Engenco

16 January 2013

Company Announcements
Australian Securities Exchange
525 Collins Street
MELBOURNE VIC 3000

Dear Sir / Madam

For immediate release to the market

Engenco Limited (ACN 120 432 144) – Independent Directors unanimous recommendation in relation to Elph Pty Ltd's unconditional off-market takeover offer

On 12 December 2012, Engenco Limited (**Engenco**) announced an unconditional off-market takeover offer by Elph Pty Ltd (ACN 070 012 252) (**Elph**) for up to 100% of the fully paid ordinary shares (**Shares**) in Engenco at $0.18 per share in cash (**Bid Offer**) as well as a fully underwritten renounceable entitlement offer (**Entitlement Offer**).

For the purposes of evaluating and responding to the Bid Offer, Engenco established an independent committee of the Engenco Board (**Independent Board Committee**), comprising Mr Ross Dunning AC and Dr Donald Hector (each, an **Independent Director**).

The Bid Offer was made by Elph following an approach from the Independent Directors and is welcomed by the Independent Directors as providing needed support for the Entitlement Offer. Elph and Engenco entered into a Bid Implementation Deed on 12 December 2012.

Elph has prepared a Bidder's Statement which sets out the full terms of the Bid Offer. The Bid Offer opened on 10 January 2013 and will remain open for acceptance until 7.00pm (Melbourne time) on 28 February 2013, unless extended. The Bidder's Statement was sent to shareholders on or about 10 January 2013. It is also available from ASX at www.asx.com.au.

Accompanying this letter, in accordance with item 14 of the table in section 633(1) of the *Corporations Act 2001 (Cth)*, is a copy of Engenco's target's statement in response to the Bid Offer (**Target's Statement**), together with an accompanying report by the independent expert, Lonergan Edwards & Associates Ltd (**Independent Expert**).

The Independent Expert has concluded for the reasons specified in the report that the Bid Offer is neither fair nor reasonable to Shareholders not associated with Elph. The Independent Expert has estimated the fair market value of the Shares on a control basis to be in the range of 21 cents to 27 cents per Share. This range is above the Bid Offer price of 18 cents per Share.

Having given careful consideration to the Bid Offer and the opinion of the Independent Expert, the Independent Board Committee's unanimous recommendation (set out in the accompanying Target's Statement) is as follows:

- Shareholders with a *medium to longer term* investment horizon should **Reject** the Bid Offer. In rejecting the Bid Offer, Shareholders should be prepared to accept the risks and uncertainties that may be associated with retaining a shareholding in Engenco. The Independent Board Committee considers that rejecting the Bid Offer is a higher risk option for Shareholders.

- However, Shareholders who have a *short term* investment horizon may **Consider Accepting** the Bid Offer (in the absence of a superior proposal). The Independent Expert is of the opinion that, subsequent to the conclusion of the Bid Offer, it is likely (at least in the short term) that Engenco Shares will trade at a discount to the Bid Offer price. Given Engenco's recent trading performance and further cost reduction and business re-organisation initiatives that are required, the Independent Directors cannot be confident that the opportunity to realise a higher price in the foreseeable future or reasonable trading liquidity will be available. The Independent Board Committee considers that accepting the Bid Offer represents a lower risk option for Shareholders.

Engenco Shareholders are strongly encouraged to read the Target's Statement and report of the Independent Expert in full and obtain independent advice before deciding whether to accept the Bid Offer.

If you have any queries, please contact Mrs Anna Bagley, Company Secretary, on +61 3 8620 8900.

Yours faithfully,

Anna Bagley
Company Secretary
T: +61 3 8620 8900
E: Engenco.InvestorRelations@engenco.com.au

Enclosure

Engenco Limited ABN 99 120 432 144

TARGET'S STATEMENT

In response to the off-market takeover bid by Elph Pty Ltd ABN 52 070 012 252 dated 10 January 2013 for all Engenco Shares (including any Shares issued under the Entitlement Offer) at 18 cents (in cash) per Share

The Independent Directors' recommendation is set out on page 11 of this Target's Statement. Shareholders should read this Target's Statement in full before deciding whether to accept Elph Pty Ltd's Offer.

The Independent Expert has concluded that the Offer of $0.18 per Share is not fair or reasonable to Shareholders. The Independent Expert values Engenco Shares in the range of $0.21 to $0.27 per Share.

DATED: 16 January 2013

FINANCIAL ADVISER TO ENGENCO

RBS Morgans

LEGAL ADVISER TO ENGENCO

MinterEllison LAWYERS

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THIS DOCUMENT IN ITS ENTIRETY. IF YOU ARE IN DOUBT AS TO WHAT YOU SHOULD DO, PLEASE CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

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Contents and Key Dates

Contents

Key Dates

Offer Announcement	12 December 2012
Date of Bidder's Statement (date lodged with ASIC)	18 December 2012
Opening of Offer	10 January 2013
Date of this Target's Statement	16 January 2013
Close of the Offer	7.00pm Melbourne Time, 28 February 2013 (unless extended or withdrawn)

Important Information

Nature of this document

This document is a Target's Statement issued by Engenco Limited (ABN 99 120 432 144) under Part 6.5 Division 3 of the Corporations Act. This Target's Statement is given in response to the off-market takeover bid made by Elph its Bidder's Statement dated 18 December 2012 which was sent to Engenco Shareholders on or about 10 January 2013.

ASIC lodgement

This Target's Statement is dated 16 January 2013 and was lodged with ASIC and sent to ASX on that date. Neither ASIC, ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

No account of personal circumstances

Nothing in this Target's Statement constitutes investment, financial, legal, tax or other advice. This Target's Statement does not take into account your individual investment objectives, financial situation or particular needs and should not be relied on as the sole basis for any investment decision in relation to Engenco Shares. You should seek you own independent financial, investment, legal and taxation advice before deciding whether to reject or accept the Offer. Engenco is not licensed to provide financial advice in relation to shares or any other financial products.

Forward-looking statements

This Target's Statement may contain both historical and forward-looking statements in connection with Engenco, including statements of current intention or expectation. You should be aware that the forward-looking statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to Engenco as well as general economic conditions and conditions in the financial markets.

Actual events or results may differ materially from the events or results expressed or implied in any forward-looking statement and such deviations are both normal and to be expected. None of Engenco, any of its directors or officers, or any person named in this Target's Statement or involved in the preparation of this Target's Statement makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward-looking statement, and you are cautioned not to place undue reliance on those statements.

To the extent that there are any forward-looking statements in this Target's Statement, such statements reflect views held only as at the date of this Target's Statement.

Subject to any continuing obligations under law or the ASX Listing Rules, Engenco does not give any undertaking to update or revise any forward-looking statements after the date of this Target's Statement to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based.

Unless the contrary is stated, all information and data contained in this Target's Statement is based on information available at the date of this Target's Statement.

Disclaimers

Each of Engenco, any of its officers, or any person named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement, or any statement on which a statement in this Target's Statement is based (other than in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement which has been included in this Target's Statement with the consent of that person); and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and, in the case of a person referred to above as having given their consent to the inclusion of a statement, any statement which has been included in this Target's Statement with the consent of that party.

Information on Elph

All of the information on Elph and the Bidder's Statement contained in this Target's Statement has been obtained by Engenco from the Bidder's Statement and other publicly available information, except where disclosed otherwise. Engenco and its Independent Directors are unable to verify the accuracy or completeness of the information on Elph or the Bidder's Statement. None of the information in this Target's Statement relating to Elph or the Bidder's Statement has been verified by the Engenco board or independently verified by Engenco or its respective directors for the purposes of this Target's Statement.

Accordingly, subject to the Corporations Act, Engenco does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information. The information on Elph and the Bidder's Statement in this Target's Statement should not be considered comprehensive.

Foreign Jurisdictions

The publication, distribution or release of this Target's Statement in a jurisdiction outside of Australia may be restricted in such other jurisdiction by law or regulation. Accordingly, persons who come into possession of this Target's Statement in such jurisdiction should seek advice on and observe such laws and regulations.

Privacy

Your information has been collected by Engenco from the register of Engenco Shareholders for the purpose of providing you with this Target's Statement. The information about you that Engenco has collected includes your name, your contact details and information on your shareholding in Engenco.

The Corporations Act requires that the name and address of shareholders be held in a public register. Your information may be disclosed by Engenco, on a confidential basis, to its related bodies corporate and external service providers, Elph and, if required, regulators such as ASIC.

If you would like for your information to be withheld by Engenco, please contact Security Transfer Registrars Pty Ltd, the share registry of Engenco, at:

770 Canning Highway
Applecross WA 6953
Phone: +61 (0) 8 9315 2333

Independent Expert's Report

The Independent Directors of Engenco have sought, under section 640 of the Corporations Act, an expert's opinion as to whether the Offer is fair and reasonable to the Engenco Shareholders. The report of the expert is required because Elph's voting power in Engenco is over 30% and because Elph and Engenco share common directors.

Lonergan Edwards & Associates Ltd, the Independent Expert, has concluded that the Offer is neither fair nor reasonable. However, the Independent Expert recommends those Shareholders with a short term time horizon who do not wish to remain minority shareholders of Engenco if control of the company passes to Elph, consider accepting the Offer (in the absence of a superior proposal).

The Independent Expert has valued 100% of the ordinary Shares in Engenco based on a sum-of-the-parts approach. The Independent Expert has concluded that the Bid Offer is not fair as it is less than the Independent Expert's valuation range for Engenco Shares of between \$0.21 and \$0.27 per Share.

Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, shareholders should accept the offer in the absence of a higher bid before the close of the offer. In determining if the Bid Offer is reasonable, the Independent Expert has considered:

- the extent to which a control premium is being paid to Engenco Shareholders;
- the extent to which a share of the synergies likely to arise upon an acquisition of Engenco by Elph are being shared with Engenco Shareholders;
- the listed market price of Engenco Shares both prior to the announcement of the intention to make the Offer and after the announcement of the Offer;
- the likely market price of Engenco Shares if the Offer is not successful;
- the position of Engenco Shareholders if Elph acquires 50.1% but less than 100% of the Engenco Shares on issue;
- Elph's current shareholding in Engenco;
- the value of Engenco to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or some time in the future; and
- other risks, advantages and disadvantages.

In the opinion of the Independent Expert, the Offer is not reasonable because the Offer consideration of \$0.18 per Share is significantly lower then the assessed valuation range for Engenco Shares.

The Independent Expert's Report accompanies this Target's Statement.

Defined terms

Capitalised terms used in this Target's Statement are defined in the 'Definitions and Interpretation' section of this Target's Statement. The rules of interpretation that apply to this Target's Statement are also set out in that section.

Engenco's website

Engenco maintains a website at www.engenco.com.au. Information obtained in, or accessible through, the Engenco website is not a part of this Target's Statement.

Letter from Chairman of Independent Board Committee

16 January 2013

Dear Shareholder

Off-market takeover bid by Elph

On 12 December 2012 Engenco announced a fully underwritten renounceable entitlement offer (**Entitlement Offer**) as well as an off-market takeover bid for all Engenco Shares by Elph (**Bid Offer** or **Offer**).

Under the Entitlement Offer, Engenco offered Shareholders the right to participate in a 3 for 2 renounceable rights issue priced at 15 cents per Share. The Entitlement Offer closes on 18 January 2013 and Engenco expects that the Shares under the Entitlement Offer will be allotted on 29 January 2013.

Under the Bid Offer, Elph is offering to acquire all of your Shares, together with all Rights attaching to them, for 18 cents per Share by way of an unconditional off-market takeover offer. The Bid Offer opened on 10 January 2013. Elph is the major shareholder in Engenco and as at 15 January 2013 held 39.60% of Engenco Shares on issue.

The Bid Offer was made by Elph following an approach of the Independent Directors and was welcomed by the Independent Directors as providing needed support for the Entitlement Offer. Elph and Engenco entered into a Bid Implementation Deed on 12 December 2012.

The Bid Offer applies not only to existing Shares, but also extends to all new Engenco Shares which are to be issued under the Entitlement Offer. This allows you to take up your entitlement under the Entitlement Offer at 15 cents per Share and accept into the Bid at 18 cents per Share if you wish. This applies even if you accept the Bid Offer before Shares are issued to you under the Entitlement Offer. Under the Bid Offer, you may sell either all or some of your Shares in Engenco.

Elph has prepared a Bidder's Statement which sets out the full terms of the Bid Offer. The Bid Offer is unconditional and will remain open for acceptance until 7.00pm (Melbourne time) on 28 February 2013, unless extended. The Bidder's Statement was sent to you on or about 10 January 2013. It is also available from ASX at www.asx.com.au.

Independent Board Committee

For the purposes of evaluating and responding to the Bid Offer, Engenco established an independent committee of the Engenco Board (**Independent Board Committee** or **IBC**), comprising Mr Ross Dunning AC and Dr Donald Hector (each, an **Independent Director**) to consider the Bid Offer. The other Engenco Directors, Dale Elphinstone and Vincent De Santis, are directors of Elph, and therefore did not participate in any way in the review of the Bid Offer and they abstain from making any recommendation in relation to the Bid Offer. The non-Independent Directors have not approved the issue of this Target's Statement.

Minter Ellison and RBS Morgans Corporate Ltd were appointed to advise Engenco on the Bid Offer.

Independent Expert

The Independent Board Committee appointed Lonergan Edwards & Associates Ltd (**Independent Expert**) to opine on whether the Bid Offer is fair and reasonable to Engenco Shareholders (other than Elph and its associates) and to prepare the Independent Expert's Report for Shareholders on the Bid Offer. A copy of the Independent Expert's Report accompanies this Target's Statement.

The Independent Expert has concluded that the Bid Offer is neither fair nor reasonable to Shareholders not associated with Elph. The Independent Expert has estimated the fair market value of the Shares on a control basis to be in the range of 21 cents to 27 cents per Share. This range is above the Offer Price of 18 cents per Share.

The Independent Directors' Recommendation

The Independent Board Committee has given careful consideration to the Bid Offer and the opinion of the Independent Expert.

Consequently, the Independent Board Committee's recommendation is that:

Shareholders with a *medium to longer term* investment horizon **Reject the Offer**. In rejecting the offer, Shareholders should be prepared to accept the risks and uncertainties that may be associated with retaining a shareholding in Engenco. The IBC considers that rejecting the Offer is a higher risk option for Shareholders.

However, Shareholders who have a *short term* investment horizon may **Consider Accepting** the Offer (in the absence of a superior proposal). The Independent Expert is of the opinion that, subsequent to the conclusion of the Bid Offer, it is likely (at least in the short term) that Engenco Shares will trade at a discount to the Bid Offer price. Given the Company's recent trading performance and further cost reduction and business re-organisation initiatives that are required, the Independent Directors cannot be confident that the opportunity to realise a higher price in the foreseeable future or reasonable trading liquidity will be available. The IBC considers that accepting the Offer represents a lower risk option for Shareholders.

If you intend to accept the Bid Offer, the Independent Directors would also encourage you to participate in the Entitlement Offer given that Shareholders can acquire new Shares through the Entitlement Offer at $0.15 per Share and sell them into the Bid Offer at $0.18 per Share.

In forming its recommendation, the Independent Board Committee took into account the following key considerations:

Reasons to ACCEPT the Bid Offer	Reasons to REJECT the Bid Offer
The Share price may fall following completion of the Bid Offer and may not trade at the Bid Offer price in the foreseeable future	The Independent Expert has concluded that the Bid Offer of $0.18 per Engenco Share is not fair or reasonable
Certainty of price and liquidity of at least $0.18 (cash) per Engenco Share	The Bid Offer, in the Independent Directors' opinion, does not offer value for your Engenco Shares having regard to the long term potential of the business
There are risks associated with the Company making the necessary changes to turn around its performance and there is no guarantee that this will be achieved or achieved within a reasonable time frame	Shareholders will not be able to participate in any potential increase in the Engenco Share price in the future
The Bid Offer is at a 20% premium to the Entitlement Offer price of 15 cents per Share	It is possible that Elph could return with a subsequent higher offer if it does not acquire 100% ownership
The Bid Offer allows you to sell all your shareholding in Engenco at $0.18 per Share, a stock that has relatively low liquidity	Following the Entitlement Offer, the business will have reduced its debt and is expected to be in a position where it can start to deliver upon its potential
There is currently no competing offer and such a competing offer is unlikely particularly given that Elph already owns 39.60% of the Company	The Independent Directors do not intend to accept the Bid Offer in respect of their own Shares
By accepting the Bid Offer you will not be exposed to the risk of a fall in the Share price	The Engenco Share price is currently trading at its lowest levels since listing on the ASX

Reasons to ACCEPT the Bid Offer (continued)	Reasons to REJECT the Bid Offer (continued)
In the Independent Expert's opinion, it is likely that Elph will increase its control of Engenco to above 50% pursuant to the Bid Offer. If Elph obtains voting power in Engenco close to 90% or if trading liquidity is minimal, it may consider de-listing Engenco. In any case, Shareholders who do not accept the Offer may be minority Shareholders in Engenco with low trading liquidity.	

None of the Directors who are not Independent Directors make a recommendation in respect of the Bid Offer given their connection with Elph.

Engenco Shareholders should be aware that, although the Independent Directors welcome the Bid as providing needed support to the Entitlement Offer and providing an opportunity for those Shareholders with a shorter term investment horizon to exit their investment, it is the intention of the Independent Directors who have a relevant interest in Engenco Shares (being both Mr Ross Dunning AC and Dr Donald Hector) not to accept the Bid Offer. Further, each of the Independent Directors intends to invest further funds into the Company by taking up their full entitlements in the current renounceable Entitlement Offer.

The recommendation of the Independent Directors and their reasons for the recommendation is set out in more detail in the section entitled 'Independent Director's Recommendation and Reasons' on page 11.

Next steps

I urge you to read this Target's Statement carefully and in its entirety and to also read the Bidder's Statement in its entirety for more details about the Bid Offer.

To accept the Bid Offer you should carefully follow the instructions in the Bidder's Statement and complete the Acceptance Form enclosed with the Bidder's Statement. The Bid Offer is due to close at 7.00pm (Melbourne time) on 28 February 2013, unless extended.

When assessing whether or not to accept the Bid Offer, you should consider the information provided to you as well as having regard to your own personal risk profile, investment strategy and tax position. If you have any questions in relation to your position as an Engenco Shareholder, I encourage you to seek legal, financial and/or taxation advice from your professional adviser on the action that you should take in relation to the Bid Offer.

Yours sincerely,

Donald Hector

Dr Donald Hector
Chairman, Independent Board Committee
Engenco Limited

Questions and Answers

This section answers what the Independent Directors of Engenco expect will be some of the commonly asked questions about the Offer. It is designed to help you understand some of the issues relating to the Offer but is not intended to address all relevant issues for Engenco Shareholders. This section should be read together with the rest of this Target's Statement.

	Question	Answer
1.	**Why have I received this document?**	You have received this Target's Statement because you are an Engenco Shareholder. This Target's Statement is Engenco's formal response to the Bidder's Statement. It contains important information prepared by the Independent Directors to help you to determine whether or not to accept the Offer.
2.	**What is a Bidder's Statement?**	The documents sent to you by Elph include a document called a Bidder's Statement. It contains information about the Offer.
3.	**What is a Target's Statement?**	This document is a Target's Statement. It contains information prepared by Engenco to help you determine whether or not to accept the Offer.
4.	**Who is offering to purchase my Engenco Shares?**	Elph Pty Ltd ABN 52 070 012 252 is the company making the Offer. As at 15 January 2013, Elph has an interest in 39.60% of the Engenco Shares on issue. Further information about Elph can be obtained from the Bidder's Statement.
5.	**What is Elph offering for my Engenco Shares?**	Elph is offering to acquire all of your Shares together with all Rights attaching to them (including any Shares issued to you under the Entitlement Offer). The Offer Price is stated in the Bidder's Statement as $0.18 cash for each of your Engenco Shares.
6.	**Does the Offer extend to any Shares issued under the Entitlement Offer?**	Yes. The Offer extends to any Shares issued to you under the Entitlement Offer. This applies even if you accept the Offer before Shares are issued to you under the Entitlement Offer.
7.	**Are there any conditions to the Offer?**	No. The Offer is unconditional. Full details of the Offer are set out in Annexure 1 to the Bidder's Statement.
8.	**What do your Independent Directors recommend?**	The Independent Directors' recommendation is set out in the section 'Independent Director's Recommendation and Reasons' on page 11 of this Target's Statement.
9.	**What do the Independent Directors intend to do in relation to the Offer?**	While the Independent Directors welcome the Bid as providing needed support to the Entitlement Offer and a mechanism to allow Shareholders with a shorter term investment horizon to exit their investment, each of the Independent Directors who hold Shares in Engenco (being Mr Ross Dunning AC and Dr Donald Hector) intend to reject the Offer in respect of their own shareholdings.

