	Within initial trade terms $000
2017							
Trade receivables	**24,864**	**405**	**3,264**	**1,742**	**540**	**496**	**18,417**
Other receivables	**1,550**	**-**	**-**	**-**	**-**	**-**	**1,550**
Total	**26,414**	**405**	**3,264**	**1,742**	**540**	**496**	**19,967**
2016							
Trade receivables	18,327	368	3,757	1,143	923	1,469	10,667
Other receivables	906	-	-	-	-	-	906
Total	19,233	368	3,757	1,143	923	1,469	11,573

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reportable date. The concentration of credit risk is limited to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

NOTE 11 – INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of finished goods includes direct materials, direct labour and an appropriate portion of variable and fixed overheads included in bringing them to their existing location and condition. Costs are assigned on the basis of weighted average costs.

The cost of raw materials includes all costs to transport the goods to a location ready for use including any duties and charges on items purchased overseas.

In the previous financial year, the Group completed a comprehensive review of the carrying value of certain locomotive-related inventory. As a result of the review, inventory was impaired by $1,954,000.

During the year, inventories valued at $NIL (2016: $788,319) were reclassified as Assets Held for Sale (refer to Note 13 – Assets Held for Sale).

	Consolidated Group **2017** $000	Consolidated Group 2016 $000
CURRENT		
At cost:		
– Work in progress	**5,611**	4,152
– Finished goods	**11,614**	10,535
	17,225	14,687
At net realisable value:		
– Work in progress	**-**	-
– Finished goods	**11,715**	11,508
	11,715	11,508
TOTAL INVENTORY	**28,940**	26,195

NOTE 12 – OTHER ASSETS

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CURRENT		
Other current assets	**2,085**	2,274
Prepayments	**935**	860
TOTAL CURRENT OTHER ASSETS	**3,020**	3,134

NOTE 13 – ASSETS HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred assets, employee benefit assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution, and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

On 17 March 2017, Greentrains Limited entered into an asset sale agreement to sell the majority of its remaining wagon fleet. As at 30 June 2017, the asset sale transaction was highly probable, and as such the wagon fleet is classified as assets held for sale. The assets held for sale are stated at the lower of the carrying amount and fair value less costs to sell and comprised the following assets:

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
Property, Plant and Equipment	**100**	5,512
Inventories	**-**	788
ASSETS HELD FOR SALE	**100**	6,300

NOTE 14 – EQUITY-ACCOUNTED INVESTEE

DataHawk Pty Ltd (DataHawk) is the only joint arrangement in which the Group participates. DataHawk is not publicly listed. DataHawk is structured as a separate vehicle and the Group has a 50% interest in the net assets of DataHawk.

Accordingly, the Group has classified its interest in DataHawk as a joint venture. The total value contributed to DataHawk, in the form of a long-term loan, is $792,075. The loan expired 30 June 2017 and was fully impaired to $NIL.

The Group's share of loss in DataHawk for the period was ($115,000) (2016: loss of $139,500). During the year ended 30 June 2017, no dividends were received from the investment in DataHawk (2016: NIL).

Given the current phase of extremely low activity in the DataHawk target market, activities in DataHawk have been curtailed so as to minimise operating overheads. Accordingly, the Group has fully impaired its interest in DataHawk as at 30 June 2017.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
NON-CURRENT		
Interest in joint venture	**-**	106
TOTAL EQUITY-ACCOUNTED INVESTEE	**-**	106

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent Expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	20% - 67%
Plant and equipment	2.5% - 67%
Leased plant and equipment	30% - 67%
Buildings	2.50%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
LAND AND BUILDINGS		
Freehold land:		
– At cost	**53**	53
Total Land	**53**	53
Buildings:		
– At cost	**806**	806
– Less accumulated depreciation	**(599)**	(577)
Total Buildings	**207**	229
TOTAL LAND AND BUILDINGS	**260**	282
PLANT AND EQUIPMENT		
Plant and equipment:		
– At cost	**78,781**	82,028
– Accumulated depreciation and impairment	**(62,431)**	(59,436)
– Transfer to Assets Held for Sale	**(100)**	(5,512)
Total Plant and Equipment	**16,250**	17,080
Leasehold improvements:		
– At cost	**3,077**	2,966
– Accumulated depreciation	**(2,538)**	(2,166)
Total Leasehold Improvements	**539**	800
Leased plant and equipment:		
– Capitalised leased assets	**1,247**	1,247
– Accumulated depreciation	**(920)**	(920)
Total Leased Plant and Equipment	**327**	327
TOTAL PLANT AND EQUIPMENT	**17,116**	18,207
TOTAL PROPERTY, PLANT AND EQUIPMENT	**17,376**	18,489

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (cont'd)

a. Security

Property, Plant and Equipment of $16,305,000 (2016: $17,195,000) was pledged as security as part of the Group's total financing arrangements as at the reporting date.

b. Impairment Loss and Subsequent Reversal

In previous reporting periods, the carrying value of rollingstock property, plant and equipment had been impaired following comprehensive impairment and valuation reviews. During the current financial year, Greentrains Limited sold a locomotive asset which resulted in a reversal of impairment of $250,000.