10.	**What is the opinion of the Independent Expert?**	Under the Corporations Act, Engenco is required to obtain an independent expert's report in relation to the Offer. The opinion of the Independent Expert is that the Offer is not fair or reasonable to the Engenco Shareholders who are not associated with Elph. The Independent Directors recommend that you read the Independent Expert's Report when considering the Offer. The Independent Expert's Report accompanies this Target's Statement.
11.	**What choices do I have in respect of the Offer?**	As an Engenco Shareholder you have several choices available to you in relation to how you respond to the Offer. Each of these choices carries certain implications which you should carefully consider in light of your personal circumstances and having regard to advice from your broker or other professional advisor(s), which advice you are encouraged to seek. As an Engenco Shareholder you may: (a) accept the Offer for all or part of your Engenco Shares; (b) reject the Offer or do nothing and keep your Engenco Shares; or (c) sell all or part of your Engenco Shares on market (unless you have already accepted the Offer). Importantly, Shareholders may also participate in the current Entitlement Offer and have the above three options available to them in respect of Shares allocated to them through the Entitlement Offer.
12.	**How do I accept the Offer?**	To accept the Offer, you need to follow the instructions set out in clause 4 of Annexure 1 to the Bidder's Statement. To be effective, your acceptance of the Offer must be received before 7.00pm (Melbourne time) on 28 February 2013 (unless the Offer is extended).
13.	**Can I partially accept the Offer?**	Yes. You can accept the Offer for all or part of your Shares.
14.	**Are there any taxation issues?**	Accepting the Offer may trigger taxation consequences for you. You should carefully read the Bidder's Statement and consider the taxation consequences that may arise as a result of holding an ownership interest in Engenco. Engenco and its advisers do not accept any liability or responsibility in respect of any statement concerning the taxation consequences of accepting the Offer or in respect of the taxation consequences themselves. The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. You should seek your own independent professional taxation advice as to the taxation implications applicable in your own specific circumstances.

15.	**When do I have to make a decision?**	If you do not wish to accept the Offer, do nothing in relation to any documents received from Elph. To accept the Offer, you must accept before the scheduled closing date of the Offer. Elph has stated that the Offer remains open until 7.00pm (Melbourne time) on 28 February 2013. It is possible that Elph may choose to extend the Offer Period in accordance with the Corporations Act.
16.	**If I accept the Offer can I withdraw my acceptance?**	No. As the Offer is unconditional, once you have accepted the Offer, you cannot withdraw your acceptance.
17.	**What happens if Elph improves the Offer?**	If you accept the Offer and Elph subsequently improves the terms of the Offer by increasing the Offer Price, you will be entitled to the increased Offer Price.
18.	**What are the consequences of doing nothing in respect of the Offer?**	If you do nothing in respect of the Offer, you will retain your Engenco Shares and will not receive the consideration offered by Elph. You should note, however, that if Elph acquires a relevant interest in 90% or more of Engenco Shares and is entitled to compulsorily acquire your Shares, then Elph has stated that it intends to do so. Details of what will happen if your Shares are compulsorily acquired are included in the Bidder's Statement. You should only do nothing in relation to the Offer if you intend to reject the Offer.
19.	**What if I want to sell my Engenco Shares on market?**	During the Offer Period you may sell your Engenco Shares on the ASX for cash (less any brokerage that may be payable), unless you have already accepted the Offer. Before doing so, you should carefully consider the implications of this course of action, including those implications referred to below. If you sell your Engenco Shares on market: (a) you will receive the consideration for your Engenco Shares sooner than if you accept the Offer; (b) you will lose the ability to accept the Offer and receive the Offer Price (or any increase in the Offer Price) for your Engenco Shares; (c) you may receive more or less for your Engenco Shares than the Offer Price; and (d) you may incur a brokerage charge. You should contact your broker for information on how to sell your Engenco Shares on market and your tax advisor to determine the tax implications for you of such a sale.
20.	**Can Elph extend the date of expiration of the Offer or withdraw the Offer?**	Elph may extend the date of expiration of the Offer in accordance with the Corporations Act. Any extension will be announced to ASX. Elph can only withdraw the Offer with the consent of ASIC.
21.	**What if I have further questions?**	You should seek legal, financial and/or taxation advice from your professional adviser.

Independent Directors' Recommendation and Reasons

Independent Board Committee

The Directors as at the date of this Target's Statement are:

- Mr Dale Elphinstone (Non-Executive Chairman)*
- Mr Vincent De Santis (Non-Executive Director)*
- Mr Ross Dunning AC (Independent Director)
- Dr Donald Hector (Independent Director)

* Indicates a non-Independent Director. Mr Dale Elphinstone and Mr Vincent De Santis have not been involved in the preparation of, and have not approved, this Target's Statement.

An Independent Board Committee, comprising Dr Donald Hector and Mr Ross Dunning AC (being the Engenco Directors who are not associated with Elph) was formed by Engenco for the purpose of responding to the Offer.

Each Independent Director desires to make and considers himself justified in making a recommendation to Engenco Shareholders in relation to the Offer.

Independent Directors' intentions

While the Independent Directors welcome the Bid as providing needed support to the Entitlement Offer and facilitating an orderly exit by Shareholders who wish to sell their Shares, each of the Independent Directors who has an interest in Engenco Shares (being both Dr Donald Hector and Mr Ross Dunning AC) intend to reject the Offer in relation to their own Engenco Shares.

Further, each of the Independent Directors intends to invest further funds into the Company by taking up their full entitlements in the current renounceable rights issue.

Details of the relevant interests of each Director in Shares are set out in the section entitled 'Additional Material Information' on page 20 of this Target's Statement.

Recommendation of the Independent Directors

After taking into account the matters in this Target's Statement (including the Independent Expert's Report) and in the Bidder's Statement, your Independent Directors' recommendation is that:

Shareholders with a *medium to longer term* investment horizon **Reject the Offer**. In rejecting the Offer, Shareholders should be prepared to accept the risks and uncertainties that may be associated with retaining a shareholding in Engenco. The IBC considers that rejecting the Offer is a higher risk option for Shareholders.

However, Shareholders who have a *short term* investment horizon may **Consider Accepting** the Offer (in the absence of a superior proposal). The Independent Expert is of the opinion that, subsequent to the conclusion of the Bid Offer, it is likely (at least in the short term) that Engenco Shares will trade at a discount to the Bid Offer price. Given the Company's recent trading performance and further cost reduction and business re-organisation initiatives that are required, the Independent Directors cannot be confident that the opportunity to realise a higher price in the foreseeable future or reasonable trading liquidity will be available. The IBC considers that accepting the Offer represents a lower risk option for Shareholders.

If you intend to accept the Bid Offer, the Independent Directors would also encourage you to participate in the Entitlement Offer given that Shareholders can acquire new Shares through the Entitlement Offer at $0.15 per Share and sell them into the Bid Offer at $0.18 per Share.

None of the Directors who are not Independent Directors makes a recommendation in respect of the Offer given their connection with Elph.

Reasons to Reject or Accept the Offer

Below is a list of the reasons that your Independent Directors consider may be useful in determining whether or not Shareholders should accept or reject the Bid Offer:

Reasons to Reject the Offer:	
The Independent Expert has concluded that the Offer is not fair or reasonable	• The Independent Expert has concluded that the Offer of $0.18 per Engenco Share is not fair or reasonable. Based on this conclusion Shareholders may decide to reject the Offer as such a conclusion suggests that the Bid Offer is lower than fair value for your Shares and not a reasonable offer after taking all other aspects, other than just value, into consideration.
The Independent Directors believe the Offer does not offer value for your Engenco Shares	• In the Independent Directors' opinion, the Offer at $0.18 per Engenco Share does not offer value for Engenco Shares having regard to the long term potential of the business.
Shareholders who accept the Offer will not benefit from any future increase in the Share price	• If you accept the Offer, you will no longer be an Engenco Shareholder. This will mean that you will not participate in any potential increase in the Engenco Share price in the future.
There is a chance that Elph may make a subsequent offer at a higher price	• If, once the Bid Offer closes, Elph does not become entitled to compulsorily acquire your Shares and Engenco remains listed on the ASX, Elph may decide at a later stage that it would prefer 100% ownership of Engenco and may return to the market with a subsequent higher offer. As this would be a separate offer to the current Bid Offer, Shareholders who accepted into the current Bid Offer would not be entitled to receive any further payment through any new offer.
The Independent Directors intend to reject the Offer	• Engenco Shareholders should be aware that, while the Independent Directors welcome the Bid as providing needed support to the Entitlement Offer, it is the intention of the Independent Directors to reject the Offer with respect to their own shareholdings. Further to this, the Independent Directors also intend to take up their rights through the Entitlement Offer.
Following the Entitlement Offer the business is expected to be financially sound	• Engenco management expect that the proceeds of the capital raising will place Engenco in a position where it will be financially stable and can start to deliver upon its considerable potential. Following completion of the fully underwritten Entitlement Offer, Engenco will be largely debt free and in compliance with its banking covenants providing significant headroom (apart from Engenco's share of the Greentrains debt, which is non-recourse to the other Engenco businesses).
The Engenco Share price is at its lowest levels	• The Engenco Share price is currently trading at historically low levels. By accepting into the Offer you may be selling your Engenco Shares at historically low trading levels.

Reasons to Accept the Offer:	
Bid Offer provides certainty of price and liquidity	• The Bid Offer provides certainty of price and liquidity of at least $0.18 (cash) per Share. The Offer allows you to sell all or part of your shareholding in Engenco, a stock that has historically had relatively low liquidity on ASX. It also allows you to exit your investment at a price greater than the Entitlement Offer price. If you do not accept the Offer, the market for Shares may become less liquid than at present with no certainty that you will be able to sell your Shares at a price greater or equal to the Bid Offer price in the future.
No guarantee of the future performance of the Company	• While the Directors remain confident in the long term potential of the business, there are risks associated with the Company making the necessary changes to turn around its performance and there can be no guarantee that this will be achieved or achieved within a reasonable time frame. Engenco recently revised FY13 NPAT guidance to be a loss of between $10 million to $12 million. The Offer provides an exit for Shareholders who have a shorter term investment horizon or have lost confidence in the Company's ability to meet its expected future potential given Engenco's past performance; and uncertain economic conditions over the short to medium term.
Bid Offer is at a premium to the Entitlement Offer	• The Offer is at a 20% premium to the Entitlement Offer price of $0.15. The Offer gives you an alternative option to exit your investment at a price greater than the price under the Entitlement Offer. New Shares issued through the Entitlement Offer are eligible to accept into the Bid Offer providing Shareholders with a guaranteed 20% gain on any Shares received through the Entitlement Offer.
Currently no competing offer and unlikely to be such an offer	• There is no competing offer and such competing offer is unlikely. Elph is Engenco's largest Shareholder, with a 39.60% shareholding as at 15 January 2013. Engenco has also entered into a Bid Implementation Deed with Elph, a copy of which was annexed to the ASX Announcement of the Bid dated 12 December 2012. It requires Engenco to pay a break fee of $250,000 to Elph in certain cases including if a competing proposal is recommended by an Independent Director. The Company is not aware of any other party intending to make a competing offer for your Shares.
Eliminates exposure to future falls in share price	• The Independent Expert is of the opinion that, subsequent to the conclusion of the Bid Offer, it is likely (at least in the short term) that Engenco Shares will trade at a discount to the Bid Offer price. • Any future impacts on earnings could also cause the Share price to fall. By accepting into the Bid Offer Shareholders will no longer be exposed to the risk of a fall in the Share price.
Elph may seek to de-list the	• In the Independent Expert's opinion, it is likely that Elph

Reasons to Accept the Offer:	
Company from ASX	will increase its control of Engenco to above 50% pursuant to the Bid Offer. As a result, Elph will control Engenco including its day-to-day management, strategic direction and level of dividend payments. While it is Elph's intention to continue the business in accordance with its current plans and strategies, if Elph obtains voting power in Engenco close to 90% (compulsory acquisition threshold) or if there is minimal trading liquidity going forward, Elph have stated that they may consider removing Engenco from the official list of the ASX. Under such a scenario, remaining Shareholders would retain their shareholding, however there would be a limited market for trading Engenco Shares and Engenco would no longer be subject to ASX's continuous disclosure requirements.

In considering whether or not to accept the Offer, the Independent Board Committee encourages you to:

- have regard to your individual risk profile, investment time frame, portfolio strategy, tax position and financial circumstances;
- consider the alternatives discussed in section 11 of the 'Question and Answers' section in this Target's Statement; and
- obtain independent financial, legal, taxation or other professional advice before making a decision as to whether or not to accept the Offer.

Information about Engenco

Engenco overview

Engenco listed on the ASX in December 2006 as Coote Industrial Limited. Engenco provides technical sales and services to the resources, rail, transport, defence, maritime and power generation industries. For further information on Engenco, investors should read the ASX announcements made by Engenco. A list of announcements made by Engenco since 27 September 2012 (being the date that the Engenco annual report was most recently lodged with the ASX before the Bidder's Statement was lodged with ASIC) is attached as Annexure 2 to the Bidder's Statement.

Engenco Businesses

Engenco holds a diversified portfolio of investments with some of the larger investments described below.

- Drivetrain Power and Propulsion – Provider of technical sales and services to the mining, rail, transport, defence, marine, construction, materials handling, automotive, agriculture and power generation industries.
- Convair Engineering – Specialises in the design, manufacture and repair of steel and aluminium pneumatic tankers for transport of dry bulk products via road and rail.
- Centre for Excellence in Rail Training – Registered Training Organisation that provides responsive, flexible and innovative training, assessment and recertification services to the Australian rail industry.
- Momentum – Provider of professional recruitment, labour hire, infrastructure maintenance, training and certification services to the rail and rail infrastructure industries.
- Gemco Rail – specialises in the manufacture of rail products and provision of maintenance services to national rail operators.
- Greentrains – Provider of a range of locomotives and wagons for lease to the Australian rail industry. Elph is the financier to Greentrains.

Financial information

Elph's last published audited financial statements are for the financial year ended 30 June 2012 and were lodged with ASX on 27 September 2012. The tables below set out details of the financial performance of Engenco for the last three financial years. The financial information set out below is a summary only. The full financial accounts for Engenco for the financial years ended 2010, 2011 and 2012, including the notes to the accounts, can be found in Engenco's annual reports for the respective years, which can be found on Engenco's website at www.engenco.com.au.

Consolidated Statements of Comprehensive Income Year ended 30 June	2010 $'000	2011 $'000	2012 $'000
Revenue	188,679	199,295	199,197
Other income	3,380	2,240	2,028
Changes in inventories of finished goods and work in progress	(18,707)	7,238	(13,201)
Raw materials and consumables used	(77,607)	(92,484)	(104,787)
Employee benefits expense	(67,191)	(59,491)	(55,504)
Depreciation and amortisation expense	(13,059)	(10,160)	(11,006)
Goodwill written off	(44,224)	-	(3,813)
Impairment of property, plant and equipment	(11,491)	567	(3,547)
Finance costs	(15,622)	(9,458)	(5,553)
Subcontract freight	(1,949)	(1,960)	(1,825)
Repairs and maintenance	(8,645)	(1,697)	(1,543)
Insurances	(3,254)	(2,837)	(1,913)
Rent and outgoings	(10,822)	(9,659)	(9,126)
Vehicle expenses	(1,247)	(721)	(477)
Fuel	(6,955)	(580)	**(491)**
Foreign exchange movements	(182)	(332)	(399)
Other expenses	(12,609)	(9,871)	(20,648)
PROFIT / (LOSS) BEFORE INCOME TAX	(101,505)	10,090	(32,608)
Income tax expense	(5,259)	(3,340)	(2,991)
PROFIT / (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	(106,764)	6,750	(35,599)
Profit / (loss) from discontinued operations after tax	(10,232)	(1,682)	-
PROFIT / (LOSS) FOR THE PERIOD	**(116,996)**	**5,068**	**(35,599)**

Consolidated Statements of Financial Position Year ended 30 June	2010 $'000	2011 $'000	2012 $'000
CURRENT ASSETS			
Cash and cash equivalents	2,727	14,098	15,644
Trade and other receivables	44,424	46,782	47,250
Inventories	44,751	51,002	44,710
Other current assets	2,359	3,266	1,868
TOTAL CURRENT ASSETS	94,261	115,148	109,472
NON -CURRENT ASSETS			
Trade and other receivables	2,255	512	513
Inventories	5,921	6,909	-
Financial assets	157	145	17
Property, plant and equipment	82,459	94,471	92,073
Deferred tax assets	4,915	8,782	8,344
Intangible assets	52,295	49,661	43,875
TOTAL NON -CURRENT ASSETS	148,002	160,480	144,822
TOTAL ASSETS	**242,263**	**275,628**	**254,294**
CURRENT LIABILITIES			
Trade and other payables	56,381	22,232	30,279
Financial liabilities	81,070	31,895	61,037
Current tax liabilities	2,860	2,993	1,972
Short-term provisions	9,947	6,121	4,352
TOTAL CURRENT LIABILITIES	150,258	63,241	97,640
NON -CURRENT LIABILITIES			
Financial liabilities	32,113	21,478	1,120
Long-term provisions	1,950	1,927	1,996
Deferred tax liabilities	4,311	1,300	1,745
TOTAL NON -CURRENT LIABILITIES	38,374	24,705	4,861
TOTAL LIABILITIES	**188,632**	**87,946**	**102,501**
NET ASSETS	**53,631**	**187,682**	**151,793**
EQUITY			
Issued capital	152,808	275,342	275,342
Reserves	(882)	3,290	3,756
Non-controlling interest	2,759	2,922	3,006
Retained earnings / (accumulated losses)	(101,054)	(93,872)	(130,311)
TOTAL EQUITY	**53,631**	**187,682**	**151,793**

Consolidated Statements of Cash Flow Year ended 30 June	2010 $'000	2011 $'000	2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	309,767	219,236	203,596
Payments to suppliers and employees	(249,079)	(235,455)	(195,237)
Interest received	324	332	348
Finance costs	(12,575)	(8,621)	(5,553)
Income tax paid	(7,809)	(1,077)	(4,012)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**40,628**	**(25,585)**	**(858)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment	6,622	2,303	1,359
Proceeds from disposal of entities	8,086	1,113	-
Purchase of non-current assets	(19,413)	(31,875)	(7,994)
Payment for subsidiary, net of cash acquired	(9,998)		
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(14,703)**	**(28,459)**	**(6,635)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	33,585	102,117	-
Proceeds from borrowings	15,342	-	9,527
Repayment of borrowings	(64,373)	(25,906)	(14,759)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(15,446)**	**76,211**	**(5,232)**
Net increase/ (decrease) in cash held	10,479	22,167	(12,725)
Cash at beginning of financial year	(22,102)	(11,623)	10,544
CASH AT END OF FINANCIAL YEAR	**(11,623)**	**10,544**	**(2,181)**

Change to financial position since last financial report

Engenco's 2012 annual report was lodged with the ASX on 27 September 2012. On 12 December 2012 Engenco issued updated guidance on the ASX. A copy of this updated financial guidance can be found in the presentation announced to the ASX (available on the ASX website www.asx.com.au) on 12 December 2012.

Except as disclosed in this Target's Statement, the Independent Directors do not know of any material change to the financial position of Engenco since its year end audited financial statements.

Key risks associated with an investment in Engenco

There are various risks associated with investing in Engenco that Engenco Shareholders should be aware of before deciding whether or not to accept the Offer. A number of risks and uncertainties, which are both specific to Engenco and of a more general nature, may adversely affect the operating and financial performance or position of Engenco, in turn affecting the value of Engenco Shares and the value of your investment in Engenco.

The risks and uncertainties described below are not an exhaustive list of the risks associated with an investment in Engenco. Additional risks and uncertainties may also become important factors that adversely affect Engenco's operating and financial performance or position. Engenco Shareholders should also have regard to their own personal investment objectives and financial circumstances before deciding whether to accept the Offer. Engenco Shareholders should consult their professional advisers before deciding whether to accept the Offer.

(a) Working capital risk

There can be no assurances that Engenco will obtain appropriate funding for its operations on a timely basis, on reasonable terms, or at all, or that such additional funding would be sufficient to enable Engenco to continue to implement its long term business strategy. Any delay in reducing indebtedness or sourcing additional funding may adversely affect Engenco's credit standing and may result in its borrowing costs being higher than expected.

(b) Industry cycle

Engenco's customers operate in the defence, maritime, power generation, rail and resources industries. Any negative impacts to these industries may adversely impact on Engenco's profitability and financial position.

(c) Increased competition

Engenco faces competition in its business units and to the extent there are new entrants or changes in strategy by existing competitors, Engenco may lose market share with potentially adverse impacts on profitability.

(d) Foreign exchange

Engenco's revenue and operating expenditure is determined principally in Australian dollars, Euros, US dollars and Swedish Krona. Forex fluctuations between these currencies could adversely impact Engenco profitability.

(e) Environmental risks

Extensive national environmental laws and regulations in Australia affect the operations of Engenco. There is a risk that significant damages or penalties might be imposed on the Engenco group companies.

(f) Reliance on key personnel

The responsibility of overseeing day-to-day operations and the strategic management of Engenco is overseen by a small number of key employees. The loss of key employees could affect Engenco's profitability.

(g) Occupational health

Engenco manages, with its clients, certain risks associated with the occupational health and safety of its employees. Injuries or incidents may result in expenses in excess of the insured amounts.

(h) Reliance on key customers and suppliers

Engenco's businesses rely on a number of long-term contracts and business relationships. If any of the key customers defer expenditure, reduce production or terminate the relationship, this may have an adverse effect on the financial performance and/or financial position of Engenco. Similarly, if suppliers do not supply parts to keep up with Engenco's order book, the Company may not be able to complete work for its customers which may adversely affect profit.

(i) Equipment

Engenco is dependent on access to storage, rail, power and propulsion equipment and related parts. If Engenco is unable to source suitable equipment and parts, its profitability may be adversely affected.

(j) Sovereign risk

Engenco and its clients operate in various countries. There is a risk that the actions of a government, or other unforeseen events, in any of these countries may adversely affect Engenco's operational flexibility.

(k) Industrial disputes

Industrial disputes may arise from claims for higher wages and/or better working conditions in the industry in which Engenco operates. This could disrupt operations and impact on earnings.

(l) Risks with growth initiatives

Engenco intends to grow both organically and through new investment opportunities. There are always risks that the benefits, synergies or efficiencies expected from such investments or growth opportunities may take longer than expected to be achieved or may not be achieved at all.

(m) Litigation risk

Exposure to litigation brought by third parties such as customers, regulators, employees or business associates could negatively impact on Engenco's financial performance.

(n) Insurance

There may be circumstances where Engenco's insurance will not cover, or will not be adequate to cover, the consequences of adverse events arising from operations.

(o) New work and projects

Engenco's future financial performance will be impacted by its ability to win new work and projects. The failure of Engenco to win new work or projects may adversely impact its financial performance.

(p) Timing of consents

Engenco's guidance assumes that the delivery of a number of projects will occur during the year ending 30 June 2013. Engenco is exposed to the risk that revenues may not be realised during the year ending 30 June 2013 if projects are delayed due to customer, supplier or Engenco issues.

(q) Economic conditions

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, international economic conditions and employment rates (amongst others) are outside Engenco's control and have the potential to have an adverse impact on Engenco and its operations.

(r) Stock market fluctuations

There are risks associated with any investment in a company listed on the ASX. The value of Engenco's shares may rise above or fall below the current price depending on the financial and operating performance of Engenco and external factors over which Engenco and its Directors have no control. These external factors include economic conditions in Australia and overseas, changing investor sentiment in the local and international stock markets, changes in domestic or international fiscal, monetary, regulatory and other government policies and developments and general conditions in the markets in which Engenco operates or proposes to operate and which may impact on the future value and pricing of shares.

(s) Regulatory risks

Engenco is exposed to changes in the regulatory conditions under which it operates. Such regulatory changes can include, for example, changes in taxation laws and policies, accounting standards, environmental laws and regulations, employment laws and regulations, and laws and regulations relating to occupational health and safety.

Additional Material Information

Entitlement Offer

On 12 December 2012, a 3 for 2 renounceable entitlement offer at 15 cents per Share was announced by Engenco. The Bid Offer extends to all new Shares which are issued under the Entitlement Offer. For further details about the Entitlement Offer, refer to the announcement made by Engenco on 12 December 2012 available on the ASX website.

Regulatory Modifications, Exemptions or Waivers

Elph has applied for and obtained from ASIC a modification of section 617 of the Corporations Act to extend the Offer to Shares that are issued in the period after the Register Date to before the end of the Offer Period due to an issue of Shares by Engenco under the Entitlement Offer.

A modification to section 617 of the Corporations Act was necessary because that section provides that the Offer must relate to Shares that exist or will exist as at the Register Date. The offer by Engenco to participate in the Entitlement Offer closes on 18 January 2013 and Engenco expects that Shares under the Entitlement Offer will be issued on 29 January 2013.

Bid Implementation Deed

Elph and Engenco entered into a Bid Implementation Deed on 12 December 2012, whereby Elph and Engenco have agreed to co-operate with each other in relation to the Offer. A summary of certain key terms of the Bid Implementation Deed is set out below. This summary does not purport to be exhaustive or constitute a definitive statement of the rights and liabilities of the parties under the Bid Implementation Deed. The full terms of the Bid Implementation Deed can be viewed in the ASX announcement made by Elph in connection with the Offer on the Announcement Date.

- During the Offer Period, if a competing proposal is put to Engenco then Engenco must promptly inform Elph of that fact, the identity of the person or persons and the key terms of any proposal made by that person.
- Engenco must pay Elph the amount of $250,000 if a competing proposal is announced or put to the Independent Directors of Engenco and either:
    - at any time during the Offer Period, the proponent of the competing proposal acquires voting power or an economic interest in more than 20% of Engenco Shares or acquires or obtains an economic interest in all or a substantial part of the assets or businesses of the Engenco Group; or
    - the competing proposal is recommended or promoted by any director of Engenco not associated with Elph.
- Each of Elph and Engenco gives certain customary warranties to each other, including their legal capacity as set out in clause 5 of the Bid Implementation Deed.

Engenco capital structure

As at the date of this Target's Statement, Engenco has on issue 124,224,766 fully paid Engenco Shares. It is expected that approximately 186,337,149 fully paid Engenco Shares will be issued pursuant to the current Entitlement Offer, on the issue date of 29 January 2013.

The Offer extends to all new Shares which are issued under the Entitlement Offer as well as the Engenco Shares existing as at the date of this Target's Statement (other than those held by Elph).

Substantial holders of Engenco Shares

As at 15 January 2013, and based on information available to Engenco, the substantial holders of Engenco Shares, the number of Engenco Shares in which they have a relevant interest, and their voting power in Engenco is set out below.

Substantial holder	Number of Shares	Voting power
Elph, Elphinstone Holdings Pty Ltd and Dale Brendon Elphinstone	49,189,661	39.60%
SG Hiscock & Company Limited	8,695,752	7.0%
Thorney Holdings Pty Ltd	10,058,033	8.1%

Engenco and Directors' interests

(a) Independent Board Committee and Protocols

The Independent Board Committee has established protocols to ensure that the consideration of the Offer has been subject to appropriate protocols and that any potential conflicts of interest have been managed. This has included:

- the Independent Board Committee being exclusively responsible for all decisions connected with the Offer. The Independent Board Committee excludes all other Directors (being Dale Elphinstone and Vincent De Santis, both of whom are connected with Elph);
- each of Dale Elphinstone and Vincent De Santis has absented himself from any deliberations of the Board with respect to any matters in relation to the Offer. Neither of these Directors will make a recommendation in respect of the Offer and neither of these Directors has approved this Target's Statement;
- protocols for the Directors and managers of Engenco in relation to the provision of information to and communications with Elph and the Independent Expert; and
- the Independent Board Committee appointing RBS Morgans Corporate Ltd as its financial adviser and Minter Ellison to act as its legal adviser in respect of the Offer and the Independent Expert to prepare an Independent Expert's Report evaluating the Offer.

(b) Directors' interests in Engenco Shares

As at 15 January 2013, the Directors have the following relevant interests in Engenco Shares:

Director	Interest
Mr Dale Elphinstone	• 49,189,661 Engenco Shares
Mr Vincent De Santis	• 120,001 Engenco Shares
Mr Ross Dunning	• 74,000 Engenco Shares
Dr Donald Hector	• 77,665 Engenco Shares

(c) Dealings in Engenco Shares by Engenco associates

There have been no acquisitions or disposals of Engenco Shares by the Directors or any of their associates in the four months up to 15 January 2013, except as set out below:

Director	Dealing in Engenco Shares
Mr Dale Elphinstone	• Acquisition of a total of 2,451,026 Shares pursuant to the Bid Offer (Shares acquired from 19 December 2012 to 15 January 2013)
Mr Vincent De Santis	• N/A
Mr Ross Dunning	• Indirect acquisition of 54,000 Shares through an interest held in Dunning Superannuation Fund on 21 December 2012
Dr Donald Hector	• Indirect acquisition of 54,000 Shares through an interest held in Cornelia Investments Pty Ltd as trustee for Cornelia Todd Superannuation Fund on 20 December 2012

(d) No interests in Elph shares

As at the date of this Target's Statement, no Independent Director has any interest in any marketable securities of Elph or any related body corporate of Elph.

(e) No dealings in Elph's shares

There have been no acquisitions or disposals of Elph shares by Engenco or the Independent Directors (or any of their associates) in the four months ending on the date of this Target's Statement.

(f) No agreements conditional on, or in connection with, the Offer

No agreement or arrangement has been made between any Independent Director or with any associate of the Independent Director in connection with or conditional upon the outcome of the Offer.

(g) No interest in contracts with Elph

No Independent Director has any interest in any contract entered into by Elph or any director, related body corporate or associate of Elph.

(h) No agreement to receive any benefit from Elph

No payment or other benefit has been given or is proposed to be given to any Independent Director or to any associate of an Independent Director in connection with or conditional upon the outcome of the Offer.

Compulsory acquisition

Elph states in the section entitled 'Summary of the Offer' in the Bidder's Statement that if Elph becomes entitled to compulsorily acquire Engenco Shares, it intends to do so.

A general outline of the circumstances in which Elph may become entitled to compulsorily acquire Engenco Shares under the Corporations Act is set out below.

(a) Post-bid compulsory acquisition

Elph may compulsorily acquire all remaining Engenco Shares under Part 6A.1 of the Corporations Act if, at any time during or at the end of the Offer Period, Elph and its associates:

- have a relevant interest in at least 90% (by number) of the Engenco Shares; and
- have acquired at least 75% of the Engenco Shares that Elph offered to acquire under the Offer (whether the acquisitions happened under the Offer or otherwise).

If these thresholds are met, Elph will have up to one month after the end of the Offer Period within which to lodge a compulsory acquisition notice with ASIC and to send the notice to ASX and Engenco Shareholders who have not accepted the Offer.

The Corporations Act provides Engenco Shareholders with rights to challenge compulsory acquisition in Court. The Court may only prevent the compulsory acquisition from proceeding if the Court is satisfied that the consideration is not fair value for the Engenco Shares.

Engenco Shareholders should be aware that if they do not accept the Offer and their Engenco Shares are compulsorily acquired under Part 6A.1 of the Corporations Act, they will face delay in receiving the consideration for their Engenco Shares compared with Engenco Shareholders who have accepted the Offer.

(b) General compulsory acquisition

Elph may also be entitled to compulsorily acquire any Engenco Shares under Part 6A.2 of the Corporations Act. This will be the case if Elph holds full beneficial interests in at least 90% of Engenco Shares (that is, Elph becomes a '90% holder').

If this threshold is met, Elph will have six months after Elph becomes a 90% holder within which to give compulsory acquisition notices to Engenco Shareholders.

Consents to statements included in Target's Statement

This Target's Statement contains statements made by, or statements said to be based on statements made by, the Independent Expert and the Independent Directors. Both the Independent Expert and the Independent Directors have given, and have not withdrawn before the date of this Target's Statement, their consent to this inclusion of such statements in the form and context in which they appear.

The following persons have given, and have not, before the date of this Target's Statement, withdrawn their written consent to be named in this Target's Statement in the form and context in which they are named:

- RBS Morgans Corporate Ltd as financial adviser to Engenco;
- Lonergan Edwards & Associates Ltd, as Independent Expert;
- Minter Ellison, as legal adviser to Engenco;
- Security Transfer Registrars Pty Ltd as the Engenco Share registry; and
- Elph in respect of its shareholding and its intentions concerning the Offer.

Reliance on ASIC Class Orders

As permitted by ASIC Class Order 01/1543, this Target's Statement may include or be accompanied by statements which are made, or are based on statements which are made, in documents lodged with ASIC or given to ASX. In accordance with ASIC Class Order 01/1543, provided this Target's Statement fairly represents such statements, the consent of those persons is not required for the inclusion of such statements.

Any Engenco Shareholder who would like a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by writing to Engenco (Attention: Anna Bagley, Company Secretary), 535 Bourke Street, Melbourne 3000.

Other sources of information

Engenco is a disclosing entity (as that term is defined in the Corporations Act) and is subject to regular reporting and disclosure obligations under the Corporations Act and Listing Rules.

Copies of the documents filed with ASX by Engenco may be obtained from the ASX website: http://www.asx.com.au or from the Engenco website: http://www.engenco.com.au.

In particular, you may wish to review information contained in the following other documents in deciding whether or not to accept the Offer:

- Engenco's 2012 annual report (lodged with ASX on 27 September 2012);
- Engenco's updated financial guidance (announced to ASX on 12 December 2012);
- the Independent Expert's Report (accompanying this Target's Statement);
- Engenco's financial statements for the half year ended 31 December 2011 (lodged with ASX on 27 February 2012);
- information contained in releases made to ASX regarding Elph;
- information regarding Engenco which is available on Engenco's website: http://www.engenco.com.au; and
- the Bidder's Statement (sent to Shareholders and lodged with ASX on 10 January 2013).

Other sources of information

This Target's Statement is required to include all information that Engenco Shareholders and their professional advisors would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which is it reasonable for investors and their professional advisors to expect to find the information in this Target's Statement; and
- only if the information is known to any of the Engenco Directors.

The Independent Directors are of the opinion that the information that Engenco Shareholders and their professional advisors would reasonably require to make an informed assessment of whether to accept the Offer is the information contained in:

- the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- Engenco's annual reports and releases to ASX before the date of this Target's Statement;
- documents lodged by Engenco with ASIC before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Independent Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement is accurate. However, the Independent Directors do not take any responsibility for the content of the Bidder's Statement and are not taken as endorsing, in any way, any or all of the statements in it.

In deciding what information should be included in this Target's Statement, the Independent Directors have had regard to:

- the nature of the Engenco Shares (being fully paid ordinary shares);
- the matters which Engenco Shareholders may reasonably be expected to know, including because it is included in the Bidder's Statement;
- the fact that certain matters may reasonably be expected to be known to the professional advisors of Engenco Shareholders; and
- the time available to Engenco to prepare this Target's Statement.

Approval of Target's Statement

This Target's Statement has been approved by a resolution passed by the Independent Directors.

Signed by the Company Secretary, pursuant to section 351 of the Corporations Act.

Mrs Anna Bagley
Company Secretary
Engenco Limited

16 January 2013

Definitions and Interpretation

Definitions

In this Target's Statement:

Acceptance Form means the acceptance form which accompanies the Bidder's Statement.

Announcement Date means 12 December 2012, being the date on which Engenco announced to ASX that it had entered into the Bid Implementation Deed with Elph pursuant to which Elph agreed to make the Bid Offer.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market operated by that entity known as the "Australian Securities Exchange".

Bid means the off-market takeover bid made by Elph under Chapter 6 of the Corporations Act.

Bid Implementation Deed means the bid implementation deed entered into between Elph and Engenco as announced to ASX on 12 December 2012.

Bidder's Statement means Elph's Bidder's Statement in respect of the Offer dated 18 December 2012 and lodged with ASIC on that date.

Corporations Act means the *Corporations Act 2001* (Cth) and any regulations made under that Act.

Director means a director of Engenco as set out in the section of this Target's Statement entitled 'Independent Directors' Recommendation and Reasons'.

Elph or **Bidder** means Elph Pty Ltd ABN 52 070 012 252.

Engenco or **Target** means Engenco Limited ABN 99 120 432 144.

Engenco Board means the board of directors of Engenco.

Engenco Group means Engenco and its Subsidiaries.

Engenco Share or **Share** means a fully paid ordinary share in Engenco, including any shares issued under the Entitlement Offer.

Engenco Shareholder or **Shareholder** means a person registered in the register of members of Engenco as a holder of Engenco Shares.

Entitlement Offer means the 3 for 2 renounceable pro-rata entitlement offer at 15 cents per Share announced by Engenco on 12 December 2012.

Independent Board Committee or **IBC** means the independent board committee comprising the Independent Directors and established for the purpose of considering the Offer.

Independent Director means each Director not associated with Elph (that is, Dale Elphinstone and Vincent De Santis, who are directors of Elph).

Independent Expert means Lonergan Edwards & Associates Ltd ABN 53 095 445 560.

Independent Expert's Report means the report prepared by the Independent Expert in accordance with the requirements of the Corporations Act.

Listing Rules means the official listing rules of ASX as amended or carried from time to time.

Offer or **Bid Offer** means the off-market takeover bid by Elph to purchase the Engenco Shares, as set out in the Bidder's Statement.

Offer Period means the period during which the Offer remains open for acceptance in accordance with the Bidder's Statement (being from 10 January 2013 to 28 February 2013, unless the Offer is extended or withdrawn).

Offer Price means $0.18 cash for each Engenco Share.

Register Date means the date set by Elph under section 633(2) of the Corporations Act as the date for determining the people to whom the Bidder's Statement was, and the Target's Statement will be, sent, being 7.00pm (Melbourne time) on 20 December 2012.

Rights means all accretions and rights attaching to or arising from the Shares after the Announcement Date (including, without limitation, all rights to receive dividends and to receive or subscribe for Shares, stock units, notes or options and all other distributions or entitlements declared, paid or issued by Engenco). To avoid any doubt, the definition of Rights does not include any rights under the Entitlement Offer, and is subject to the ability of a Shareholder to elect to retain a specified number of Shares following the close of the Entitlement Offer in case this alternative is preferred.

Subsidiary has the same meaning as in the Corporations Act and includes a controlled entity of the relevant person.

Target's Statement means this document, which is accompanied by the Independent Expert's Report.

Interpretation

In this Target's Statement, unless the context otherwise requires:

- the singular includes the plural and vice versa and words importing one gender include other genders;
- terms defined in the Corporations Act as at the date of this statement have the meanings ascribed to them in the Corporations Act at that date;
- a reference to any currency is a reference to Australian currency;
- a reference to a statute of any parliament or any section or schedule of a statute of any parliament includes a reference to any statutory amendment, variation or consolidation of the statute, section, provision or schedule and includes all statutory instruments issued under the statute, section, provision or schedule;
- a reference to a time is a reference to a time in Melbourne, Australia; and
- headings are used for reference only.

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The Independent Directors
Engenco Limited
Level 22, 535 Bourke Street
Melbourne Vic 3000

16 January 2013

Subject: Takeover offer for Engenco Limited

Dear Independent Directors

Introduction

1 On 12 December 2012 Elph Pty Ltd (Elph) announced that it had entered into a Bid Implementation Deed dated 11 December 2012 (the Deed) with Engenco Limited (Engenco or the Company), under which Elph would make an unconditional takeover offer for all the ordinary shares in Engenco not held by Elph at an offer price of $0.18 cash per share (the Offer)[1]. Subsequently, on 18 December 2012, Elph lodged its Bidder's Statement with Australian Securities & Investments Commission (ASIC) in relation to the Offer.

2 The Offer extends to both existing Engenco shares on issue at the date of the Deed, together with those shares to be issued by Engenco pursuant to the 3 for 2 renounceable entitlement offer at $0.15 per share announced by Engenco on 12 December 2012 (the Entitlement Offer).

3 The Offer values the total equity in Engenco at approximately $56 million on a post Entitlement Offer basis.

Engenco Limited

4 Engenco is a group of industrial businesses operating predominantly in Australia[2], servicing companies in the resources, rail, transport, defence, maritime and power generation industries. The group specialises in products and services for heavy duty power and propulsion and industrial road and rail operations. Engenco also operates a rolling stock leasing business.

Elph Pty Ltd

5 Elph is a privately held company which is part of the Elphinstone group of companies controlled by Elph's founder and executive chairman Mr Dale Elphinstone. The Elphinstone group has an extensive range of business interests and investments, with a particular focus in the engineering, manufacturing, heavy machinery, logistics and resources industries.

[1] Elph is the major shareholder in Engenco and at the date of announcement of the Deed held a 37.6% interest in Engenco.

[2] Engenco also has operations in Sweden, Asia and sales and service presences in North and South America.

Purpose of report

6 As noted Elph is currently the major shareholder in Engenco and at the date of the Bidder's Statement held 37.6% of the issued share capital[3]. In addition, two directors of Elph are directors of Engenco. Section 640 of the *Corporations Act 2001 (Cth)* (Corporations Act) requires a target company to commission an independent expert's report (IER) in relation to an offer when the bidder's voting power in the target is at least 30% of the target or when the bidder and the target have common directors. Both conditions apply in the circumstances of Engenco.

7 In addition, the Independent Directors have indicated that it is not their intention to make a formal recommendation in relation to the Offer until receipt of an IER.

8 Accordingly, the Independent Directors have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

9 LEA is independent of Engenco and Elph and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

Summary of opinion

10 In our opinion the Offer is neither fair nor reasonable.

11 However we recommend those Engenco shareholders with a short-term investment horizon who do not wish to remain minority shareholders of Engenco if control of the Company passes to Elph, consider accepting the Offer (in the absence of a superior proposal). The Offer provides an exit mechanism for such shareholders given the limited market liquidity in Engenco shares.

12 We have formed this view for the following reasons.

Valuation of Engenco

13 LEA has valued 100% of the ordinary shares in Engenco at between \$0.21 and \$0.27 per share, as summarised below:

Valuation of 100% of Engenco	Low $m	High $m
Drivetrain	34.5	41.0
CERT	3.0	4.0
Convair	11.2	14.0
Momentum	8.8	11.0
Gemco Rail	23.0	30.0
Greentrains (81% equity interest)	13.6	17.7
Corporate costs	(30.0)	(36.0)
	64.1	81.7

3 Elph has subsequently increased its interest to 39.6% as at 15 January 2013 through on-market purchases of Engenco shares and acceptances under the Offer.