On 17 March 2017, Greentrains Limited entered into an asset sale agreement to sell the majority of its remaining wagon fleet. As at 30 June 2017, the wagon fleet was classified as assets held for sale. The assets held for sale are stated at the lower of the carrying amount and fair value less costs to sell. The remeasurement of the property, plant and equipment assets upon the reclassification to assets held for sale resulted in a reversal of impairment of $100,000.

c. Leased Property, Plant and Equipment

Leases of property, plant and equipment that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's Statement of Financial Position. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

d. Reconciliation of Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Consolidated Group					
	Freehold Land $000	Buildings $000	Leasehold Improve-ments $000	Plant and Equipment $000	Leased Plant and Equipment $000	Total $000
BALANCE AT 1 JULY 2015	53	259	1,760	23,417	401	25,890
Additions	-	-	259	1,650	-	1,909
Disposals	-	(6)	(945)	(403)	(24)	(1,378)
(Impairment) / reversal of impairment	-	-	100	2,593	-	2,693
Transfer to asset held for sale	-	-	-	(5,512)	-	(5,512)
Depreciation expense	-	(24)	(374)	(4,665)	(50)	(5,113)
BALANCE AT 30 JUNE 2016	53	229	800	17,080	327	18,489
Additions	**-**	**-**	**115**	**2,329**	**-**	**2,444**
Disposals	**-**	**-**	**(4)**	**(414)**	**-**	**(418)**
(Impairment) / reversal of impairment	**-**	**-**	**-**	**350**	**-**	**350**
Transfer to asset held for sale	**-**	**-**	**-**	**(100)**	**-**	**(100)**
Depreciation expense	**-**	**(22)**	**(372)**	**(2,995)**	**-**	**(3,389)**
BALANCE AT 30 JUNE 2017	**53**	**207**	**539**	**16,250**	**327**	**17,376**

The Plant and Equipment category contains 192 PQGY wagons with a net book value of $8,429,000 (2016: $9,533,000). An independent external evaluation has been obtained as at 30 June 2017. No impairment of the wagon valuation has been booked in the current financial year (2016: $NIL). Property, plant and equipment had a reversal of impairment of $2,593,000 in the previous financial year.

NOTE 16 – NET TANGIBLE ASSETS

	2017 Cents	2016 Cents
Net tangible assets per ordinary share: 313,380,943 shares (2016: 310,891,432 shares)	**19.9**	17.6

NOTE 17 – INTANGIBLE ASSETS

Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, and computer software, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the reducing-balance method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Class of Intangible Asset	Useful Life
Customer-related intangibles	3-10 years
Patents and trademarks	Up to 13 years
Development costs	Life of project
Other intangible assets	5-8 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
OTHER IDENTIFIABLE INTANGIBLES		
Cost:		
Opening balance	**12,959**	12,959
Additions	**-**	-
Closing balance	**12,959**	12,959
Accumulated amortisation:		
Opening balance	**(12,302)**	(11,840)
Amortisation for the year	**(259)**	(462)
Closing balance	**(12,561)**	(12,302)
NET BOOK VALUE	**398**	657
TOTAL INTANGIBLE ASSETS		
At cost	**12,959**	12,959
Accumulated amortisation and impairment	**(12,561)**	(12,302)
NET BOOK VALUE	**398**	657

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the Consolidated Statement of Profit or Loss and OCI.

NOTE 18 – TRADE AND OTHER PAYABLES

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability if expected to be settled within 12 months.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CURRENT		
Unsecured liabilities:		
Trade payables	12,386	9,638
Sundry payables and accrued expenses	1,938	1,586
Deferred income	1,595	60
TOTAL TRADE AND OTHER PAYABLES	15,919	11,284

NOTE 19 – FINANCIAL LIABILITIES

Non-Derivative Financial Liabilities – Measurement

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Non-Derivative Financial Liabilities – Recognition and Derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial liabilities are initially recognised on the trade date, when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial liabilities are offset, and the net amount presented in the Statement of Financial Position when, and only when, the Group has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

	Note	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CURRENT			
Secured liabilities:			
Bank overdrafts	25(a)	263	211
Loans from related parties	27(b)	4,000	16,674
TOTAL CURRENT FINANCIAL LIABILITIES		4,263	16,885

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in Note 26 – Financial Risk Management.

a. Collateral Provided

Bank Facility

The bank facility of $2,000,000 with the Commonwealth Bank of Australia (CBA) is secured by a cash deposit into a secured bank account. The facility was extended on 23 August 2017 and now matures on 30 June 2019.