Valuation of 100% of Engenco	Low $m	High $m
Less: Net debt (post Entitlement Offer)(1)	-	-
Add: Value of tax losses	1.0	3.0
Value of 100% of equity	65.1	84.7
Shares on issue (post Entitlement Offer)	310.6	310.6
Value per share (on a 100% controlling interest basis)	**$0.21**	**$0.27**

Note:
1 Excludes debt in Greentrains as this is reflected in our assessed value of the 81% interest in Greentrains. It should also be noted that the large majority of the Greentrains debt is non-recourse and is secured over Greentrains' assets only.

14 Our assessment of the value of Engenco is based upon a sum-of-the-parts approach whereby the market value of the individual businesses is added to the realisable value of any surplus assets less net borrowings.

15 Our assessed values have been determined having regard to both the level of earnings and net tangible operating assets (NTOA) employed in each business. For some businesses the level of earnings achieved in recent years has been low relative to the NTOA employed. Accordingly, for those businesses we have also considered whether shareholder value is likely to be able to be maximised through an orderly realisation of net assets.

16 Where an earnings based methodology has been adopted we have generally used a capitalisation of earnings before interest and tax (EBIT) approach. Under this methodology, the normalised EBIT is capitalised at an EBIT multiple that reflects the size, risk and growth prospects of that business.

Assessment of fairness

17 Pursuant to ASIC Regulatory Guideline 111 *Content of expert reports* (RG 111), an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

18 This comparison is shown below:

Position of Engenco shareholders	Low $ per share	High $ per share	Mid-point $ per share
Value of Offer consideration	0.18	0.18	0.18
Value of 100% of ordinary shares in Engenco	0.21	0.27	0.24
Extent to which the Offer consideration is less than the value of the ordinary shares in Engenco	(0.03)	(0.09)	(0.06)

19 As the consideration offered by Elph is below our assessed value of 100% of the ordinary shares in Engenco, in our opinion, the Offer is not fair based on the guidelines set out in RG 111.

Assessment of reasonableness

20 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, the expert is of the view that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

21 In our opinion there are a number of reasons why Engenco shareholders may wish to accept the Offer, as summarised below:

(a) the Offer provides all Engenco shareholders with the ability to realise their shareholdings for cash should they wish to do so. In the absence of the Offer this may not be possible (other than at a discounted price) due to the low level of trading in Engenco shares on the ASX

(b) the Offer provides an opportunity for Engenco shareholders to make a gain of $0.03 per share by acceptance of the Offer in respect of new shares to be issued pursuant to the Entitlement Offer

(c) in our opinion, it is likely that Elph will increase its ownership interest in Engenco to above 50% pursuant to the Offer. As a result Elph will control Engenco including its day-to-day management, strategic direction and level of dividend payments. Depending on the level of shareholding obtained, Elph may also seek to delist Engenco from the ASX

(d) in our opinion the Offer price is likely to exceed the listed market price of Engenco shares in the absence of the Offer (at least in the short-term). However, this is often the case with most takeovers as the listed market price generally reflects a portfolio rather than controlling interest value[4].

22 Whilst we acknowledge these advantages (particularly for shareholders who expect to have to realise their Engenco shares in the short-term), in our opinion, they do not provide sufficient reasons for shareholders to accept the Offer as the consideration of $0.18 per share is materially below our assessed valuation range. In this regard we note that the Offer consideration is some:

(a) 25.0% below the mid-point of our assessed valuation range; and

(b) 14.3% below the low end of our assessed valuation range.

23 Accordingly, we have concluded that the Offer is also not reasonable.

4 In addition, the listed market price may be impacted by the low level of trading in Engenco shares.

General

24 In preparing this report we have considered the interests of Engenco shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

25 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target's Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

26 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. Engenco shareholders considering their response to the Offer should note that our assessed value of Engenco shares has been determined having regard to the medium to longer term prospects of the company. Individual shareholders in Engenco may have a different (shorter) time horizon and/or may have a negative view on the company, having regard for example to the operating difficulties encountered in recent years and associated significant decline in the Engenco share price.

27 Further, the Offer was made by Elph following an approach by the Independent Directors of Engenco, which had regard in part to the significant existing ownership by Elph of Engenco shares[5]. In the circumstances, we consider there is no realistic likelihood that a competing offer from another party for Engenco shares will be received prior to the close of the Offer period.

28 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

29 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Engenco shareholders read the remainder of our report.

Yours faithfully

Craig Edwards	Martin Holt
Authorised Representative	Authorised Representative

5 We have been advised that the primary reasons for the approach were to provide commercial support for the current Entitlement Offer (which is perceived by the Engenco Board and management as providing necessary funding and financial flexibility for the company to assist it in meeting its inherent potential) and an exit mechanism for those Engenco shareholders with a short-term investment horizon, given the limited market liquidity in Engenco shares.

Table of contents

Appendices

I Outline of the Offer

30 On 12 December 2012 Elph Pty Ltd (Elph) announced that it had entered into a Bid Implementation Deed dated 11 December 2012 (the Deed) with Engenco Limited (Engenco), under which Elph would make an unconditional takeover offer for all the ordinary shares in Engenco not held by Elph at an offer price of $0.18 cash per share (the Offer)[6]. Subsequently, on 18 December 2012, Elph lodged its Bidder's Statement with ASIC in relation to the Offer.

31 The Offer extends to both existing Engenco shares on issue at the date of the Deed, together with those shares to be issued by Engenco pursuant to the three for two renounceable entitlement offer at $0.15 per share announced by Engenco on 12 December 2012 (the Entitlement Offer).

32 The Offer values the total equity in Engenco at approximately $56 million on a post Entitlement Offer basis.

Conditions

33 The Offer is unconditional.

34 A break fee of $250,000 is payable by Engenco to Elph in certain circumstances as specified in the Deed.

6 Elph is the major shareholder in Engenco and at the date of announcement of the Deed held a 37.6% interest in Engenco.

II Scope of our report

Purpose

35 Section 640 of the Corporations Act requires a target company to commission an independent expert's report (IER) in relation to an offer when the bidder's voting power in the target is at least 30% of the target or when the bidder and the target have common directors. Both conditions apply in the circumstances of Engenco.

36 In addition, the Independent Directors have indicated that it is not their intention to make a formal recommendation in relation to the Offer until receipt of an IER.

37 Accordingly, the Independent Directors have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER stating whether, in LEA's opinion, the Offer is fair and reasonable.

38 This report has been prepared to assist the Independent Directors of Engenco in making their recommendation to Engenco shareholders in relation to the Offer and to assist the shareholders of Engenco assess the merits of the Offer[7]. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable. This report should not be used for any other purpose.

39 The ultimate decision whether to accept the Offer should be based on each shareholder's assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice specific to their circumstances.

Basis of assessment

40 Our report has been prepared pursuant to s640 of the Corporations Act. Consequently, in preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111.

41 RG 111 distinguishes "fair" from "reasonable" and considers:

(a) an offer to be "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. A comparison must be made assuming 100% ownership of the target company

(b) an offer to be "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

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7 Given the concurrent nature of both the Offer and the Entitlement Offer, this report may also assist shareholders of Engenco in determining whether to take up their entitlements under the Entitlement Offer.

42 Our report has therefore considered:

Fairness

(a) the market value of 100% of the shares in Engenco

(b) the value of the consideration under the Offer (i.e. $0.18 cash per Engenco share)

(c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

(d) the extent to which a control premium is being paid to Engenco shareholders[8]

(e) the extent to which a share of the synergies likely to arise upon an acquisition of Engenco by Elph are being shared with Engenco shareholders

(f) the listed market price of Engenco shares both prior to the announcement of the intention to make the Offer and subsequent to the announcement of the Offer

(g) the likely market price of Engenco shares if the Offer is not successful

(h) the position of Engenco shareholders if Elph acquires 50.1% but less than 100% of the Engenco shares on issue

(i) Elph's current shareholding in Engenco

(j) the value of Engenco to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(k) other risks, advantages and disadvantages.

Limitations and reliance on information

43 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time and have been particularly volatile in recent times.

44 Our report is also based upon financial and other information provided by Engenco and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

8 As set out in Section VII of our report, given the concurrent timing of the announcement of the Offer and the Entitlement Offer, we have been unable to assess the extent of any control premium implicit in the Offer consideration of $0.18 per share by reference to the pre-bid market price.

45 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of Engenco shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

46 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

47 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

48 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

49 We have assumed that the forecasts have been prepared fairly and honestly, based on reasonable grounds and the information available to management at the time and within the practical constraints and limitations of such forecasts. We have assumed that management have reasonable grounds for the forecasts and the forecasts do not reflect any material bias. We have no reason to believe that these assumptions are inappropriate.

III Profile of Engenco

Overview

50 Engenco is a group of industrial businesses, operating in Australia and Sweden[9] and servicing companies in the resources, rail, transport, defence, maritime and power generation industries. The Company specialises in products and services for heavy duty power and propulsion (through its Drivetrain Power and Propulsion division (Drivetrain)) and industrial road and rail (including the Gemco Rail, Convair Engineering (Convair), Centre for Excellence in Rail Training (CERT) and Momentum Rail (Momentum) divisions). Engenco also operates a rolling stock leasing business (Greentrains).

History

51 Operations commenced in 1989 and grew (largely by acquisition) from a single niche product offering in diesel engine turbochargers and components, to providing diesel engineering and commercial equipment manufacture services. By 2005, the Company operated as Coote Industrial Ltd (Coote) and the business had diversified into new industry sectors (particularly defence, rail and resources) and grown to 150 employees at four sites.

52 During 2006 Coote acquired Hedemora Diesel AB (in Sweden), Asset Kinetics and Convair[10], which extended the Company's business services to include railroad operations, rolling stock manufacture and maintenance, power generation and alternate energy. On 14 December 2006 the Company listed on the Australian Securities Exchange (ASX).

53 South Spur Rail Services was acquired in May 2007, bringing with it the South Spur and Southern & Silverton railroad operations, specialist rail labour hire entity Momentum Rail, restaurant train operator Spirit of the West and rail training and accreditation entity CERT. Logistics services were also enhanced with the addition of rail transportation, freight forwarding and port services through the acquisition of FCD Container Logistics in July 2007. The acquisition of Perth-based Gemco Rail in August 2007 enabled the establishment of a rolling stock services division for the Company. Following these acquisitions, in 2008 the Company undertook a restructuring program in order to simplify its business model and focus on niche technical based sales and services to the resources, maritime, defence, rail and power generation markets.

54 In March 2010 Elph announced an all cash proportional takeover offer to acquire up to 35% of the issued shares in Coote that it did not own at the time[11]. Elph had previously accumulated some 25% of the shares in Coote, from the issue and subsequent conversion of two tranches of convertibles notes, as well as participation in other equity capital raisings. Coote's Board initially recommended that shareholders reject the offer. However, on

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9 Engenco operations are predominately located in Australia, Asia and Sweden. The Drivetrain business has also established sales and service presences in North and South America.

10 Hedemora Diesel is the original equipment manufacturer for the Hedemora diesel engine range, used by the Collins Class submarines currently in operation. Asset Kinetics was a specialist road transport solutions provider for project freight, dangerous goods, transportable housing and mine site logistics. More details about Convair are contained at paragraph 62.

11 The consideration offered was $0.26 per Coote share (currently equivalent to $2.60 per share, following the one for 10 share consolidation in November 2011).

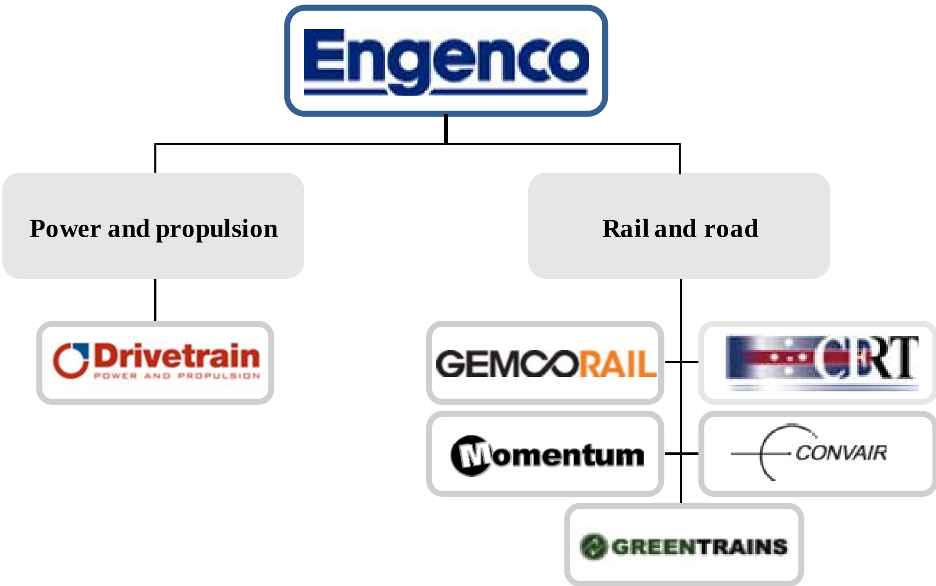
21 May 2010, in light of a marked deterioration in general trading conditions, and given a constrained working capital position, the Board recommended that shareholders accept the Elph offer in the absence of a superior proposal. On 11 June 2010 Elph announced that its proportional takeover offer had closed, with Elph holding 38.5% of the issued share capital of Coote[12].

55 During 2010 and early 2011 the rail and logistics operations South Spur and Coote Logistics were divested. In recognition of the shift in operational focus, the Company's name was changed to Engenco (in November 2010).

Current operations

56 Operations are conducted from Melbourne and Perth based corporate offices and the company employs approximately 600 staff. Engenco's operations are grouped into power and propulsion and rail and road segments, as shown below:

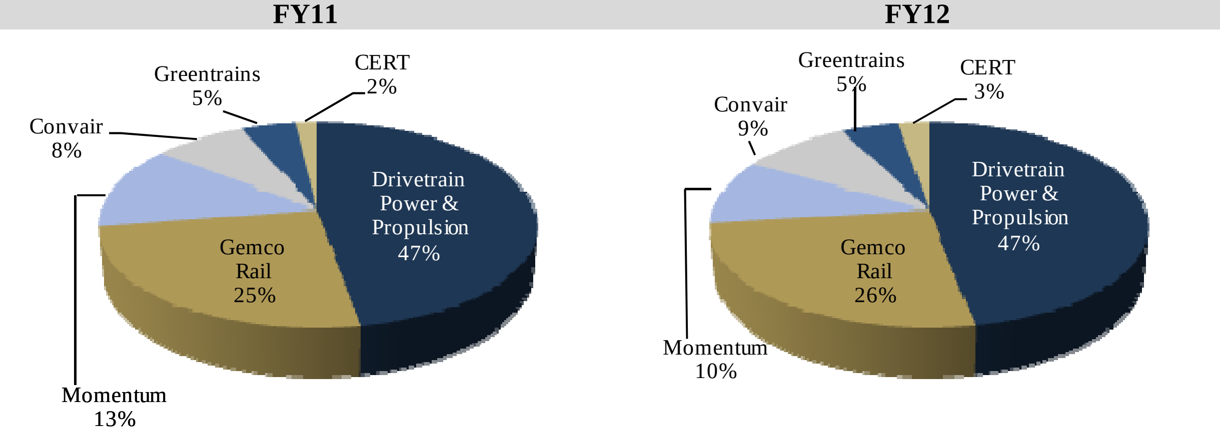
Engenco – group structure



57 While the Company currently reports numerous segments, when combined the Drivetrain and Gemco Rail operations represented around 75% of group revenue for FY11 and FY12, as shown below:

12 Elph's shareholding subsequently decreased to 37.6% at the date of the Bidder's Statement.

Engenco – revenue breakdown



Drivetrain Power and Propulsion (Drivetrain)

58 Drivetrain is an established provider of technical sales and services to the mining, rail, transport, defence, marine, construction, materials handling, automotive, agriculture and power generation industries. The business provides products and services for heavy mobile powertrain[13] systems, large frame turbochargers, heavy diesel and gas power generation and gas compression equipment. It also offers technical support and training and professional engineering services. DrivetrainTPP is organised around two business units being Mobile Powertrain and Turbo, Power and Compression. It has facilities and services centres in locations in the Australia and New Zealand region, Sweden, Asia and the United States (US).

59 Drivetrain's product and service offering includes:

(a) maintenance, repair and overhaul

(b) design, installation and commission

(c) component and spare parts distribution; and

(d) machine life support and field service.

Gemco Rail

60 Gemco Rail manufactures and maintains rolling stock (locomotives, carriages and wagons), rail products and provides maintenance services to national rail operators. The division manufactures custom designed and engineered new and refurbished wagons, bogie component parts and associated rail equipment. It also supplies a broad range of rail track maintenance equipment and parts as well as repair, maintenance and refurbishment of locomotives. Gemco Rail's flagship facility in Forrestfield (Western Australia) is complemented by a county-wide footprint, including workshops on main lines in Victoria, South Australia and New South Wales. Gemco Rail also owns a fleet of locomotives and wagons which are leased to IMX Resources Ltd (IMX).

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[13] A powertrain is the group of components that generate power and deliver it to the road surface. This includes the engine, transmission, drive shafts, differentials and the final drive (being drive wheels or continuous track, propeller etc.).

Momentum Rail

61 Momentum provides labour hire and infrastructure maintenance services to the rail and rail infrastructure industries. This includes sourcing skilled individuals or fully supervised and equipped crews to carry out rail track construction, maintenance and upgrades. Momentum plans, implements and manages safe working solutions for rail clients. It also specialises in all types of rail welding, including the welding of heavy gauge crane rail at height and the operation of a flash butt welding plant[14]. The business operates out of branches in Forrestfield and Port Hedland (Western Australia), Norwood (South Australia), Thornton, Gunnedah and Penrith (New South Wales) and Campbellfield (Victoria)[15].

Convair Engineering (Convair)

62 Convair specialises in the design, manufacture and repair of steel and aluminium pneumatic tankers for transport of dry bulk products via road and rail. The business also 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 the exclusive sales and service agent for Feldbinder Spezialfahrzeugwerke GmbH, a leading German manufacturer of aluminium dry bulk tankers. Convair predominantly services the construction and transportation market sectors and services the Australian and New Zealand market through its Melbourne plant.

Centre for Excellence in Rail Training (CERT)

63 CERT is a registered training organisation 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, Sydney, Adelaide and Melbourne with the flexibility to train on-site anywhere in the country.

Greentrains

64 Greentrains provides a range of locomotives and wagons for lease to the Australian rail industry. It also offers a packaged maintenance service. Engenco currently owns 81% of Greentrains.

Discontinued operations

65 Consistent with the Company's current strategy a number of businesses were deemed non-core and divested in recent periods. These include Coote Logistics, South Spur Logistics, Claw Environmental, FCD Container Logistics and Eden Cryogenics.

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14 Flash butt welding is a type of electrical resistance welding that does not use any filler metal.

15 Momentum customers include Australia's largest rail infrastructure / construction companies including Laing O'Rourke, Leighton Contractors, John Holland Construction and Thiess. Rail operation customers include SCT Logistics, Australian Western Railway, Pacific National and RailCorp.

Financial performance

66 The financial performance of Engenco for the three years ended 30 June 2012 is set out below:

Engenco – statement of financial performance	FY10 $m	FY11 $m	FY12 $m
Sales revenue	186.3	198.9	198.8
Operating expenses	(203.7)	(170.1)	(184.0)
EBITDA[(1)] before impairment charges	(6.8)	28.6	15.3
Depreciation	(9.9)	(8.5)	(9.0)
EBITA before impairment charges	(16.7)	20.1	6.3
Impairment charges	(55.7)	0.6	(31.2)
Amortisation of acquisition intangibles	(1.9)	(1.6)	(2.0)
EBIT	(74.3)	19.1	(26.9)
Net interest income (expenses)	(15.3)	(9.1)	(5.2)
Profit before tax	(89.6)	10.0	(32.1)
Income tax expense	(2.5)	(3.3)	(3.0)
Profit (loss) after tax from continuing operations	(92.1)	6.7	(35.1)
Profit (loss) after tax from discontinued operations	(22.1)	(1.6)	(0.5)
Profit (loss) for period	(114.2)	5.1	(35.6)
Loss (profit) attributed to minorities	0.5	(0.2)	(0.1)
Profit (loss) attributed to Engenco shareholders	(113.7)	4.9	(35.7)

Note:
1 Earnings before interest, tax, depreciation and amortisation (EBITDA).

Comments on historical performance and profitability

67 As indicated above Engenco reported large losses in both FY10 and FY12 as a result of large impairment charges. In FY10 the Group's underlying operations also generated a large loss. Revenue in that year was well down on FY09 due to difficult economic conditions and working capital constraints for much of the year. As a result a number of businesses were restructured or sold in the second half of the year. The Company was also subject to a proportional takeover offer by Elph, which culminated in a recapitalisation of the Company by way of a $42.6 million rights issue and a restructuring of the Board post 30 June 2010.

68 Following the disposal of loss making operations, all remaining businesses were profitable at the EBIT level during FY11. FY11 EBIT from the Drivetrain business was more than double FY10, benefiting from its exposure to the mining resources sector in both parts sales and maintenance, repair and overall (MRO) workflow, as well as expansion into the natural gas industry. Similarly Gemco Rail returned to profitability in FY11 after incurring a large loss in FY10. The manufacture of 194 purpose built wagons for the IMX project[16], as well as multiple niche manufacturing and refurbishment orders, resulted in revenue almost doubling

16 In May 2010 Gemco Rail was awarded a contract to build and supply 194 container wagons for IMX Resources Ltd, located in South Australia. The contract value, including a related maintenance contract, was approximately $40 million.

and the associated increase in fabrication throughput and efficiencies improved margins. Engenco also undertook two major capital raisings during FY11, with a significant portion of the funds raised used to reduce debt (resulting in lower interest expenses in FY11 and FY12).

69 While revenue in FY12 was consistent with the prior year, the sales mix shifted to a higher proportion derived from lower margin businesses and product lines. This margin reduction and some unprofitable legacy contracts resulted in significantly reduced profitability (before impairment charges). A review of carrying values resulted in impairment charges of $31.2 million, of which $19.9 million related to inventory writedowns on older locomotives and spares and slow moving or obsolete stock.

FY13 profit guidance

70 On 14 November 2012 (in conjunction with the initial announcement of the current capital raising) Engenco announced that it expected:

(a) net profit after tax for FY13 to be in the range of $6 million to $9 million (weighted toward the second half of the year); and

(b) EBITDA for FY13 to be in the range of $20 million to $25 million.

71 However, on 3 December 2012, Engenco announced that it had identified *"market and operational performance issues and adverse developments regarding one-off items"* which resulted in the Board and management of Engenco announcing a major downward revision in earnings guidance for FY13 to:

(a) a net loss after tax in the range of $10 million to $12 million (inclusive of $5 million in one-off losses); and

(b) EBITDA in the range of $10 million to $13 million (before one-off / significant items).

Financial position

72 The financial position of Engenco as at 30 June 2011 and 2012 is set out below:

Engenco – statement of financial position	30 Jun 11 Actual $m	30 Jun 12 Pro-forma[1] $m
Cash and cash equivalents	10.5[2]	9.6[2]
Trade and other receivables	46.8	47.3
Inventories	51.0	44.7
Other current assets	3.3	1.9
Total current assets	111.6	103.5
Trade and other receivables	0.5	0.5
Inventories	6.9	-
Financial assets	0.1	-
Property, plant and equipment	94.5	92.1
Deferred tax assets	8.8	8.3
Intangible assets	49.7	43.9
Total non-current assets	160.5	144.8

Engenco – statement of financial position	30 Jun 11 Actual $m	30 Jun 12 Pro-forma[1] $m
Total assets	272.1	248.3
Trade and other payables	22.2	30.3
Financial liabilities	28.3[3]	28.2[3]
Current tax liabilities	3.0	2.0
Provisions	6.1	4.4
Total current liabilities	59.7	64.8
Financial liabilities	21.5	1.1
Provisions	1.9	2.0
Deferred tax liabilities	1.3	1.7
Total non-current liabilities	24.7	4.9
Total liabilities	84.3	69.7
Net assets	187.7	178.6[1]

Note:
1 Pro-forma FY12 taking into account the impact of the (fully underwritten) capital raising of $26.8 million (after costs) which was announced in December 2012 (the Entitlement Offer).
2 The overdraft and cash accounts have been netted off to provide a more meaningful comparison (consistent with note 26A of Engenco's 2012 published financial statements).
3 This includes the consolidated debt of Greentrains that is 81% owned by Engenco.
Rounding differences may exist.

73 In conjunction with the Elph Offer, on 12 December 2012 Engenco announced a 3 for 2 renounceable rights offer at $0.15 per share (Entitlement Offer) fully underwritten by RBS Morgans Corporate Limited, with sub-underwriting support provided by the Elphinstone Group and other major shareholders. Funds raised of $26.8 million (net of costs) are to be directed primarily to paying off the Company's debt. The Entitlement Offer follows the withdrawal of the previous 5 for 6 non-renounceable rights issue announced on 14 November 2012, which was subsequently cancelled on 10 December 2012 prior to the release of updated financial guidance, including the downward revision in earnings.

74 The expected impact of the Entitlement Offer on the financial position of Engenco is reflected in the pro-forma statement of financial position above.

Inventory

75 An analysis of the inventory position of Engenco is set out as follows:

Engenco – inventory	30 Jun 11 $m	30 Jun 12 $m
Current assets		
Work in progress (at cost)	7.5	2.0
Finished goods (at cost)	43.0	33.1
Work in progress (at net realisable value)	-	4.5
Finished goods (at net realisable value)	0.5	5.1

Engenco – inventory		
	30 Jun 11 $m	30 Jun 12 $m
	51.0	44.7
Non-current assets		
Work in progress (at cost)	4.1	-
Work in progress (at net realisable value)	2.8	-
	6.9	-
Total inventory	57.9	44.7

76 The reduction in carrying value in FY12 is primarily attributable to the writedown on older inoperative locomotives and spares and slow moving or obsolete stock within the Greentrains, Gemco Rail and Drivetrain divisions.

Property, plant and equipment

77 Engenco's operations are all carried on from leased premises, with its primary investment in plant and equipment[17], as shown below:

Engenco – plant and equipment (net of depreciation)		
	30 Jun 11 $m	30 Jun 12 $m
Freehold land	0.1	0.1
Buildings	0.3	0.3
Plant and equipment	87.7	86.2
Leasehold improvements	1.4	1.4
Leased plant and equipment	5.0	4.1
Total plant and equipment	94.5	92.1

78 Approximately $70 million of plant and equipment relates to Gemco Rail and Greentrains investment in locomotives and rail wagons. This carrying value is supported by an independent assessment of the depreciated replacement cost of the rolling stock.

Intangible assets

79 Intangible assets (resulting from previous acquisitions) are set out below:

Engenco – intangible assets		
	30 Jun 11 $m	30 Jun 12 $m
Goodwill	36.3	32.5
Customer related intangibles	8.5	7.0
Patents and trademarks	0.8	0.7
Other identified intangibles	4.1	3.7
Total intangible assets	49.7	43.9

17 The majority of plant and equipment is attributable to the Greentrains and Gemco Rail leasing businesses.

Net interest bearing debt

80 A summary of Engenco's net debt as at 30 June 2011 (actual) and 30 June 2012 (pro-forma) is as follows:

Engenco – net interest bearing debt	30 Jun 11 Actual $m	30 Jun 12 Pro-forma[1] $m
Cash and cash equivalents	(14.1)	(15.6)
Financial liabilities – current	31.9	61.0
Financial liabilities – non-current	21.5	1.1
	39.3	46.5
Funds proposed to be raised from the Entitlement Offer	-	(26.8)[2]
Net debt	39.3	19.7

Note:
1 Pro-forma FY12 taking into account the impact of the (fully underwritten) capital raising of $26.8 million (after costs) which was announced in December 2012 (the Entitlement Offer).
2 Net of anticipated costs.

81 As at 30 June 2012, $22 million of debt was owed by Greentrains to Elph. This debt is secured against the assets of Greentrains only. On a pro-forma basis (i.e. post the Entitlement Offer) Engenco is expected to have no significant net debt, apart from its share of the Greentrains debt which is non-recourse to the other Engenco businesses.

Share capital and performance

82 As at 19 December 2012 Engenco had 124.2 million shares on issue. Post the Entitlement Offer Engenco's issued share capital will increase significantly by 186.3 million shares to 310.6 million.

83 A history of the recent capital raisings undertaken by the Company is as follows:

(a) in November 2009 the Company raised $31.2 million at a price of $2.60[18] per share, comprising $30.0 million from a share placement and $1.2 million from a share purchase plan

(b) in July 2010 Engenco raised $42.6 million through a rights issue priced at $1.60[18] per share; and

(c) in February 2011 the Company raised $85.2 million at a price of $1.20[18] per share, comprising $19.9 million from a share placement and $65.3 million from a rights issue.

18 After adjusting for the 1 for 10 share consolidation that occurred in November 2011.

Significant shareholders

84 Elph held 46.7 million Engenco shares (or 37.6%) pre the date of announcement of the Entitlement Offer[19]. Other significant shareholders in the Company include SG Hiscock & Company Ltd (7.0%) and Thorney Holdings Pty Ltd (8.1%).

Share price performance

85 The price of Engenco shares from 1 January 2010 to 9 January 2013 is summarised below[20]:

Engenco – share price performance(1)

	High $	Low $	Close $	Monthly volume 000
Quarter ended(2)				
March 2010	2.65	1.75	2.60	1,471
June 2010	2.65	1.55	1.60	564
September 2010	2.25	1.60	1.80	755
December 2010	2.45	1.65	1.85	598
March 2011	2.30	1.15	1.25	4,143
June 2011	1.40	0.92	1.05	4,306
September 2011	1.35	0.71	0.90	2,624
December 2011	1.07	0.83	1.07	3,892
March 2012	1.07	0.76	0.89	1,883
June 2012	0.93	0.48	0.50	1,739
Month ended				
July 2012	0.60	0.25	0.25	2,155
August 2012	0.36	0.23	0.36	4,262
September 2012	0.36	0.30	0.33	861
October 2012	0.53	0.32	0.40	929
November 2012	0.40	0.24	0.25	840
December 2012	0.24	0.18	0.18	6,092
January 2013(3)	0.24	0.18	0.18	215

Note:

1 Historical prices and volumes have been adjusted to reflect the November 2011 1 for 10 share consolidation.

2 Monthly volumes for the quarter represent average monthly volumes.

3 Up to and including 9 January 2013.

Source: Bloomberg, LEA analysis.

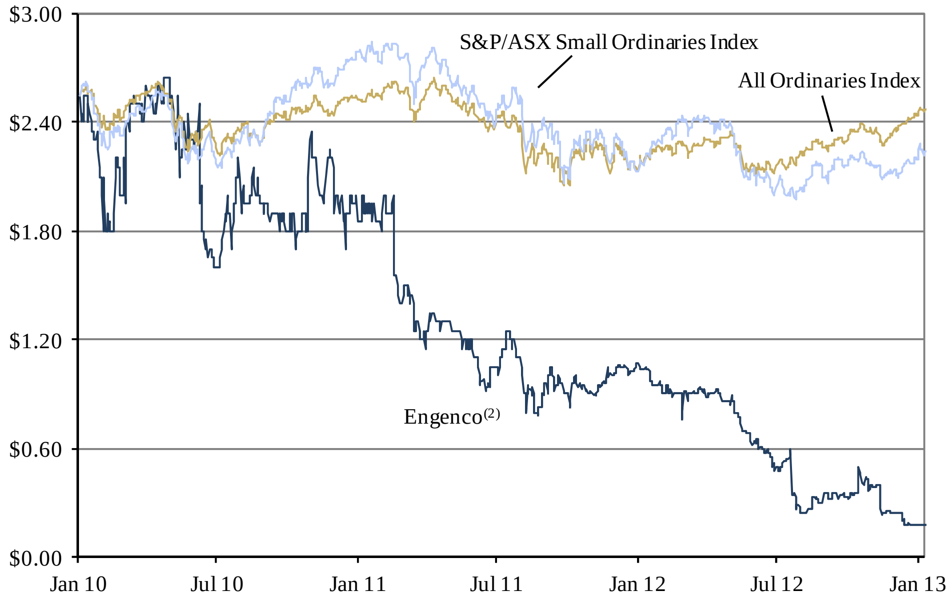
86 The following chart illustrates the movement in the share price of Engenco from 1 January 2010 to 9 January 2013[20]:

[19] Elph has subsequently increased its interest to 39.6% as at 15 January 2013 through on-market purchases of Engenco shares and acceptances under the Offer.

[20] Historical prices and volumes have been adjusted to reflect the November 2011 1 for 10 share consolidation.

Engenco – share price history[1]

1 January 2010 to 9 January 2013



Note:
1 The All Ordinaries and the Small Ords have been rebased at Engenco's share price from 1 January 2010.
2 Historical prices have been adjusted to reflect the November 2011 1 for 10 share consolidation.
Source: Bloomberg, LEA analysis.

87 As shown above the share price of Engenco has significantly under-performed both the All Ordinaries Index and the S&P/Small Ordinaries Index over the period, in particular from 2011 onwards.

Liquidity in Engenco shares

88 The liquidity in Engenco shares based on trading on the ASX over the 12 month period prior to 9 January 2013 is set out below:

Engenco – liquidity in shares

	Start date	End date	Value $000	Volume 000	As a % of issued capital	WANOS[1] 000
1 month	10 Dec 12	9 Jan 13	1,236	6,260	5.0	124,225
3 months	10 Oct 12	9 Jan 13	1,812	7,962	6.4	124,225
6 months	10 Jul 12	9 Jan 13	3,883	15,136	12.2	124,225
12 months	10 Jan 12	9 Jan 13	13,137	26,131	21.0	124,225

Note:
1 WANOS – weighted average number of shares on issue.
Source: Bloomberg, LEA analysis.

89 Elph held an interest of around 38% in Engenco throughout the above period. Accordingly, the free float of the Company was effectively restricted to 62% of the issued capital. The continued presence of a number of significant institutional shareholders on the Engenco share register (refer paragraph 84 above) further restricted the number of Engenco shares available for trade. In the 12 month period prior to the announcement of the Offer total share turnover equalled 21.0% of the issued shares in Engenco, indicating a low level of market liquidity (even after allowance for the size of the free float).

IV Industry overview

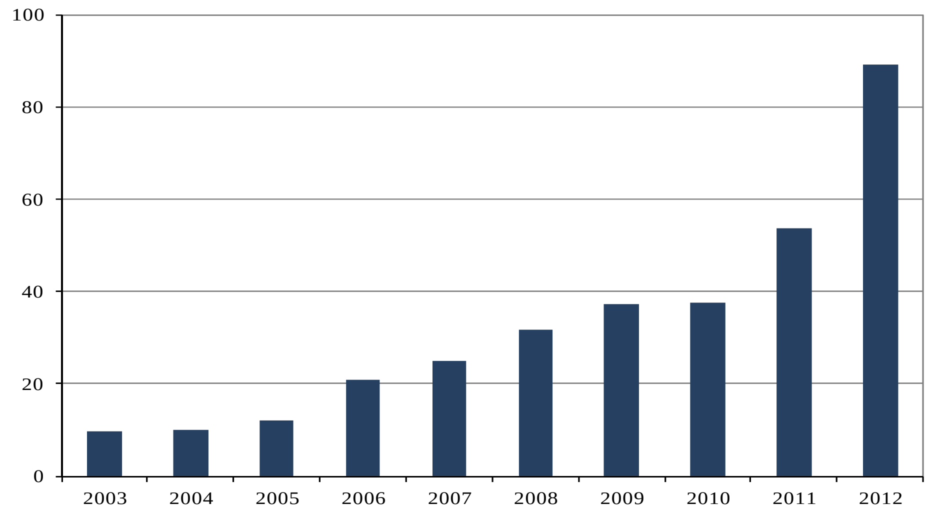
Overview

90 Engenco specialises in products and services for heavy duty power and propulsion and industrial road and rail (primarily rail). Demand for Engenco's products and services primarily emanates from a number of large sectors of the economy, being the mining, road transport and rail transport industries. The size of the market attainable by Engenco however is a significantly smaller component of these industries, given the proportion of such work performed in-house (e.g. by the large miners) and the level of work unattainable due to the relatively small size of the company (and its divisions). This section therefore provides a high level overview of the Australian mining, road transport and rail transport industries as representative of the general outlook for Engenco.

Australian mining industry

91 Global demand for commodities over the past 10 years, driven by the industrialisation of a number of large economies in Asia (most notably China) has generated robust investment in the Australian mining sector. Over this period, bulk commodities such as iron ore and coal (and to a lesser extent precious and base metals) have seen capital spending levels grow significantly and transport volumes increase substantially. This has driven Australian mining investment to record levels, with further investment augmented by the large pipeline of significant liquid natural gas (LNG) developments underway. The following chart shows a breakdown of Australian mining capital expenditure, which illustrates the favourable industry conditions currently prevailing:

Australian mining capital expenditure
$bn (years to 30 September 2012)



Source: Australian Bureau of Statistics (ABS).

92 High iron ore prices have resulted in substantial investment programs in mines and related infrastructure by the major iron ore miners (BHP Billiton, Rio Tinto and Fortescue Metals) and other smaller producers. Iron ore exports from Australia almost doubled over the five years to 31 March 2012 (from 237 million tonnes (Mt) to 454 Mt), with expansion set to continue given the current investment programs with some 300 Mt of projects currently underway by the major iron ore miners.

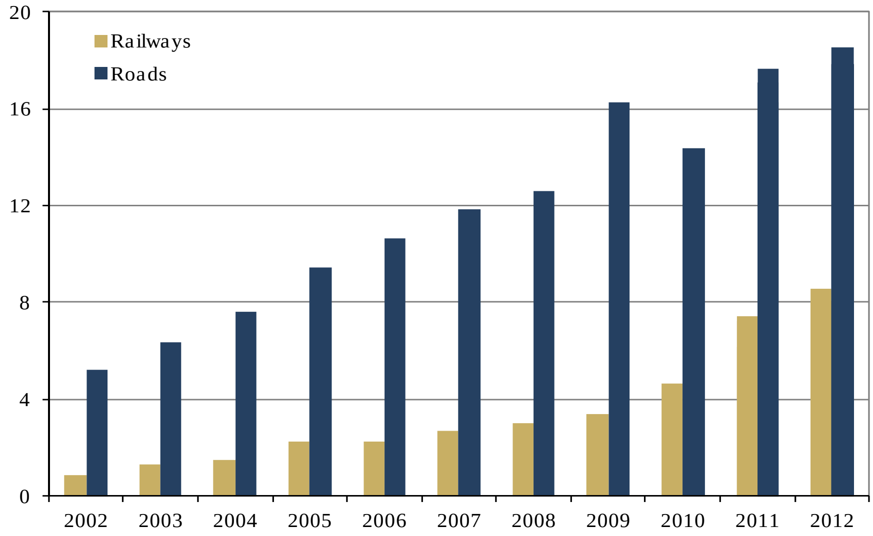
93 Concurrently Australia's coal industry has been investing in new mines and rail and port infrastructure to support increasing coal exports. While infrastructure bottlenecks and floods in Queensland (Australia's largest coal producing state) have hampered Australia's coal export potential, significant progress has recently been made with export tonnages expected to increase as bottlenecks are removed.

Australian road and rail industries

94 The Australian rail network comprises approximately 40,000 kilometres (km) of track that is used in the haulage of freight such as coal, minerals, bulk agricultural produce, general freight and chemicals. Rail transport has significantly lower social and environmental impacts than road transport in Australia. It is generally regarded as the safest form of land transport and classified as nine times more energy efficient than road[21].

95 Robust growth in the resources sector and increased investment from the Federal Government has contributed to strong demand for transport infrastructure in recent years, as shown in the chart below:

Australian road and rail capital expenditure
$bn (years to 30 June 2012)



Source: ABS.

21 Source: Freight Rail Operators Group.

96 The rail industry is also closely tied to the mining industry as it is an essential mode of transport for mining operations. Iron ore and coal, being the largest commodity exports, are key drivers of industry volumes and are reflective of the level of demand for such commodities from China. Rail volumes are also linked to the transportation of agriculture produce and exports, the import and export of goods and capital equipment and the movement of other goods and people.

Outlook

97 In the year to 30 September 2012 Australian mining capital investment was almost $90 billion, contributing to around half the growth in the Australian economy. Based on surveys of mining companies the ABS estimates that this may increase to in excess of $130 billion in the year to 30 June 2013, with a substantial proportion of this from the mining and LNG sectors[22]. While the period from late 2013 to early 2014 is expected to represent a peak in mining activity and investment levels, there is currently a substantial pipeline of uncommitted projects awaiting final investment decision[23].

98 The rise in mining capital expenditure has increased Australia's mining capital stock significantly, which is positive for drivetrain and rail maintenance and support services. However, sales of equipment are somewhat dependent on future mining investment levels which are forecast to be robust to 2014 and then somewhat uncertain as mining investment reduces from its peak.

99 Demand for road and rail services, and hence demand for Engenco's services and products are likely to be strong to 2014, which is the peak year for Australian mining and energy investment.

22 There has however, been a large element of over-estimation in previous survey estimates.

23 Growth from projected 2013 levels would require the appropriate investment conditions, such as projected ongoing high commodity prices and a reduction in overall project costs.

V Valuation approach

Valuation approaches

100 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

101 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

102 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

103 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

104 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

105 Our assessment of the market value of Engenco is based upon a sum-of-the-parts approach whereby the market value of the individual businesses is added to the realisable value of any surplus assets less net borrowings.

106 Our assessed values have been determined having regard to both the level of earnings and net tangible operating assets (NTOA) employed in each business. For some businesses the level of earnings achieved in recent years has been low relative to the NTOA employed. Accordingly, for those businesses we have also considered whether shareholder value is likely to be able to be maximised through an orderly realisation of net assets.