Related Party Debt and Facility

The related party debt with Elph Pty Ltd (Elph) is secured by first registered fixed and floating charges over certain assets owned by Engenco Limited and its subsidiaries. The Group has a funding facility of $15,000,000 with Elph of which $4,000,000 remained drawn-down as at 30 June 2017.

The financial covenant agreed between the Group and Elph was:

i. **Debt Service Cover Ratio**, (the ratio of EBITDA, less capital expenditure and any change to working capital, to gross interest expense) to be greater than 2.0 times.

On 23 August 2017 the Group agreed an extension to 30 April 2019. It also negotiated a limit decrease to $10,000,000 of the funding facility with Elph Pty Ltd (refer Note 29 - Subsequent Events).

DEFAULTS AND BREACHES

There were no defaults or breaches during the year ended 30 June 2017 on any of the above-mentioned facilities.

NOTE 19 – FINANCIAL LIABILITIES (cont'd)

b. Debt Facilities and Credit Standby Arrangements

A summary of the Group's loan facilities is provided in the table below:

	Facility Available 2017 $000	**Facility Used 2017 $000**	**Maturity Dates 2017**	Facility Available 2016 $000	Facility Used 2016 $000	Maturity Dates 2016	Interest Basis
– Working Capital Multi Option Facility	**2,000***	**1,559**	**Jun-18**	2,000*	1,417	Nov-16	Floating
– Swedish Overdraft Facility	**1,890**	**-**	**Dec-17**	1,897	-	Dec-16	Floating
– Greentrains Loan Facility	**-**	**-**	**-**	16,674	16,674	Sep-16	Floating
– Elph Funding Facility	**15,000**	**4,000**	**Apr-18**	9,000	-	Oct-16	Fixed
	18,890	**5,559**		29,571	18,091		

* Comprises net bank overdrafts, off balance sheet bank guarantees and business credit cards of $2,000,000.

NOTE 20 – PROVISIONS

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Provision for Long-Term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for. Restructuring provisions include make-good costs and redundancies announced before the reporting date.

Legal

There exist ongoing legal proceedings involving the Group at the reporting date. Provisions have been taken up for some of these exposures based on the Board's determination.

Site Restoration

A provision for site restoration in respect of contaminated land, and the related expense, is recognised when the land is found to be contaminated.

Onerous Contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 1(c)). The Group has identified loss making contracts which are non-cancellable. The obligation for expected future losses has been provided for as at the reporting date.

Other Provisions

Other provisions relate to various categories including provisions for warranty costs and other costs required to be incurred under contractual obligations.

NOTE 20 – PROVISIONS (cont'd)

	Consolidated Group						
	Long Service Leave Employee Benefits $000	Annual Leave Employee Benefits $000	Legal $000	Onerous Contracts $000	Restructuring $000	Other $000	Total $000
BALANCE AT 1 JULY 2016	2,149	2,594	700	228	448	1,003	7,122
Provisions raised	375	1,779	125	14	261	2,058	4,612
Provisions used	(190)	(1,748)	(600)	(3)	(495)	(1,608)	(4,644)
BALANCE AT 30 JUNE 2017	**2,334**	**2,625**	**225**	**239**	**214**	**1,453**	**7,090**
Current	**1,853**	**2,625**	**225**	**239**	**214**	**1,453**	**6,609**
Non-current	**481**	**-**	**-**	**-**	**-**	**-**	**481**
BALANCE AT 30 JUNE 2017	**2,334**	**2,625**	**225**	**239**	**214**	**1,453**	**7,090**

NOTE 21 – CAPITAL AND LEASING COMMITMENTS

Determining Whether an Arrangement Contains a Lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased Assets

Leases of property, plant and equipment that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's Statement of Financial Position.

Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Group also leases a number of sites under operating leases which include land and buildings for the purpose of operating its business. The leases typically run for a period of between 3 and 10 years, sometimes with an option to renew the leases after that date. None of the leases include contingent rentals.

NOTE 21 – CAPITAL AND LEASING COMMITMENTS (cont'd)

LEASES AS LESSEE

a. Finance Lease Commitments

As at 30 June 2017, the Group was not a party to any finance lease arrangements (2016: NIL).

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
b. Operating Lease Commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
– not later than 12 months	**4,110**	4,087
– between 12 months and 5 years	**12,721**	12,575
– greater than 5 years	**5,946**	7,707
	22,777	24,369

During the year-ended 30 June 2017, $4,828,000 was recognised as an expense in the Statement of Profit or Loss and OCI in respect of operating leases (2016: $5,249,000).

c. Contractual Commitments

At 30 June 2017, the Group had not entered into any contractual commitments for the acquisition of property, plant and equipment and other intangible assets (2016: NIL).

LEASES AS LESSOR	Consolidated Group 2017 $000	Consolidated Group 2016 $000
d. Operating Lease Receivables		
Receivable - minimum lease payments		
– not later than 12 months	**1,724**	1,219
– between 12 months and 5 years	**1,110**	725
– greater than 5 years	**438**	559
	3,272	2,503

The Group leases out portions of its fleet of rollingstock as well as other select items of property, plant and equipment to customers. At the end of the reporting period, the future minimum lease payments under non-cancellable leases are receivable as shown above.

NOTE 22 – CONTINGENT LIABILITIES

There exist legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect to these items. The amount of the liability, if any, which may arise cannot be reliably measured at the reporting date.

The Group has arranged for its bankers to guarantee its performance to certain third parties. The maximum amount of these guarantees at 30 June 2017 is $1,558,696 (2016: $1,292,667).

NOTE 23 – ISSUED CAPITAL AND RESERVES

a. Share Capital

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
313,380,943 (2016: 310,891,432) fully paid ordinary shares with no par value	**302,719**	302,260
	302,719	302,260

Ordinary Shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with AASB 112: *Income Taxes*.

	2017 No.	2016 No.
At beginning of reporting period	**310,891,432**	310,891,432
Shares issued during the year	**2,489,511**	-
At reporting date	**313,380,943**	310,891,432

Ordinary shares are eligible to participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares on issue.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

b. Nature and Purpose of Reserves

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of overseas subsidiaries.

c. Dividends

After the reporting date, the following final dividend was proposed by the board of directors. The dividend has not been recognised as a liability as at 30 June 2017, and there are no tax consequences.

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
a. **Final dividend declared**		
0.5 cents per ordinary share (2016: NIL)	**1,567**	-
b. **Franking Credit Balance**		
Amount of franking credits available to shareholders of Engenco Limited for subsequent financial years are:		
Franking account balance as at the end of the financial year at 30% (2016: 30%)	**11,253**	11,253

NOTE 24 – PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ended, 30 June 2017 the parent entity of the Group was Engenco Limited. The ultimate controlling party of the Company at reporting date was Elph Investments Pty Ltd, incorporated in Australia.

	2017 $000	2016 $000
a. **Financial Position of Parent Entity at year end**		
ASSETS		
Current assets	**3,380**	4,177
Non-current assets	**36,211**	34,691
TOTAL ASSETS	**39,591**	38,868
LIABILITIES		
Current liabilities	**29,178**	22,912
Non-current liabilities	**4,863**	274
TOTAL LIABILITIES	**34,041**	23,186
NET ASSETS	**5,550**	15,682
EQUITY		
Issued capital	**302,719**	302,260
Accumulated losses	**(297,169)**	(286,578)
TOTAL EQUITY	**5,550**	15,682
b. **Results of Parent Entity**		
Profit / (loss) for the year	**(10,592)**	(29,188)
Other comprehensive income	**-**	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD	**(10,592)**	(29,188)

c. Parent Entity Guarantees in respect of the debts of its subsidiaries

The parent entity acts as guarantor for debt facilities. Details of these facilities can be found in Note 19(b) – Financial Liabilities.

d. Parent Entity Contingent Liabilities

At 30 June 2017, the parent entity had no significant contingent liabilities (2016: NIL).

e. Parent Entity Capital Commitments for acquisition of property, plant and equipment

At 30 June 2017, the parent entity had not entered into any contractual commitments for the acquisition of property, plant and equipment and other intangible assets (2016: NIL).

NOTE 25 – CASH FLOW INFORMATION

a. Reconciliation of Cash at End of Financial Year

	Note	Consolidated Group 2017 $000	Consolidated Group 2016 $000
Cash and cash equivalents	9	**8,960**	11,517
Bank overdrafts	19	**(263)**	(211)
CASH (NET OF BANK OVERDRAFTS) AT END OF FINANCIAL YEAR		**8,697**	11,306

b. Reconciliation of Cash Flow from Operating Activities with Profit / (Loss) after Income Tax

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
PROFIT / (LOSS) AFTER INCOME TAX	**8,269**	4,140
Adjustments for non-cash items:		
– Depreciation	**3,389**	5,113
– Other Intangibles amortisation	**259**	462
– (Reversal of) / impairment losses on property, plant and equipment	**(350)**	(2,693)
– (Reversal of) / impairment losses on inventory	**208**	1,954
– Net finance costs	**925**	1,599
– Income tax expense / (benefit)	**(124)**	(287)
– Gain on sale of property, plant and equipment	**(46)**	(138)
	12,530	10,150
Changes in:		
– (Increase) / decrease in trade and other receivables	**(6,487)**	4,794
– (Increase) / decrease in prepayments	**(75)**	177
– (Increase) / decrease in inventories	**(2,954)**	1,296
– Increase / (decrease) in trade payables and accruals	**4,578**	(3,357)
– Increase / (decrease) in provisions	**(33)**	(193)
Cash provided by / (used in) operating activities	**7,559**	12,867
– Net interest paid	**(925)**	(1,599)
– Income taxes paid	**(234)**	(214)
CASH FLOW PROVIDED BY / (USED IN) OPERATIONS	**6,400**	11,054