107 The primary valuation methodologies adopted for each business are summarised below:

Primary valuation methodologies		
Business	**Methodologies**	**Key reasons**
Drivetrain Australia	• Capitalisation of EBIT • Net realisable value of net operating assets	• Demonstrated history of profitability • However, profitability is low relative to NTOA employed • Accordingly, value has been assessed based on a net realisable value of assets approach
Drivetrain Europe (Sweden)	• Capitalisation of EBIT • Cross-check against NTOA and reasonableness of implied goodwill	• Standalone business based in Sweden (capable of separate sale) • Demonstrated history of profitability
CERT, Convair and Momentum	• Capitalisation of EBIT • NTOA and reasonableness of implied goodwill	• Standalone businesses • Demonstrated history of profitability • Low level of NTOA requires consideration of implied goodwill
Gemco Rail (fabrication and maintenance business)	• Net realisable value of assets approach	• History of losses • Future profitability dependent on reducing the cost base and achieving satisfactory operating margins (and is therefore uncertain)

Primary valuation methodologies		
Business	**Methodologies**	**Key reasons**
Greentrains and Gemco Rail (investment in rolling stock)	• Net operating asset value less adjustments for selling costs, lack of marketability / discount to sell in one line (as appropriate) • Cross-check against rental stream having regard to term of leases and marketability of rolling stock	• All rolling stock independently valued as at 30 June 2012 • Long life assets capable of being sold or re-leased at expiry of current lease terms • History of leases being extended

108 Where an earnings based methodology has been adopted we have generally used a capitalisation of EBIT approach. Under this methodology, the normalised EBIT is capitalised at an EBIT multiple that reflects the risk and growth prospects of that business.

109 In our opinion, the capitalisation of EBIT approach is the most appropriate earnings based methodology for most of Engenco's businesses[24] because it capitalises profit after allowing for the cost of replacing plant and equipment (which can be a significant recurring cost for capital intensive engineering based businesses).

24 With the exception of Engenco's leasing businesses for the reasons stated above.

VI Valuation of Engenco

Methodology

110 As set out in Section V we have adopted a sum-of-the-parts approach and valued each of Engenco's businesses having regard to both their level of earnings and NTOA.

111 For some businesses the level of earnings achieved in recent years has been low relative to the NTOA invested in the business. Accordingly, for those businesses we have also considered whether shareholder value is likely to be able to be maximised through an orderly realisation of net assets.

Valuation summary

112 Our assessed valuation range for 100% of the shares in Engenco (i.e. assuming a change of control transaction) is summarised below:

Assessed valuation range	Low $m	High $m
Drivetrain	34.5	41.0
CERT	3.0	4.0
Convair	11.2	14.0
Momentum	8.8	11.0
Gemco Rail	23.0	30.0
Greentrains (81% equity interest)	13.6	17.7
Corporate costs	(30.0)	(36.0)
Total	64.1	81.7
Less: Net debt (post Entitlement Offer)[1]	-	-
Add: Value of tax losses	1.0	3.0
Value of 100% of equity	65.1	84.7
Shares on issue (post Entitlement Offer)	310.6	310.6
Value per share (on a 100% controlling interest basis)	**$0.21**	**$0.27**

Note:

1 Excludes debt in Greentrains as this is reflected in our assessed value of the 81% interest in Greentrains. It should also be noted that the large majority of the Greentrains debt is non-recourse and is secured over the Greentrains' assets only.

113 Information on the profitability of each business, and the basis for our assessed valuation range, is discussed below. Further information on the financial performance and NTOA by business is also set out in Appendices C and D.

Drivetrain

114 The financial performance of Drivetrain over the three years ended 30 June 2012, together with the level of NTOA in the business, is summarised below:

Drivetrain	FY10 $m	FY11 $m	FY12 $m
Revenue	100.7	93.8	93.4
EBITDA before impairment charges	8.5	19.7	9.0
EBIT before impairment charges[1]	5.9	18.0	7.2
NTOA (before debt) as at 30 November 2012			44.4

Note:
1 Before amortisation of acquisition intangibles.

Commentary on profitability

115 Notwithstanding a reduction in sales revenue, EBIT from the Drivetrain business more than doubled in FY11. However, this was primarily due to the completion of a very high margin contract which contributed some $6 million in EBITDA. Accordingly, management do not consider the result achieved in FY11 to be sustainable, as is evident from the subsequent earnings performance.

116 In the five months to 30 November 2012 sales revenue was 6.1% below the prior corresponding period, and lower profit margins were achieved. As a result FY13 EBITDA is expected to be well down on the level of EBITDA achieved in FY10 to FY12.

117 In order to improve ongoing profitability and operate with a more sustainable cost structure, on 17 December 2012 Engenco announced a number of redundancies in the Drivetrain and Gemco Rail businesses.

Valuation

118 Our valuation of the Drivetrain business has been assessed on a sum-of-the-parts basis and recognises that:

(a) Drivetrain Australia currently generates a very low return on capital invested; whereas

(b) Drivetrain Europe (the Hedemora Diesel AB business in Sweden) is highly profitable and generates a high return on capital employed.

119 As Drivetrain Europe is a standalone business capable of separate sale we have capitalised our assessment of the business' maintainable EBIT[25] at an EBIT multiple of 5 to 6. This multiple has regard to, inter-alia, the listed company and transaction multiples set out in Appendices F and G respectively and discussed in Appendix E, the size of the business and the level of goodwill implied by our assessed valuation range (representing 1.7 to 2.7 times the EBIT adopted for valuation purposes).

25 As the respective profitability and values of each of the Drivetrain businesses are considered commercially sensitive, we have been asked not to disclose this information in our report.

120 In contrast, our assessed value of Drivetrain Australia represents a significant discount to the NTOA invested in the business, reflecting the current low level of profitability. Our assessed value has been based on the likely value of the net assets under an orderly realisation scenario, after applying significant discounts to receivables and inventory holdings[26] and assuming nominal value is realised for plant and equipment.

121 The net effect of the above is that our assessed valuation range for Drivetrain of \$34.5 million to \$41.0 million reflects an overall discount to the aggregate net tangible assets employed in the Drivetrain businesses.

CERT

122 CERT provides specialist rail training services. The financial performance of CERT over the three years ended 30 June 2012, together with the level of NTOA in the business, is summarised below:

CERT	FY10 \$m	FY11 \$m	FY12 \$m
Revenue	3.6	3.7	5.2
EBITDA before impairment charges	0.6	0.7	1.1
EBIT before impairment charges[(1)]	0.6	0.7	1.0
NTOA (before debt) as at 30 November 2012			0.7

Note:
1 Before amortisation of acquisition intangibles.

Commentary on profitability

123 Deregulation of the rail sector has seen an increase in revenues over recent years. Despite the loss of some staff in the Western Australian market in the second half of FY11, the business has continued to perform strongly with annual increases in profitability.

124 EBITDA in the five months to 30 November 2012 is consistent with the prior corresponding period, and management expect EBITDA in FY13 to be comparable with FY12.

Valuation

125 Based on the above, for valuation purposes, we have adopted maintainable EBIT of \$1.0 million. An EBIT multiple of 4 to 5 (refer Appendix E) has been applied reflecting, inter-alia, the small size of the business and the low level of NTOA (\$0.7 million).

126 On this basis our assessed valuation range of \$3.0 million to \$4.0 million implies goodwill representing approximately 2.3 to 3.3 times our assessed maintainable EBIT (which we consider reasonable).

26 A discount of 10% and 50% has been applied to the book values of receivables and inventory respectively.

Convair

127 Convair is a manufacturer of bulk road tankers and mobile silos. All sales are made to order on attractive payment terms and the business has a high market share (above 50%).

128 The financial performance of Convair over the three years ended 30 June 2012, together with the level of NTOA invested in the business, is summarised below:

Convair	FY10 $m	FY11 $m	FY12 $m
Revenue	8.5	15.8	18.7
EBITDA before impairment charges	0.9	2.2	2.9
EBIT before impairment charges(1)	0.8	2.1	2.8
NTOA (before debt) as at 30 November 2012			2.6

Note:
1 Before amortisation of acquisition intangibles.

Commentary on profitability

129 EBITDA more than doubled in FY11 reflecting a combination of strong sales growth, improved efficiencies and innovative manufacturing techniques. A strong pipeline of orders resulted in further increases in revenue and EBITDA in FY12.

130 Year-to-date EBITDA for the five months to 30 November 2012 is consistent with the prior corresponding period. Accordingly, we have adopted maintainable EBITDA for valuation purposes of $2.9 million.

131 Capital expenditure has been broadly consistent over the period, with depreciation charges of around $0.1 million per annum implying maintainable EBIT for valuation purposes of $2.8 million.

Valuation

132 We have applied an EBIT multiple of 4 to 5 when valuing Convair. While the business is relatively small, it has a high market share and generates a high return on capital employed.

133 Given its strong market position, in our opinion, our assessed valuation range of $11.2 million to $14.0 million (which implies goodwill equal to approximately 3.1 to 4.1 times our assessed maintainable EBIT) is considered reasonable.

Momentum

134 Momentum is a provider of personnel and project management services to freight rail and mining rail operators. The financial performance of Momentum over the three years ended 30 June 2012, together with the level of NTOA employed in the business, is summarised below:

Momentum	FY10 $m	FY11 $m	FY12 $m
Revenue	23.4	25.9	19.9
EBITDA before impairment charges	2.1	3.5	1.4
EBIT before impairment charges(1)	1.5	2.9	1.0
NTOA (before debt) as at 30 November 2012			3.6

Note:
1 Before amortisation of acquisition intangibles.

Commentary on profitability

135 In FY11 revenue increased 10.7%. However, major improvements in the management of labour and other business costs resulted in a significantly higher EBITDA margin.

136 The FY12 result was adversely impacted by delays in the commencement of some scheduled contracts. However these were operational by 30 June 2012 and as a result EBITDA in the five months to 30 November 2012 is well above the prior corresponding period.

Valuation

137 We have assessed maintainable EBITDA at $2.5 million, which is broadly consistent with the average level of EBITDA expected to be achieved over the four years to 30 June 2013.

138 Sustaining capital expenditure is estimated at approximately $0.3 million per annum, implying EBIT for valuation purposes of $2.2 million.

139 Due to the relatively small size of the business, an EBIT multiple of 4 to 5 has been applied. This is considered reasonable having regard to the level of goodwill implied by our valuation range (which represents 2.4 to 3.4 times our assessed level of maintainable EBIT).

Gemco Rail

140 Gemco Rail specialises in the remanufacture and repair of locomotives, wagons, bearings and other rail products. In addition, it owns a number of locomotives and wagons which are leased to IMX.

141 The financial performance of Gemco Rail over the three years ended 30 June 2012, together with the level of NTOA invested in the business, is summarised below:

Gemco Rail	FY10 $m	FY11 $m	FY12 $m
Revenue	25.2	50.1	51.4
EBITDA before impairment charges	(21.3)	2.4	1.2
EBIT before impairment charges(1)	(23.7)	1.1	(1.0)
NTOA (before debt) as at 30 November 2012			41.4

Note:
1 Before amortisation of acquisition intangibles.

Commentary on profitability

142 On 30 June 2008 Gemco Rail entered into a contract to supply 42 locomotives and 54 wagons to Greentrains for $82.7 million (the contract value was subsequently reduced by $7 million).

143 On 17 July 2009 Greentrains finalised its acquisition of the first tranche of locomotives and rolling stock pursuant to the contract for $44 million. However, due to Greentrains' constrained financial position Gemco Rail retained ownership of rolling stock assets valued at $17 million and took an equity position in Greentrains in lieu of the amount owed.

144 The deferred completion of the locomotive rebuilds for Greentrains, together with associated staff reductions and redundancies, materially reduced revenues in FY10 (compared to FY09) and resulted in a number of asset writedowns. A significant operating loss for the year was reported.

145 Gemco Rail returned to profitability in FY11. The manufacture of 194 purpose built wagons for the IMX project, as well as multiple niche manufacturing and refurbishment orders, resulted in annual revenue almost doubling. Margins improved due to the increase in fabrication throughput and associated efficiencies. In FY12 however, subsequent reduced profit margins resulted in a lower EBITDA being achieved.

146 A small operating loss was incurred in the five months to 30 November 2012, a major contributor to which was a refurbishment contract which appears to have been significantly underpriced. Overall, management are targeting a breakeven result at the EBITDA line in FY13.

147 Looking forward management believe ongoing annual revenue of around $50 million is sustainable. However, future profitability remains dependent on further reducing the overhead cost base (as noted above, a number of redundancies were announced on 17 December 2012) and achieving acceptable operating margins.

Valuation

148 The above results reflect a combination of Gemco Rail's fabrication and maintenance business and rental income from leasing owned locomotives and wagons. Given the different nature of these businesses they have been valued separately.

149 Gemco Rail's leasing business currently generates EBITDA of approximately $2.7 million per annum (effectively rental income less maintenance costs and related expenses). The lease with IMX is for an initial term of five years (of which approximately three years remain).

150 However, the rolling stock (which principally comprises wagons) is relatively new with long economic lives. In the event therefore that the IMX lease is not renewed[27], in our opinion, it is highly likely that the rolling stock (particularly the wagons) could be sold or leased to another party.

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27 Stage 1 of the IMX iron ore project has a remaining mine life of three years (but the mine life will be extended if Stage 2 of the project proceeds).

151 Our valuation reflects a value of $18 million to $20 million for this rolling stock. This is broadly consistent with an independent valuation of the wagons as at 30 June 2012, plus $1 million to $3 million for the locomotives.

152 The Gemco Rail fabrication and maintenance business activities are currently loss-making (and have been so for a number of years). Accordingly, we have valued this business based on the value of its net assets under an orderly realisation scenario. After applying significant discounts to receivables and inventory holdings[28], and assuming nominal value is realised for plant and equipment, we have adopted a valuation range of $5 million to $10 million. In comparison the NTOA (before debt) of this business as at 30 November 2012 were $21.9 million.

153 Our assessed value of Gemco Rail therefore represents:

Gemco Rail valuation range	Low $m	High $m
Value of rolling stock	18.0	20.0
Value of fabrication and maintenance business	5.0	10.0
Business value (before debt)	23.0	30.0

Greentrains

154 Greentrains is a special purpose leasing vehicle which leases rolling stock to freight rail operators. However, unlike Gemco Rail, Greentrains fleet mainly comprises locomotives (a number of which are several years old) rather than wagons.

155 As stated above, in recent years ambitions to grow the fleet have been curtailed by funding constraints.

156 The financial performance of Greentrains over the three years ended 30 June 2012, together with the level of NTOA employed in the business, is summarised below:

Greentrains (100% ownership basis)	FY10 $m	FY11 $m	FY12 $m
Revenue	13.0	9.3	9.8
EBITDA before impairment charges	10.9	7.6	6.4
EBIT before impairment charges(1)	7.2	4.0	2.7
NTOA (before debt) as at 30 November 2012			51.0

Note:
1 Before amortisation of acquisition intangibles.

28 A discount of 10% and 50% has been applied to the book values of receivables and inventory respectively.

Commentary on profitability

157 Currently the rolling stock (comprising 38 locomotives and 39 wagons) is well utilised. While the majority of leasing contracts are of a short-term duration (six to 12 months), they have generally been renewed at expiry.

158 Current rental income (net of repairs and maintenance expenditure) is around $6.0 million per annum (EBITDA). Capital expenditure has been negligible, as no new locomotives or wagons have been acquired over the last few years. All repairs and maintenance costs on the existing fleet are reflected in EBITDA.

Valuation

159 As at 30 November 2012 the book value of the rolling stock was approximately $50 million. A recent independent valuation as at 30 June 2012 assessed the depreciated replacement cost of the rolling stock at approximately $55 million. However, this valuation made no allowance for factors including the short-term nature of existing leases, the lack of marketability of the assets, selling costs or any discount which could be expected to be incurred in order to sell the rolling stock “in one line”.

160 Further, in our opinion, Engenco would have already sold its interest in Greentrains (or the rolling stock) if it could have achieved a valuation consistent with the rolling stock independent valuation.

161 Given the above, we have adopted a value for rolling stock of $40 million to $45 million.

162 As at 30 November 2012 total debt secured against the rolling stock (which is non-recourse to Engenco's other assets) was $27.5 million, which includes $3.5 million advanced by Engenco[29].

163 On this basis our assessed value of Engenco’s interest in Greentrains is as follows:

Greentrains valuation range	Low $m	High $m
Value of rolling stock	40.0	45.0
Less debt as at 30 November 2012	(27.5)	(27.5)
Equity value	12.5	17.5
Pro-rata value of 81% equity interest	10.1	14.2
Loan receivable (owing by Greentrains to Engenco)	3.5	3.5
Aggregate value of Engenco interest	13.6	17.7

Corporate costs

164 Annual corporate costs (EBIT[30]) currently approximate $9.0 million. These costs include:

[29] As set out in Section III of our report, the major component of Greentrains’ borrowings comprises a secured loan from Elph.

[30] Prior to amortisation of acquired intangibles.

(a) shared services costs (e.g. IT), which are required by individual business units but undertaken centrally

(b) depreciation charges of about $1.8 million per annum, including additional depreciation following the commissioning of a new SAP platform (the cash cost of which has already been incurred)

(c) public company costs (e.g. shareholder communication, listing costs and director related expenses) estimated at around $2.0 million to $2.5 million per annum.

165 Ongoing capital expenditure at the corporate level is expected to be significantly lower than current depreciation charges. Further, we would expect a purchaser to "pay away" a share of the public company cost savings capable of being achieved from acquiring 100% control of Engenco.

166 Accordingly, for valuation purposes we have adopted ongoing corporate (cash) costs of $6.0 million per annum. Applying a multiple of 5 to 6 (consistent with the weighted average multiple implied by our valuation range for the above businesses) results in a capitalised value for corporate costs of negative $30 million to $36 million.

Net debt

167 In addition to the non-recourse debt in Greentrains (which has been allowed for in our Greentrains valuation), Engenco had other net debt as at 30 November 2012 of $26.8 million.

168 Pursuant to the Entitlement Offer announced on 12 December 2012 (which is fully underwritten) Engenco expects to raise approximately $26.8 million after underwriting, legal and other associated expenses.

169 Accordingly, other than the indebtedness of Greentrains, Engenco is expected to be debt free following completion of the Entitlement Offer[31].

Tax losses

170 As set out in Section III Engenco has generated significant losses over recent years and therefore has substantial available tax losses.

171 For valuation purposes we have adopted a value for these tax losses of $1 million to $3 million. In forming this view we have considered:

(a) the extent to which the tax losses could be utilised, based on the level of earnings likely to be generated by the Australian businesses after deducting depreciation and interest charges

(b) the time period over which any utilisation could occur (particularly given that Engenco is expected to incur a further overall loss in FY13)

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31 Engenco will however, retain a working capital facility which management anticipate will be required on a temporary basis at various times throughout the year.

(c) the reluctance by purchasers generally to pay significant value for tax losses due to, inter alia, the uncertainty associated with their ability to utilise the tax losses (in particular, following a change of control of the company).

Shares on issue

172 Following completion of the Entitlement Offer, Engenco will have 310.6 million fully paid shares on issue. No other securities are on issue.

Comparison with 2010 takeover offer

173 On 3 March 2010, Elph (a 24.95% shareholder in Engenco[32] at the time) announced its intention to make a proportional takeover offer (the 2010 Offer) for 35% of the shares in Engenco that it did not already own at a price of $0.26 per share[33].

174 The 2010 Offer was initially rejected by the Directors. However, on 12 May 2010 Engenco announced that it had *"experienced a deterioration in general trading conditions and delays in finalisation and commencement of new contracts which the Board believes is likely to have an adverse impact on operational profitability"*. Subsequently, on 21 May 2010 the Board recommended acceptance of the 2010 Offer which was partially successful. At the close of the 2010 Offer Elph's shareholding in Engenco increased to 38.5%.

175 The 2010 Offer valued the Engenco business (before debt) at approximately $168 million[34]. This Offer was ultimately considered "fair and reasonable" by the Independent Expert who opined on the 2010 Offer, based on their assessment that the future maintainable EBITDA of Engenco ranged between $28 million to $31 million[35].

176 While reported FY11 EBITDA before significant items of $28.8 million was within this range, the aggregate earnings of the businesses have declined significantly since that date (resulting in the need for a further recapitalisation of the company):

	$m
EBITDA before significant items:	
FY12	14.8
FY13 (Engenco market guidance)(1)	10.0 – 13.0

Note:
1 Source: ASX announcement dated 12 December 2012.

177 It follows therefore that (other things being equal) the current aggregate value of the Engenco businesses (before debt) will be materially lower than in 2010.

32 Engenco was named Coote Industrial Limited up until November 2010.

33 Since the 2010 Offer, Engenco has undertaken a 1 for 10 share consolidation. The 2010 Offer therefore reflected a price of $2.60 on a adjusted ex-share consolidation basis.

34 Based on the net debt position and other assets identified by the Independent Expert opining on the 2010 Offer.

35 Source: ASX announcement dated 21 May 2010.

178 Having regard to the above we believe our assessed aggregate value of the Engenco businesses (before debt) of $83.5 million to $101.1 million (shown below) is reasonable and appropriate:

Implied enterprise value based on LEA valuation	Low $m	High $m
Value of 100% of equity	65.1	84.7
Less: value attributed to tax losses	(1.0)	(3.0)
Add: share of external debt in Greentrains (81% of $24 million)	19.4	19.4
Implied enterprise value (before debt)	83.5	101.1

VII Evaluation of Offer

Summary of opinion

179 In our opinion the Offer is neither fair nor reasonable.

180 However we recommend those Engenco shareholders with a short-term investment horizon who do not wish to remain minority shareholders of Engenco if control of the company passes to Elph, consider accepting the Offer (in the absence of a superior proposal). The Offer provides an exit mechanism for such shareholders given the limited market liquidity in Engenco shares.