NOTE 25 – CASH FLOW INFORMATION (cont'd)

c. Cash Flow from Discontinued Operations

	2017 $000	2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**1,030**	4,571
Payments to suppliers and employees	**(1,801)**	(1,921)
Interest received	**-**	1
Finance costs	**(148)**	(1,224)
NET CASH FROM / (USED IN) OPERATING ACTIVITIES	**(919)**	1,427
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	**5,482**	636
Purchase of non-current assets	**-**	(445)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	**5,482**	191
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	**(4,766)**	(1,668)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES	**(4,766)**	(1,668)
Net increase / (decrease) in cash and cash equivalents	**(203)**	(50)
Cash at beginning of financial year	**215**	265
CASH AT END OF FINANCIAL YEAR	**12**	215

During the previous financial year, loan principal repayments of $1,500,000 were made by Engenco Limited to Elph Pty Ltd, a related party, under a parent company guarantee.

NOTE 26 – FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of investments, accounts receivable and payable, loans from external and related parties and leases.

	Note	Consolidated Group 2017 $000	Consolidated Group 2016 $000
FINANCIAL ASSETS			
Cash and cash equivalents	9	**8,960**	11,517
Other assets		**7**	7
Trade and other receivables	10	**26,009**	18,865
		34,976	30,389
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost:			
– Trade and other payables	18	**15,919**	11,284
– Borrowings	19	**4,263**	16,885
		20,182	28,169

i. Treasury Risk Managment

Management, consisting of senior executives of the Group, discusses and monitors financial risk exposure and evaluates treasury management strategies in the context of current economic conditions and forecasts. Management's overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Management operates under the supervision of members of the Board of Directors. Risk management transactions are approved by senior management personnel.

ii. Financial Risk Exposures and Management

The main risks the group is exposed to through its financial instruments are interest rate risk, currency risk, liquidity risk and credit risk.

The Company's Audit and Risk Committee has overall responsibility for the establishment and oversight of the Group's risk management framework and is responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

a. Interest Rate Risk

Exposure to interest rate risk arises on financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

Currently the Group's operations are financed using a mixture of fixed and floating rate debt. The Group has not currently entered into any interest rate swaps to fix its floating rate debt.

The variable interest rate borrowings exposes the Group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities:

	Note	Consolidated Group 2017 $000	Consolidated Group 2016 $000
FLOATING RATE INSTRUMENTS			
Bank Overdrafts		**263**	211
Swedish Overdraft Facility	19(b)	**-**	-
Greentrains Loan Facility	19(b)	**-**	16,674
TOTAL		**263**	16,885

b. Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group manages this risk through the following mechanisms:

- preparing forecast cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- managing credit risk related to financial assets; and
- monitoring the maturity profile of financial liabilities.

The following table reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectations as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

NOTE 26 – FINANCIAL RISK MANAGEMENT (cont'd)

Financial Liability Maturity Analysis

	Consolidated Group							
	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2017 $000	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
FINANCIAL LIABILITIES DUE FOR PAYMENT								
Bank overdrafts and loans	**4,263**	16,885	**-**	-	**-**	-	**4,263**	16,885
Trade and other payables	**15,919**	11,284	**-**	-	**-**	-	**15,919**	11,284
TOTAL EXPECTED OUTFLOWS	**20,182**	28,169	**-**	-	**-**	-	**20,182**	28,169

c. Currency Risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the AUD functional currency of the Group.

The majority of financial liabilities and assets of the Group are denominated in the functional currency of the operational location. These are primarily Australian Dollars and Swedish Krona.

d. Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

Credit risk is managed through the maintenance of procedures (such procedures include monitoring of exposures, payment cycles and monitoring of the financial stability of significant customers and counter parties) ensuring to the extent possible, that customers and counter-parties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms differ between each key business but are generally 30 to 60 days from end of month.

Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counter-party, then risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default. The Group has established procedures to ensure PPSA registration is performed for all relevant assets.

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or security held, is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the Consolidated Statement of Financial Position.

On a geographical basis the Group has significant credit risk exposures in Australia given the substantial operations in this region. Details with respect of the credit risk of Trade and Other Receivables can be found in Note 10.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 10.

Balances held with banks are with AA rated financial institutions, details of these holdings can be found in Note 9 – Cash and Cash Equivalents.

iii. Net Fair Values

Fair Value Estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the Statement of Financial Position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Estimates, judgments and the associated assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices.

NOTE 26 – FINANCIAL RISK MANAGEMENT (cont'd)

	Consolidated Group		Consolidated Group	
	2017 Carrying Value $000	**2017 Fair Value $000**	2016 Carrying Value $000	2016 Fair Value $000
FINANCIAL ASSETS				
Cash and cash equivalents	**8,960**	**8,960**	11,517	11,517
Trade and other receivables	**26,009**	**26,009**	18,865	18,865
Other assets	**7**	**7**	7	7
	34,976	**34,976**	30,389	30,389
FINANCIAL LIABILITIES				
Trade and other payables	**15,919**	**15,919**	11,284	11,284
Loans and borrowings	**4,263**	**4,263**	16,885	16,885
	20,182	**20,182**	28,169	28,169

The fair values disclosed in the above table have been determined based on the following methodologies:

- Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- Loans and receivables have carrying values equivalent to fair value. The majority of these facilities have floating rates and those that are fixed are expected to be held to maturity and as such when discounted bear little resemblance to the carrying value.
- For other assets, closing quoted bid prices at reporting date are used where appropriate

iv. Sensitivity Analysis

a. Interest Rate Risk and Currency Risk

The following tables illustrate sensitivities to the Group's exposures to changes in interest rates and foreign currency exchange rates. The tables indicate the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

b. Interest Rate Sensitivity Analysis

The effect on earnings and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CHANGE IN EARNINGS		
– Increase in interest rates by 100 basis points	**-**	(386)
– Decrease in interest rates by 100 basis points	**-**	386
CHANGE IN EQUITY		
– Increase in interest rates by 100 basis points	**-**	(386)
– Decrease in interest rates by 100 basis points	**-**	386

As as reporting date. the Group does not carry any debt balances subject to a floating interest rate.

c. Currency Risk Sensitivity Analysis

The effect on earnings and equity as a result of changes in the value of the Australian Dollar to the Swedish Krona, with all other variables remaining constant would be as follows:

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
CHANGE IN EARNINGS		
– Improvement in AUD to SEK by 5%	**(14)**	(18)
– Decline in AUD to SEK by 5%	**14**	18
CHANGE IN EQUITY		
– Improvement in AUD to SEK by 5%	**(497)**	(491)
– Decline in AUD to SEK by 5%	**497**	491

The Group does not currently hedge against foreign exchange movements in net assets of its Swedish subsidiaries.

NOTE 26 – FINANCIAL RISK MANAGEMENT (cont'd)

v. Capital Management

Management monitors the capital of the Group in an effort to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary shares and financial liabilities. The gearing ratios as at 30 June 2017 and 2016 are as follows:

	Consolidated Group 2017 $000	Consolidated Group 2016 $000
Total Borrowings	**4,263**	16,885
Net Debt / (Cash)	**(4,697)**	5,368
Total Equity	**57,011**	49,094
TOTAL EQUITY AND NET DEBT	**52,314**	54,462
GEARING RATIO	**(8%)**	11%

The gearing ratio has decreased in the year largely due to the reduction in borrowings in the current financial year.

NOTE 27 – RELATED PARTY TRANSACTIONS

a. Transactions with Key Management Personnel

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

i. Key management personnel compensation

The totals of remuneration paid to key management personnel during the year (including termination benefits) are as follows:

	2017 $	2016 $
Short-term employee benefits	**2,651,620**	2,702,649
Post-employment benefits	**299,452**	337,772
Termination benefits	**-**	-
Other long-term benefits	**47,221**	24,206
TOTAL	**2,998,293**	3,064,627

Compensation of the Group's key management personnel includes salaries, superannuation and post-employment benefits.

ii. Key management personnel transactions

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies.

A number of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arm's length basis.

From time to time directors of the Group, or their related entities, may buy goods from the Group. These purchases are on the same terms and conditions as those entered into by other Group employees or customers.

NOTE 27 – RELATED PARTY TRANSACTIONS (cont'd)

The aggregate value of transactions and outstanding balances related to key management personnel and entities over which they have control or significant influence were as follows:

		Revenue / (Cost) for the year ended 30 June		Receivable / (Payable) as at 30 June	
Related Party	Director	**2017 $**	2016 $	**2017 $**	2016 $
Elph Pty Ltd [1]	V De Santis/ D Elphinstone	**(768,215)**	(1,343,648)	**-**	-
Elphinstone Group (Aust) Pty Ltd [2]	V De Santis/ D Elphinstone	**(358,519)**	(311,040)	**(22,382)**	(23,870)
William Adams Pty Ltd [3]	V De Santis/ D Elphinstone	**(24,151)**	(25,879)	**(23,783)**	(4,141)
United Equipment Pty Ltd [4]	V De Santis/ D Elphinstone	**(301,494)**	(269,728)	**(25,734)**	599
Grassick SSG Pty Ltd [5]	D Hector	**(45,245)**	(117,400)	**-**	(10,424)
Specialised Vehicle Solutions Pty Ltd [6]	D Elphinstone	**1,432,644**	1,068,906	**-**	24,564
Southern Prospect Pty Ltd [7]	D Elphinstone	**77,173**	1,811	**33,603**	1,992
Elphinstone Pty Ltd [8]	D Elphinstone	**664,469**	-	**682,291**	-

[1] Interest was charged by Elph Pty Ltd on its related party loan to Greentrains Limited. Line Fees were also incurred and paid to Elph Pty Ltd in relation to the related party funding facility with the Group. Vincent De Santis is a director of Elph Pty Ltd. Dale Elphinstone is also a director and the Chairman of this entity.