181 We have formed this view for the following reasons.

Assessment of fairness

182 Pursuant to RG 111 an offer is "fair" if:

"The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer."

183 This comparison is shown below:

Position of Engenco shareholders	Low $ per share	High $ per share	Mid-point $ per share
Value of Offer consideration	0.18	0.18	0.18
Value of 100% of ordinary shares in Engenco	0.21	0.27	0.24
Extent to which the Offer consideration is less than the value of the ordinary shares in Engenco	(0.03)	(0.09)	(0.06)

184 As the consideration offered by Elph is below our assessed value of 100% of the ordinary shares in Engenco, in our opinion, the Offer is not fair based on the guidelines set out in RG 111.

Assessment of reasonableness

185 Pursuant to RG 111, an offer may be reasonable if, despite not being fair but after considering other significant factors, the expert is of the view that there are sufficient reasons for shareholders to accept the offer in the absence of a higher bid before the close of the offer.

186 In assessing whether the Offer is reasonable LEA has considered:

(a) the extent to which a control premium is being paid to Engenco shareholders

(b) the extent to which a share of the synergies likely to arise upon an acquisition of Engenco by Elph are being shared with Engenco shareholders

(c) the listed market price of Engenco shares both prior to the announcement of the intention to make the Offer and after the announcement of the Offer

(d) the likely market price of Engenco shares if the Offer is not successful

(e) the position of Engenco shareholders if Elph acquires 50.1% but less than 100% of the Engenco shares on issue

(f) Elph's current shareholding in Engenco

(g) the value of Engenco to an alternative offeror and the likelihood of an alternative offer emerging, either prior to the close of the Offer, or sometime in the future

(h) other risks, advantages and disadvantages.

187 These issues are discussed in detail below.

Extent to which a control premium is being paid

188 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium reflects the fact that:

(a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder

(b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds

(c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company

(d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

189 In the circumstances of Engenco, as summarised in Section III of our report, the Offer consideration of $0.18 per share is a significant discount to the market prices of Engenco shares in the three month period prior to the announcement of the intention to make the Offer.

190 In this regard we note:

(a) on 14 November 2012 Engenco announced a pro-rata non-renounceable 5 for 6 entitlement offer at $0.25 per share to raise approximately $25.9 million (before costs). Prior to the trading halt which preceded this announcement shares in Engenco had traded at around $0.40 per share

(b) on 12 December 2012 Engenco announced:

(i) a materially negative earnings update for FY13

(ii) the replacement renounceable 3 for 2 entitlement offer at $0.15 per share to raise $28.0 million (before costs)

(iii) the Offer from Elph at $0.18 per share.

191 The initial (now superseded) and current entitlement offers represent significant capital raisings by Engenco, both in terms of the amount to be raised and number of new shares proposed to be issued. Given the pricing of the current Entitlement Offer, the proposed raising is significantly dilutionary in value as compared to the prices at which shares in Engenco traded prior to the announcement of the initial entitlement offer on 14 November 2012.

192 Subsequent to that date the value of Engenco has also reduced associated with the negative earnings update announced on 12 December 2012[36].

193 In considering share trading in Engenco prior to the announcement of the Offer it is also relevant to note that historically there has been a relatively low level of liquidity in trading in Engenco shares.

194 In the circumstances, taken overall, we do not consider the Engenco share price prior to the announcement of the Offer to be a reliable indicator of Engenco's current market value or an appropriate reference point from which to assess the Offer.

Extent to which shareholders are being paid a share of synergies

195 As noted above Elph is a privately held company which is part of the Elphinstone group, which has an extensive range of business interests and investments, with a particular focus in the engineering, manufacturing, heavy machinery, logistics and resources industries.

196 Whilst the business activities of Engenco are therefore prima facie complimentary to the business interests of the Elphinstone group, Elph has indicated an intention to retain the existing status of Engenco as a standalone company subsequent to completion of the Offer[37]. Accordingly, any synergies associated with the Offer are unlikely to be significant and may be confined to cost savings resulting from the potential delisting of Engenco from the ASX and related regulatory matters no longer required in the event that Elph acquired close to a 90% interest in Engenco pursuant to the Offer.

197 In the circumstances, based on the likely nature and quantum of potential synergies, in our opinion, any potential synergies arising from the transaction are unlikely to be material in the overall context of our assessed value of Engenco.

Recent share prices subsequent to the Offer

198 The intention to make the Offer was announced on 12 December 2012. Engenco shares ceased trading with an entitlement to participate in the Entitlement Offer on 13 December 2012. Since that date (up to 10 January 2013) shares in Engenco have traded at or around the Offer consideration of $0.18 per share (although trading volumes have continued to be low).

199 In our view the current trading in Engenco shares reflects the unconditional nature of the Offer, together with an implicit acknowledgement by Engenco shareholders that given the existing shareholding of Elph, a superior offer or proposal in respect of the Company from another party is unlikely to emerge.

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36 We note that due to the concurrent nature of the announcement of the earnings downgrade and the Offer, there was no trading in Engenco shares reflecting a separate market response to the negative earnings update.

37 Bidder's Statement Section 1.3.

200 Engenco shareholders considering selling their Engenco shares on the ASX (as an alternative to accepting the Offer) will need to consider brokerage costs and should note that:

(a) the Engenco share price on the ASX is subject to daily fluctuation

(b) Engenco shareholders who sell their Engenco shares on the ASX will not obtain the benefit of any superior proposal (or increase in the Offer consideration) should this eventuate.

Position if Elph acquires at least 50.1% or more but less than 90% of Engenco

201 Engenco shareholders should note that as the Offer is currently unconditional, all Engenco shares (including those to be issued pursuant to the Entitlement Offer) tendered by shareholders into the Offer will be accepted. Implicitly therefore, there is the realistic potential for Elph to acquire more than 50.1% of Engenco shares.

202 Should Elph acquire at least 50.1% but less than 90% of Engenco shares, Elph will control Engenco including its day-to-day management, strategic direction and level of dividend payments. Should this occur the existing low liquidity of Engenco shares may be further diminished, which may result in a further fall in the price of Engenco shares[38].

203 We recommend therefore those Engenco shareholders with a short-term investment horizon who do not wish to remain minority shareholders of Engenco if control of the company passes to Elph, consider accepting the Offer (in the absence of a superior proposal).

204 Should Elph acquire at least 50.1% but less than 90% of Engenco shares, in our opinion, there is a reasonable prospect that Elph will make a further takeover offer at a later date in order to obtain 100% control of Engenco. However the prospect of a future takeover offer is inherently uncertain as to whether it arises, the timing thereof and the related offer price.

Elph's current shareholding in Engenco

205 At the date of the Offer, Elph had a relevant interest in approximately 37.6% of the shares on issue in Engenco. Part of this shareholding was acquired pursuant to a proportional offer to Engenco shareholders at an equivalent price of $2.60 per share in March 2010[39]. Whilst Elph is therefore able to influence the outcome of special resolutions put to the members of the Company (including a change of control proposed by way of a scheme) and could prevent a competing bidder from proceeding to compulsory acquisition of Engenco, it does not control Engenco[40] and, in our opinion, should therefore pay an appropriate premium for control. As noted above, the Offer is below our assessed controlling interest value of Engenco shares.

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38 In the event that Elph acquires close to a 90% interest in Engenco shares pursuant to the Offer, or if trading liquidity is minimal, Elph may seek to remove Engenco from the official list of the ASX (Bidder's Statement Section 1.3).

39 Elph obtained a 25% interest prior to March 2010 through the conversion of convertible notes, the issue of which was approved by shareholders in October 2009.

40 As set out in paragraph 201, pursuant to the Offer there is the realistic potential for Elph to acquire more than 50.1% of Engenco shares.

Likelihood of an alternative offer

206 We have been advised by the Independent Directors of Engenco that no formal alternative offers have been received subsequent to the announcement of the intention to make the Offer on 12 December 2012.

207 Further, the Offer was made by Elph following an approach by the Independent Directors of Engenco, which had regard in part to the significant existing ownership by Elph of Engenco shares[41]. In the circumstances, we consider there is no realistic likelihood that a competing offer from another party for Engenco shares will be received prior to the close of the Offer period.

Likely price of Engenco shares subsequent to conclusion of the Offer

208 As noted above the Offer is currently unconditional and all Engenco shares (including those to be issued pursuant to the Entitlement Offer) tendered by shareholders into the Offer will be accepted. Implicitly therefore, whilst it is likely that Elph will increase its existing significant interest to a controlling interest in Engenco, there is the possibility that on conclusion of the Offer Elph will hold less than a 90% interest in Engenco. In such circumstances the price at which Engenco shares may trade is likely to be influenced by an increased low level of liquidity in Engenco shares.

209 The recent prices at which Engenco shares have traded have been at or around the Offer consideration of $0.18 per share (being implicitly supported by the unconditional offer). In our opinion, subsequent to the conclusion of the Offer (and in the absence of an alternative proposal), it is likely (at least in the short-term) that Engenco shares will trade at a discount to the Offer consideration of $0.18 per share.

Other considerations

210 The current 3 for 2 Entitlement Offer represents a significant capital raising by Engenco, particularly in terms of the number of new shares to be issued. In respect of existing Engenco shareholders other than Elph, it is likely that a number of shareholders have either:

(a) limited financial capacity to participate (in whole or in part) in the Entitlement Offer; and/or

(b) a preference not to increase their existing investment in the company.

211 In respect of such shareholders we note that the unconditional Offer price of $0.18 per share exceeds the Entitlement Offer price of $0.15 per share. The Offer extends to new shares proposed to be issued under the Entitlement Offer. Accordingly, existing Engenco shareholders are able to take up their entitlements under the Entitlement Offer and subsequently accept the Offer in respect of the new shares issued to them.

41 We have been advised that the primary reasons for the approach were to provide commercial support for the current Entitlement Offer (which is perceived by the Engenco Board and management as providing necessary funding and financial flexibility for the company to assist it in meeting its inherent potential) and an exit mechanism for those Engenco shareholders with a short-term investment horizon, given the limited market liquidity in Engenco shares.

212 The Offer therefore presents an opportunity for those existing Engenco shareholders in one or both of the categories above to realise some value for their existing shareholding in the Company without any attaching additional (medium to long-term) financial commitment being entered into.

Conclusion

213 In our opinion there are a number of reasons why Engenco shareholders may wish to accept the Offer, as summarised below:

(a) the Offer provides all Engenco shareholders with the ability to realise their shareholdings for cash should they wish to do so. In the absence of the Offer this may not be possible (other than at a discounted price) due to the low level of trading in Engenco shares on the ASX

(b) the Offer provides an opportunity for Engenco shareholders to make a gain of $0.03 per share by acceptance of the Offer in respect of new shares to be issued pursuant to the Entitlement Offer

(c) in our opinion, it is likely that Elph will increase its ownership interest in Engenco to above 50% pursuant to the Offer. As a result Elph will control Engenco including its day-to-day management, strategic direction and level of dividend payments. Depending on the level of shareholding obtained, Elph may also seek to delist Engenco from the ASX

(d) in our opinion the Offer price is likely to exceed the listed market price of Engenco shares in the absence of the Offer (at least in the short-term). However, this is often the case with most takeovers as the listed market price generally reflects a portfolio rather than controlling interest value[42].

214 Whilst we acknowledge these advantages (particularly for shareholders who expect to have to realise their Engenco shares in the short-term), in our opinion, they do not provide sufficient reasons for shareholders to accept the Offer as the consideration of $0.18 per share is materially below our assessed valuation range. In this regard we note that the Offer consideration is some:

(a) 25.0% below the mid-point of our assessed valuation range; and

(b) 14.3% below the low end of our assessed valuation range.

215 Further, subsequent to completion of the current Entitlement Offer, Engenco is not expected to have any further short-term recapitalisation or funding needs that might negatively impact on Engenco shareholders.

216 Accordingly, we have concluded that the Offer is also not reasonable.

42 In addition, the listed market price may be impacted by the low level of trading in Engenco shares.

217 Engenco shareholders should note however that our assessed value of Engenco shares has been determined having regard to the medium to longer term prospects of the company. Individual shareholders in Engenco may have a different (shorter) time horizon and/or may have a negative view on the Company, having regard for example to the operating difficulties encountered in recent years and the associated significant decline in the Engenco share price.

218 Having regard in addition to the historic low level of trading in Engenco shares, the Offer provides those Engenco shareholders who do not seek a medium to longer term commitment to the Company to realise their investment in Engenco at what they may consider to be an acceptable level of discount to our underlying assessed value of the Company.

Other matters

219 The taxation consequences of accepting the Offer depend on the individual circumstances of each investor. Shareholders should read the taxation advice set out in the Bidder's Statement and Target Statement and should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.

220 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice specific to their circumstances.

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The Corporations Act authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target Statement to be sent to Engenco shareholders in connection with the Offer.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $80,000 plus GST.

9 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared many hundred independent expert's reports.

2 This report was prepared by Mr Edwards and Mr Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 19 years and 27 years experience respectively in the provision of valuation advice.

Declarations

3 This report has been prepared at the request of the Independent Directors of Engenco to accompany the Target's Statement to be sent to Engenco shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the shareholders of Engenco.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 LEA has had no prior business or professional relationship with Engenco or Elph prior to the preparation of this report.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Engenco agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Engenco which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in Engenco's Target Statement.

Appendix C

Financial performance by business (continuing businesses only)

Engenco – Summary of segment results	FY10 Audited A$m	FY11 Audited A$m	FY12 Audited A$m
Revenue breakdown			
Drivetrain	100.7	93.8	93.4
CERT	3.6	3.7	5.2
Convair	8.5	15.8	18.7
Momentum	23.4	25.9	19.9
Gemco Rail	25.2	50.1	51.4
Greentrains	13.0	9.3	9.8
Other revenue	1.3	-	0.3
	175.7	198.6	198.7
EBITDA before impairment charges			
Drivetrain	8.5	19.7	9.0
CERT	0.6	0.7	1.1
Convair	0.9	2.2	2.9
Momentum	2.1	3.5	1.4
Gemco Rail	(21.3)	2.4	1.2
Greentrains	10.9	7.6	6.4
Corporate	(8.5)	(7.5)	(6.7)
	(6.8)	28.6	15.3
EBITA before impairment charges			
Drivetrain	5.9	18.0	7.2
CERT	0.6	0.7	1.0
Convair	0.8	2.1	2.8
Momentum	1.5	2.9	1.0
Gemco Rail	(23.7)	1.1	(1.0)
Greentrains	7.2	4.0	2.7
Corporate	(9.0)	(8.7)	(7.4)
	(16.7)	20.1	6.3

Appendix D

Balance sheet as at 30 November 2012

Engenco – balance sheet as at 30 November 2012	Drivetrain Australia $m	Drivetrain Europe $m	CERT $m	Convair $m	Momentum $m	Gemco Fabrication $m	Gemco Rolling Stock $m	Corporate $m	Total $m	Greentrains $m	Total $m
Trade and other receivables	15.4	4.5	1.0	1.4	4.3	12.2	-	(2.3)	36.5	1.9	38.4
Inventory	18.3	11.1	-	2.2	0.3	9.3	-	-	41.2	-	41.2
Prepayments	0.3	-	-	0.1	-	0.3	-	1.9	2.6	-	2.6
Other current assets	(0.4)	-	-	-	0.1	(0.1)	-	0.5	0.1	-	0.1
Property, plant and equipment	4.8	0.9	0.2	0.5	0.8	6.1	19.5	5.3	38.1	50.9	89.0
Other non-current assets	-	-	-	-	-	-	-	0.5	0.5	-	0.5
Total assets	38.4	16.5	1.2	4.2	5.5	27.8	19.5	5.9	119.0	52.8	171.8
Trade and other payables	7.1	1.8	0.3	1.4	1.7	4.0	-	(1.2)	15.1	1.8	16.9
Short-term provisions	1.7	-	0.2	0.2	0.2	1.9	-	0.2	4.4	-	4.4
Other current liabilities	(0.1)	-	-	-	-	-	-	-	(0.1)	-	(0.1)
Non-current provisions	-	-	-	-	-	-	-	2.0	2.0	-	2.0
Total liabilities	8.7	1.8	0.5	1.6	1.9	5.9	-	1.0	21.4	1.8	23.2
Net tangible operating assets	29.7	14.7	0.7	2.6	3.6	21.9	19.5	4.9	97.6	51.0	148.6
Net debt											
Cash	(0.4)	(1.5)	2.5	6.8	2.6	(9.4)	-	(8.3)	(7.7)	0.7	(7.0)
Loan to Greentrains	-	-	-	-	-	-	-	3.5	3.5	(3.5)	-
Short-term borrowings	-	-	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Long-term borrowings	-	-	-	-	-	-	-	(3.9)	(3.9)	(24.0)	(27.9)
Other borrowings	-	-	-	-	-	-	-	(15.0)	(15.0)	-	(15.0)
Total net debt	(0.4)	(1.5)	2.5	6.8	2.6	(9.4)	-	(23.9)	(23.3)	(26.8)	(50.1)
Tax balances											
Deferred tax assets	0.8	-	0.1	0.1	0.1	0.7	-	3.5	5.3	3.0	8.3
Deferred tax liabilities	-	-	-	-	-	-	-	(1.8)	(1.8)	-	(1.8)
Current tax liabilities	(3.8)	-	(0.3)	(0.7)	(0.8)	0.6	-	4.0	(1.0)	(0.6)	(1.6)
Total tax balances	(3.0)	-	(0.2)	(0.6)	(0.7)	1.3	-	5.7	2.5	2.4	4.9

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Appendix D

Engenco – balance sheet as at 30 November 2012

	Drivetrain Australia $m	Drivetrain Europe $m	CERT $m	Convair $m	Momentum $m	Gemco Fabrication $m	Gemco Rolling Stock $m	Corporate $m	Total $m	Greentrains $m	Total $m
Net tangible assets	26.3	13.2	3.0	8.8	5.5	13.8	19.5	(13.3)	76.8	26.6	103.4
Intangibles	10.7	10.0	-	1.9	3.2	9.6	-	7.7	43.1	-	43.1
Net assets (before minority interests)	37.0	23.2	3.0	10.7	8.7	23.4	19.5	(5.6)	119.9	26.6	146.5
Minority interests	-	-	-	-	-	-	-	-	-	3.1	3.1
Net assets attributable to Engenco shareholders	-	-	-	-	-	-	-	-	119.9	23.5	143.4

Appendix E

Assessment of EBIT multiples

1 As discussed in Section V, the primary valuation methodology adopted for the Drivetrain Europe, CERT, Convair and Momentum businesses is the capitalisation of EBIT approach. Under this methodology the selection of the appropriate EBIT multiple to apply is a matter of judgement but normally involves consideration of a number of factors including, but not limited to:

EBIT multiple considerations

- The stability and quality of earnings
- The quality of the management and the likely continuity of management
- The nature and size of the business
- The spread and financial standing of customers
- The financial structure of the company and gearing level
- The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors
- The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors
- The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc
- The cyclical nature of the industry
- Expected changes in interest rates
- The asset backing of the underlying business of the company and the quality of the assets
- The extent to which a premium for control is appropriate
- Whether the assessment is consistent with historical and prospective earnings

2 We discuss below the major factors taken into consideration when assessing the appropriate EBIT multiple range for Engenco's business units.

Listed company multiples

3 The sectors we consider broadly consistent with the Drivetrain Europe, CERT, Convair and Momentum businesses are set out as follows:

Division	Primary offering	Relevant companies
Drivetrain – Europe	Power and propulsion equipment and services	Mining engineering / equipment companies (primary), engineering consulting companies (secondary)
Convair	Tankers for road and rail	Engineering companies with railway operations (primary), mining equipment companies
CERT	Training for rail	Engineering consulting companies
Momentum	Recruitment, maintenance, welding for rail	Engineering companies with railway operations, mining equipment companies, engineering consulting companies

4 The multiples and descriptions of companies operating in the above sectors are set out in Appendix F and summarised below:

Appendix E

Listed company EBIT multiples	Enterprise value $m	Historical FY12 x	Forecast FY13 x	Forecast FY14 x
Mining engineering / equipment companies				
Average	140.5	7.2	5.9	5.9
Median	75.0	7.4	5.6	5.9
Engineering consultancy companies				
Average	136.5	6.7	6.3	5.5
Median	130.6	6.1	6.1	5.1
Engineering groups with railway operations				
Average	1,959.7	8.8	7.5	7.0
Median	2,063.5	8.9	7.9	7.3

5 With regard to the above listed company multiples it is important to note the following:

(a) the above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company

(b) none of the above listed companies are directly comparable to Engenco's individual businesses and all of these companies are significantly larger and have more diverse operations than Engenco's business divisions (with size and diversification broadly translating to higher multiples)

(c) with the exception of CERT, the listed mining equipment companies are relevant for each division (to varying degrees), however specific companies (or groups of companies) are more relevant for certain divisions than for others (refer Appendix F):

(i) notwithstanding some operation and size differences, the Drivetrain Europe business is most comparable to stock exchange listed companies Austin Engineering and Zicom Group

(ii) while the Convair and Momentum divisions (and to a lesser extent CERT as well) provide some similar services to the engineering companies with railway operations (UGL, Downer EDI and Bradken), we note that these companies also offer additional non-railway services (e.g. engineering services and construction, asset management and other mining services) which impacts comparability. The listed companies are also significantly larger in size than Convair and Momentum

(iii) Convair is also broadly comparable to Saunders International, a specialist designer and manufacturer of steel bulk liquid storage tanks and reservoirs for the oil and gas, resources, chemicals, and water industries, with ancillary maintenance services; and

(iv) CERT and Momentum provide consultancy services. In our view, these are most comparable to the listed engineering consulting companies, notwithstanding the differences in size.

Transaction evidence

6 A summary of the EBIT multiples implied by the transactions set out in Appendix G (which reflect the acquisitions of controlling interests) is shown below. In order to highlight the size impact the transactions have been categorised into those below $20 million, between $20 million and $100 million and those greater than $100 million.

Transaction evidence[1]			
Transaction value range	**Less than $20m**	**$20m to $100m**	**Greater than $100m**
Mining services and equipment			
Historical average	4.1	7.8	10.6
Historical median	3.9	7.6	11.1
Engineering consulting			
Historical average	4.2	6.4	7.9[2]
Historical median	4.0	6.4	7.9[2]

Note:
1 Where EBITDA transaction evidence is only available, EBIT multiples have been derived by assuming an appropriate depreciation charge.
2 Forecast EBIT multiples given as historical EBIT is not available.

7 While none of the above transactions are considered directly comparable, the above analysis confirms our understanding of the impact of size of business on EBIT multiples. In addition, the analysis above indicates that transactions in the mining services and equipment sector generally reflect higher EBIT multiples than those in the engineering consulting sector.

Conclusion on EBIT multiples

8 Having regard to the above, and in particular the size and other differences between the listed comparable companies and transactions and the Engenco business units, we have adopted the following EBIT multiples for valuation purposes:

EBIT multiples adopted	Low x	High x
Drivetrain Europe	5.0	6.0
Convair	4.0	5.0
CERT	4.0	5.0
Momentum	4.0	5.0

Appendix F

Listed company multiples

1 The implied EBIT multiples for the listed mining engineering / equipment companies, engineering consultancy companies[43] and engineering companies with railway operations, as well as a description of their activities, are set out below:

Listed company EBIT multiples(1)

Company	EV(2) A$m	Gearing(3) %	Historical FY12 x	Forecast(4) FY13 x	Forecast(4) FY14 x
Mining engineering / equipment companies					
Austin Engineering	379.4	14.4	8.5	7.5	6.9
Resource Equipment	106.3	12.4	7.1	5.6	4.9
Saunders International	45.4	(37.6)	7.0	n/a	n/a
Zicom Group	37.0	(18.0)	5.6	4.7	n/a
Engineering consultancy companies					
RCR Tomlinson	225.0	(20.8)	6.4	4.9	4.8
Lycopodium	215.2	(11.4)	7.0	6.9	7.6
Coffey International	165.3	45.0	5.4	5.4	5.2
GR Engineering Services	95.6	(34.9)	5.4	8.2	5.0
E & A	70.7	31.8	8.2	7.9	7.1
LogiCamms	63.8	(25.7)	6.0	4.8	4.0
Engineering groups with railway operations					
UGL	2,386.4	18.6	9.7	9.4	8.8
Downer EDI	2,347.9	26.3	6.8	6.4	6.0
Bradken	1,530.8	29.1	8.7	8.0	7.4

Note:
1 Enterprise value (EV) and earnings multiples calculated as at 10 January 2013.
2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), convertible notes, net derivative liabilities, market capitalisation adjusted for material option dilution and buybacks and excludes surplus assets.
3 Gearing represents net debt divided by enterprise value.
4 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts) as at 10 January 2013.

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis. n/a – not available.

43 Other Australian engineering companies such as Worley Parsons, Cardno, Monadelphous Group, Ausenco, Calibre Global and Decmil Group have been excluded due to their size relative to the business units we are valuing using the EBIT methodology.

Mining engineering / equipment companies

Austin Engineering Limited

2 Austin Engineering is an engineering company focusing on the mining and resources sector. The company has Australian manufacturing facilities in Brisbane, Perth, Mackay and Muswellbrook as well as overseas facilities in Wyoming (US), Antofagasta and Calama (Chile), Barranquilla (Colombia), Lima (Peru) and Batam Island (Indonesia). Each business division provides an array of manufacturing, repair and support services to the mining, oil and gas, aluminium and industrial sectors. In addition, a joint venture operation in the Middle East provides the company with a manufacturing facility in Oman.

Resource Equipment Limited

3 Resource Equipment (previously known as RER Group) supplies specialist rental equipment primarily for the mining, oil and gas, heavy engineering and infrastructure sectors. The company principally offers mine pumping equipment and dewatering systems, power generation and air compressors. It also provides services, including design and installation of piping systems, assisted evaporation and hydro mining. The company is primarily focused on Australia, but has completed other projects in Japan, Thailand and the Timor Sea.

Saunders International Limited

4 Saunders International specialises in the design, construction and maintenance of steel bulk liquid storage tanks and reservoirs for the oil and gas, resources, chemicals, and water industries, with projects in Australia (Queensland, Victoria and New South Wales) as well as New Caledonia. The company also provides facilities maintenance services, such as risk based maintenance prioritising, compliance inspections, mechanical repairs as well as steel fabrication services (consisting of rolling, pressing, abrasive blasting, and painting).

Zicom Group Limited

5 Singaporean based Zicom is a manufacturer of marine deck machinery and engineered machinery and services to the offshore marine, oil and gas, construction, electronics, biomedical, and agriculture industries. In addition, the company offers industrial and mobile equipment and production integration solutions and hydraulic system services. Its primary markets include Australia, Malaysia, Singapore, China, Thailand, and Indonesia.

Engineering consultancy companies

RCR Tomlinson Limited

6 RCR Tomlinson is a multi-disciplined engineering company with operations from over 60 locations across Australia, New Zealand and Asia. The company operates four business divisions which are RCR Mining, RCR Energy, RCR Resources and RCR Power. The company is headquartered in Perth and provides integrated engineering solutions to the mining, resources, energy, and power sectors.

Lycopodium Limited

7 Lycopodium provides engineering and project management consulting services across a range of industries including the minerals, process industries, renewable, infrastructure, rail, asset management and metallurgical sectors. Its operations cover Australia, Asia, Europe, Middle East, Africa and the US. The company also offers engineering, procurement and construction management services, as well as consultancy services covering evaluation and development, to implementation and optimisation of projects.

Coffey International Limited

8 Coffey International provides professional engineering and project management consulting services in Australia, New Zealand, the UK, Canada, South Africa, Brazil and the United Arab Emirates. The company provides environmental services and engineering consultancy to the mining, infrastructure and construction industries. It also offers consulting, training and outsourced services and management services for commercial, residential, tourism, industrial projects.

GR Engineering Services Limited

9 GR Engineering Services provides process engineering design and construction, consulting and asset management services to mining and mineral processing industries in Australia, the Pacific area and South East Asia. Its services include feasibility studies, design and construction of minerals processing facilities, plant evaluation and relocation and the provision of teams for project management and delivery. The company also provides assistance in the development and implementation of core asset management requirements.

E & A Limited

10 South Australian based E & A provides engineering services to the mining, defence, water and heavy industry and financial services sectors. The company's engineering services include heavy mechanical and electrical engineering, consultancy, maintenance and plant construction, and water and fluid solutions. In addition, the company also provides financial advisory services including analysing, financing, and completing business transactions to external clients. E & A currently employs approximately 700 staff.

LogiCamms Limited

11 LogiCamms provides engineering, project delivery, and asset management services to the mining and mineral, hydrocarbon, infrastructure and specialist industries. It offers engineering and design services, civil and structural engineering, mechanical and piping engineering, and electrical engineering and instrumentation. The company is headquartered in Perth with offices in Brisbane, Melbourne, Adelaide, Darwin, Gladstone, Mackay and Whyalla.

Engineering groups with railroad operations

UGL Limited

12 UGL is a diversified group providing specialised engineering, asset management and property services in the areas of water, power, rail and other essential infrastructure across 52 countries worldwide. The company offers construction, engineering and maintenance, passenger and freight rolling stock, and rail maintenance solutions, project delivery and asset services as well as provides outsourcing property services, including facilities and project management, consulting, and procurement services.

Downer EDI Limited

13 Downer EDI provides engineering and infrastructure management services to customers in the minerals and metals, oil and gas, power, rail and transport, telecommunications, water and property industries. Its operations are primarily focused in Australia and New Zealand and extend to Asia-Pacific, South America and South Africa. Downer EDI's also provides contract mining services and asset management solutions.

Bradken Limited

14 Bradken is a supplier of consumable and capital products to the mining and construction, rail, energy and general industrial markets. It employs some 6,000 staff across 34 manufacturing and service facilities throughout Australia, New Zealand, the US, Asia, South Africa and the United Kingdom. The company supplies ferrous castings, fabrications and machining services and also designs, supplies and services wear components for the mining, mineral processing and quarry industries. It also offers freight rolling stock products and services.

Appendix G

Transaction evidence

Transaction evidence									
					EV	EBITDA multiples		EBIT multiples	
					100%	Historical	Forecast	Historical	Forecast
Date	Target	Acquirer	Location	Sub industry	$m	x	x	x	x
Mining services and equipment									
Dec 07	Central Exploration Drilling	Hughes Drilling	Australia	Drilling equipment and services	5.2	2.6	n/a	n/a	n/a
Apr 07	Aust Bore	Austin Engineering	Australia	Mining engineering / equipment	10.3	n/a	n/a	3.3	n/a
Dec 07	Western Technology Services	Austin Engineering	United States	Mining engineering / equipment	21.5	n/a	n/a	n/a	3.2
Jul 08	Americast Technologies	Bradken	United States	Mining engineering / equipment	268.5	5.4	n/a	n/a	n/a
Aug 09	Conymet	Austin Engineering	Chile	Mining engineering / equipment	23.4	3.1	n/a	n/a	n/a
Aug 09	Brandrill	Ausdrill	Australia	Drilling equipment and services	103.7	4.1	3.5	11.5	7.6
Dec 09	Ausmelt	Outotec	Australia	Mining consumables / industrial services	50.5	10.7	n/a	11.3	n/a
Mar 10	Coote Industrial (Engenco)	Elph	Australia	Mining engineering / equipment	167.7	5.7	5.7	n/a	n/a
May 10	Ammtec	Campbell Brothers	Australia	Industrials services	151.5	11.8	7.2	14.2	8.3
Jul 10	Pilbara Hire Group	Austin Engineering	Australia	Mining engineering / equipment	13.0	n/a	n/a	3.3	n/a
Oct 10	Phillips Engineering	Austin Engineering	Australia	Mining engineering / equipment	4.5	n/a	n/a	4.5	n/a
Dec 10	Rojan Advanced Ceremics	Ludowici	Australia	Mining engineering / equipment	5.2	4.2	n/a	n/a	n/a
Dec 10	Essa Australia	FLSmidth	Australia	Mining engineering / equipment	30.1	8.5	n/a	11.3	n/a
Dec 10	Easternwell Group	Transfield Services	Australia	Drilling equipment and services	570.4	11.4	7.5	n/a	n/a
Dec 10	COR Cooling Group	Austin Engineering	Australia	Mining engineering / equipment	19.5	n/a	n/a	n/a	6.0
Feb 11	Connector Drilling Pty Ltd	Ausdrill	Australia	Drilling equipment and services	29.9	5.0	n/a	5.0	n/a
Feb 11	Dewatering Services Aust.	Resource Equipment	Australia	Mining engineering / equipment	13.6	4.4	3.9	n/a	n/a
Mar 11	UG In-seam Service Business of AJ Lucas	Industrea	Australia	Mining engineering / equipment	25.5	n/a	4.8	n/a	n/a
Aug 11	Meshcape Industries	Ludowici	South Africa	Mining engineering / equipment	11.5	n/a	5.8	n/a	n/a
Nov 11	V & V	Austin Engineering	Chile	Mining engineering / equipment	25.2	n/a	n/a	7.6	n/a
Jan 12	Ludowici	FLSmidth & Co	Australia	Mining engineering / equipment	389.3	12.5	10.2	16.0	12.4
Apr 12	Industry Partners / Immigration Partners	Fermiscan Holdings	Australia	Mining services	3.4	n/a	n/a	2.8	n/a
Apr 12	Petroaceros SAC's FRM & Site Maintenance divisions	Austin Engineering	Peru	Mining engineering / equipment	5.5	3.7	n/a	n/a	n/a
May 12	Industrea	General Electric	Australia	Mining equipment	701.2	6.0	5.3	10.7	8.5
Jul 12	Best Tractor Parts Group	Ausdrill	Australia	Equipment provider	165.0	3.3	n/a	4.3	n/a
Oct 12	ioGlobal	Imdex	Australia	Mining services	8.0	n/a	n/a	n/a	4.0

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix G

Transaction evidence									
					EV	EBITDA multiples		EBIT multiples	
					100%	Historical	Forecast	Historical	Forecast
Date	Target	Acquirer	Location	Sub industry	$m	x	x	x	x
Engineering consultancy									
Jan 07	SEA Engineering	Worley Parsons	United States	Engineering consultancy - Mining	31.9	n/a	n/a	5.0	n/a
Apr 07	Eagle Engineering	RCR Tomlinson	Australia	Mining engineering	21.0	n/a	n/a	n/a	4.9
May 07	Como Engineers	VDM Group	Australia	Mining engineering	12.5	n/a	n/a	3.8	n/a
May 07	Malavoca	VDM Group	Australia	Mining / Civil engineering	45.0	n/a	4.3	n/a	n/a
May 07	Wylie & Skene	VDM Group	Australia	Engineering consultancy	30.0	n/a	n/a	n/a	4.0
Jul 07	Buckland Engineers	Cardno	Australia	Engineering consultancy	4.2	n/a	n/a	n/a	3.4
Jul 07	Pavex Constructions	CEC Group	Australia	Engineering consultancy - Civil	14.5	n/a	3.0	n/a	n/a
Aug 07	Patterson Britton / John Wilson & Partners	Worley Parsons	Australia	Engineering consultancy	32.5	n/a	n/a	4.5	n/a
Aug 07	Positron Group	RCR Tomlinson	Australia	Electrical engineering	43.7	n/a	n/a	n/a	4.0
Oct 07	McCourt Dando	Service Stream	Australia	Mining engineering	13.0	n/a	n/a	4.5	n/a
Oct 07	McBreen Jenkins	Transfield Services	New Zealand	Eng. consultancy - Transport	18.5	7.7	n/a	n/a	n/a
Oct 07	Cast Metal Services	Bradken	Australia	Mining engineering	14.1	3.7	n/a	n/a	n/a
Nov 07	Bellero Constructions	VDM Group	Australia	Engineering consultancy	24.8	n/a	n/a	4.0	4.0
Nov 07	Rocktec Contracting	VDM Group	Australia	Marine engineering	15.0	n/a	n/a	n/a	4.0
Feb 08	Pipeline Systems	Ausenco	Sth America	Mining engineering	47.3	n/a	n/a	8.6	n/a
Feb 08	Vector Engineering	Ausenco	United States	Eng. consultancy - Environmental	34.0	n/a	n/a	7.9	n/a
Mar 08	Sandwell International	Ausenco	Canada	Infrastructure engineering	90.0	n/a	n/a	9.1	n/a
Jun 08	Westmar Consultants	Worley Parsons	Canada	Engineering consultancy	48.8	5.5	n/a	n/a	n/a
Jul 08	SWG	Programmed Main. Services	Australia	Mining engineering	36.0	n/a	n/a	n/a	3.6
Jul 08	BCA Consultants	VDM Group	Australia	Engineering consultancy	5.2	n/a	n/a	3.3	n/a
Sep 08	TBE Group Inc	Cardno	United States	Engineering consultancy	49.6	n/a	n/a	n/a	6.2
Aug 09	K.J.Johnson & Co	Southern Cross Electrical Eng.	Australia	Electrical engineering	9.6	n/a	n/a	2.2	n/a
Nov 09	Evans & Peck Group	Worley Parsons	Australia	Eng. consultancy - Infrastructure	87.1	6.0	n/a	n/a	n/a
Feb 10	Oceanic Industries	Southern Cross Electrical Eng.	Australia	Electrical engineering	12.4	4.1	n/a	n/a	n/a
May 10	Aust. Underground Services	Cardno	Australia	Mining engineering	7.0	n/a	n/a	n/a	4.1
May 10	Almac Machine Works	Bradken	Canada	Mining engineering	56.2	4.1	n/a	n/a	n/a
Jun 10	ENTRIX / Environmental Resolutions	Cardno	United States	Eng. consultancy - Environmental	128.3	n/a	6.3	n/a	n/a
Dec 10	JF New & Associates	Cardno	United States	Eng. consultancy - Environmental	11.2	n/a	4.1	n/a	n/a

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix G

Transaction evidence									
					EV	EBITDA multiples		EBIT multiples	
					100%	Historical	Forecast	Historical	Forecast
Date	**Target**	**Acquirer**	**Location**	**Sub industry**	**$m**	**x**	**x**	**x**	**x**
Mar 11	Carey Gardner Acquisition	Allmine Group	Australia	Mining engineering	2.3	2.0	n/a	n/a	n/a
Mar 11	Arccon (WA)	Allmine Group	Australia	Eng. consultancy - Construction	27.0	7.1	n/a	n/a	n/a
Jun 11	Roadtest Emerald	Cardno	Australia	Eng. consultancy - Construction / Geotechnical	11.7	n/a	n/a	n/a	3.3
Jul 11	BEC Engineering	Cardno	Australia	Electrical engineering	45.0	n/a	n/a	n/a	5.0
Jul 11	Norcast Wear Solutions / Aust. & Oversea Alloys	Bradken	Canada	Mining engineering	222.0	n/a	7.9	n/a	n/a
Sep 11	Lane Piper	Cardno	Australia	Eng. consultancy - Environmental / Geotechnical	4.2	n/a	n/a	n/a	3.5
Oct 11	TEC	Cardno	United States	Engineering consultancy	48.6	n/a	6.9	n/a	n/a
Nov 11	Humphreys Reynolds Perkins	Cardno	Australia	Eng. consultancy - Environmental	13.3	n/a	n/a	n/a	4.4
Jan 12	CTEC	Forge Group	Australia	EPC to energy and utilities sectors	38.6	n/a	2.2	n/a	n/a
Feb 12	ATC Associates	Cardno	United States	Eng. consultancy - Environmental	98.4	n/a	6.6	n/a	n/a
Jul 12	EM-Assist	Cardno	United States	Eng. consultancy - Environmental	13.9	n/a	5.1	n/a	n/a
Jul 12	Marshall Miller & Associates	Cardno	United States	Eng. consultancy - Environmental / Mining	30.2	n/a	5.6	n/a	n/a
Oct 12	G&S Engineering Services	Calibre Group	Australia	Mining engineering	93.9	n/a	9.4	n/a	n/a
Nov 12	MDM Engineering Group	Sedgeman	South Africa	Mining engineering	80.0	n/a	n/a	7.0	n/a
Dec 12	ChemRisk	Cardno	United States	Eng. consulting - Environmental	33.2	5.3	n/a	n/a	n/a

Note:
n/a – not available.

Glossary

Term	Meaning
2010 Offer	Elph (a 24.95% shareholder in Engenco[44] at the time) made a proportional takeover offer for 35% of the shares in Engenco that it did not already own at a price of $0.26 per share on 3 March 2010
ABS	Australian Bureau of statistics
AIFRS	Australian equivalent to International Financial Reporting Standards
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CERT	Centre for Excellence in Rail training
Convair	Convair Engineering
Coote	Coote Industrial Ltd
Corporations Act	*Corporations Act 2001 (Cth)*
DCF	Discounted cash flow
Deed	Bid Implementation Deed dated 11 December 2012
Drivetrain	Drivetrain Power and Propulsion division
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Elph	Elph Pty Ltd
Engenco or the Company	Engenco Limited
Entitlement Offer	$0.15 per share announced by Engenco on 12 December 2012
EV	Enterprise value
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
Greentrains	Rolling stock leasing business
IER	Independent expert's report
IMX	IMX Resources Ltd
Km	Kilometres
LEA	Lonergan Edwards & Associates Limited
LNG	Liquid natural gas
Momentum	Momentum Rail
MRO	Maintenance, repair and overall
Mt	Million tonnes
NPV	Net present value
NTA	Net tangible asset
NTOA	Net tangible operating assets
Offer	$0.18 cash per share
RG 111	Regulatory Guideline 111 *Content of expert reports*
US	United States
VWAP	Volume weighted average price
WANOS	Weighted average number of shares on issue

44 Engenco was named Coote Industrial Limited up until November 2010.