[2] Director fees and travel expense reimbursements were paid to Elphinstone Group (Aust) Pty Ltd for the services of Dale Elphinstone (Non-Executive Director) and Vincent De Santis (Chairman). Legal service fees were also paid to Elphinstone Group (Aust) Pty Ltd during the year. Vincent De Santis is a director of Elphinstone Group (Aust) Pty Ltd. Dale Elphinstone is also Chairman of this entity. Up until 5 February 2016, Elphinstone Group (Aust) Pty Ltd was known as Elphinstone Pty Ltd.

[3] Goods were purchased from and sold to William Adams Pty Ltd during the period. Dale Elphinstone is the Chairman and a director, and Vincent De Santis is a director of this entity.

[4] Goods were purchased from and sold to United Equipment Pty Ltd during the period. Dale Elphinstone is a director of this entity.

[5] Director fees and travel expense reimbursements were paid to Grassick SSG Pty Ltd for the services of Donald Hector (Non-Executive Director). Donald Hector is the Principal of this entity.

[6] Goods were sold to Specialised Vehicle Solutions Pty Ltd during the year. Dale Elphinstone was appointed as a director of this entity from 1 June 2016.

[7] Goods were sold to Southern Prospect Pty Ltd during the year. Dale Elphinstone is the Chairman of this entity.

[8] Goods were sold to Elphinstone Pty Ltd during the year. Dale Elphinstone is a director and the Chairman of this entity. Up until 5 February 2016, Elphinstone Pty Ltd was known as Haulmax (Aust) Pty Ltd.

b. Other related party transactions

The Group has the following balances outstanding at the reporting date in relation to transactions with related parties:

Related Party Transaction	**2017 $000**	2016 $000
Current receivables (parent entity):		
Receivables from subsidiaries	**1,059**	372
Loans to/from other related parties:		
Loans from Elph Pty Ltd	**-**	(16,674)
Funding facility drawn-down from Elph Pty Ltd	**4,000**	-

The intercompany loans extended from Engenco Limited to its wholly owned subsidiaries are extended on the following terms:

Term: Revolving Facility repayable when subsidiary is in a position to do so or as otherwise decided by the Company.
Rate: Fixed rate reviewable quarterly.

At the reporting date, the related party funding facility from Elph Pty Ltd to Engenco Limited was on arms'-length terms for up to $15,000,000 maturing not earlier than 30 April 2018.

NOTE 28 – AUDITOR'S REMUNERATION

	2017 $000	2016 $000
Audit and Review Services		
Auditors of the Company		
– KPMG Australia – audit and review of financial statements	**325,000**	325,000
– KPMG Overseas – audit and review of financial statements	**52,723**	59,151
Other auditors		
– Audit and review of financial statements	**7,841**	-
TOTAL AUDIT AND REVIEW SERVICES	**385,564**	384,151
Other Assurance Services		
Auditors of the Company		
– KPMG Australia – in relation to controls assurance services	**-**	17,420
TOTAL OTHER ASSURANCE SERVICES	**-**	17,420
Other Services		
Auditors of the Company		
– KPMG Australia – in relation to taxation compliance services	**10,655**	5,000
– KPMG Overseas – in relation to taxation compliance services	**3,937**	4,215
TOTAL OTHER SERVICES	**14,592**	9,215

NOTE 29 – EVENTS SUBSEQUENT TO REPORTING DATE

The Group extended its $2,000,000 multi-option facility with the Commonwealth Bank of Australia on 23 August 2017. This facility now matures on 30 June 2019.

The Group extended the maturity of its $15,000,000 revolving line of credit facility from Elph Pty Ltd (Elph) on 23 August 2017 with this facility now maturing on 30 April 2019. In conjunction with the extension of the maturity date, the Group has also decreased the limit of this facility from $15,000,000 to $10,000,000 and has entered into binding agreements with Elph to effect this change. Under the new arrangement the financial covenant (Debt Service Cover ratio) has been amended to the ratio of EBITDA to gross interest expense, to be greater than 5.0 times.

On 23 August 2017, the Board resolved to declare a final dividend of 0.5 cents per ordinary share (fully franked). Payment of the dividend to shareholders will take place on 28 September 2017.

Other than the above, there has not arisen, in the interval between the end of the financial year and the date of this report, any item, transaction or event which would have a material effect on the financial statements of the Group at 30 June 2017.

SHAREHOLDER INFORMATION

Additional Information for Listed Companies at 16 August 2017

The following information is provided in accordance with the ASX Listing Rules.

1. **Shareholding**

a. **Distribution of shareholders**

Category (size of holding)	No. of shareholders	%	No. Ordinary Shares
1 – 1,000	119	0.01%	25,095
1,001 – 5,000	162	0.17%	546,747
5,001 – 10,000	134	0.33%	1,040,847
10,001 – 100,000	270	3.03%	9,506,139
100,001 – and over	116	96.46%	302,262,115
	801	100.00%	313,380,943

b. **The number of shareholdings held in less than marketable parcels (less than $500 in value) is 141.**

c. **20 largest shareholders – ordinary shares**

Position	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	Elph Investments Pty Ltd	109,060,536	34.80%
2	Elph Pty Ltd	93,346,378	29.79%
3	UBS Nominees Pty Limited	23,802,310	7.60%
4	RAC & JD Brice Superannuation Pty Ltd	19,454,102	6.21%
5	HSBC Custody Nominees (Australia) Limited	11,583,361	3.70%
6	Marford Group Pty Ltd	4,000,973	1.28%
7	Mr Clarence John Kelly, & Mrs Robyn Suzanne Kelly	3,655,000	1.17%
8	Mr Hugh William Maguire, & Mrs Susan Anna Maguire	3,120,000	0.99%
9	JP Morgan Nominees Australia Limited	2,800,859	0.89%
10	Mr Neville Leslie Esler, & Mrs Cheryl Anne Esler	2,004,935	0.64%
11	Mr Dennis Graham Austin, & Mrs Marilyn Alice Austin	1,542,000	0.49%
12	Neko Super Pty Ltd	1,315,581	0.42%
13	Mr Hugh William Maguire	1,300,000	0.41%
14	Lawrence Jared Charles	1,053,661	0.34%
15	Mrs Margaret Jane Lindemann, & Mr Luke Charles Lindemann	1,000,000	0.32%
16	T B I C Pty Ltd	1,000,000	0.32%
17	P J M Super Pty Ltd	997,901	0.32%
18	National Nominees Limited	664,713	0.21%
19	Shymea Pty Ltd	617,500	0.20%
20	Mr Benjamin Pinwill & Mrs Carly Anne Pinwill	501,703	0.16%
		282,821,513	90.26 %

SHAREHOLDER INFORMATION (cont'd)

d. **Shareholders holding in excess of 10% of issued capital were listed in the holding company's register as follows:**

Shareholder	No. Ordinary Shares	%
Elph Investments Pty Ltd	109,060,536	34.80%
Elph Pty Ltd	93,346,378	29.79%

e. **Voting Rights**

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

2. **The name of the Company Secretary is:**

Graeme Campbell

3. **The address of the principal registered office in Australia is:**

Level 22, 535 Bourke Street, Melbourne, VIC 3000

4. **Registers of securities are held at the following addresses:**

Level 9, Suite 913, 530 Little Collins Street, Melbourne VIC 3000

5. **Securities Exchange Listing**

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the ASX Limited.

6. **Unquoted Securities**

N/A

7. **Other Information**

Engenco Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

CORPORATE OFFICE

ENGENCO LIMITED
Level 22
535 Bourke Street
Melbourne VIC 3000

T: +61 (0)3 8620 8900
F: +61 (0)3 8620 8999

investor.relations@engenco.com.au
www.engenco.com.au

AUDITORS

KPMG
Tower Two
Collins Square
727 Collins Street
Melbourne VIC 3008

T: +61 (0)3 9288 5555
F: +61 (0)3 9288 6666

REGISTERED OFFICE

ENGENCO LIMITED
Level 22
535 Bourke Street
Melbourne VIC 3000

T: +61 (0)3 8620 8900
F: +61 (0)3 8620 8999

SHARE REGISTRY

SECURITY TRANSFER AUSTRALIA PTY LTD
Level 9, Suite 913
530 Little Collins Street
Melbourne VIC 3000

T: +61 (0)3 9628 2200
F: +61 (0)8 9315 2233

DIRECTORS

VINCENT DE SANTIS
B.Com LLB (Hons)
Non-Executive Chairman

DALE ELPHINSTONE
FAICD
Non-Executive Director

ROSS DUNNING AC
BE(Hons), B.Com, FIEAust, FIRSE
Non-Executive Director

ALISON VON BIBRA
BSc, MBA, MAICD
Non-Executive Director

KEVIN PALLAS
B.Com, MAICD
Managing Director & CEO

COMPANY SECRETARY

GRAEME CAMPBELL
BSc, FCA
Chief Financial Officer / Company Secretary


Engenco
www.engenco.com.au