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30 September 2010

## Statutory Annual Report FY2010

Coote Industrial Limited submits its statutory annual report for the 2010 financial year.

The final audited result for the year was an after tax loss of \$117.0 million, down \$7.6 million on the previously advised loss of \$124.6 million disclosed in the Company's preliminary final report.

The result incorporates the finalisation of elimination entries associated with prior period reserve balances. Elimination of these carried forward balances was triggered by the recent divestment and subsequent deconsolidation of the South Spur Rail Services business from the group.

For further information please contact:

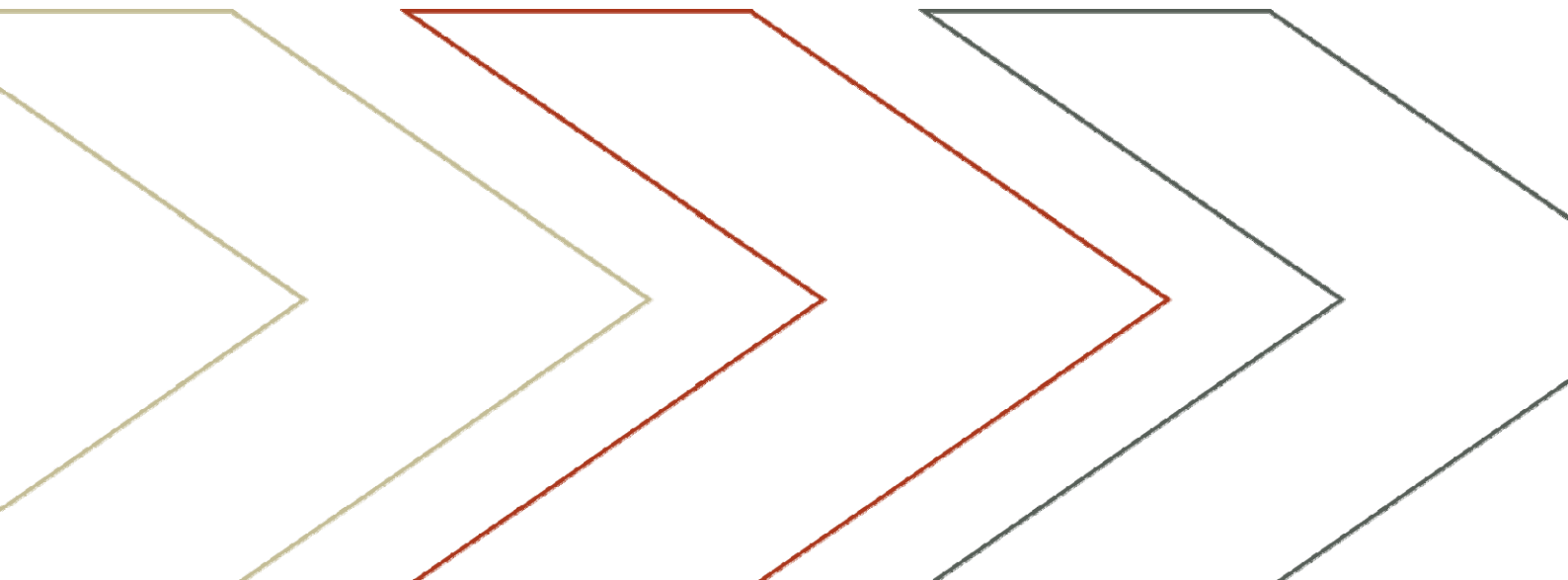
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# Statutory Annual Report

*Financial year ended 30 June 2010*



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## Corporate Governance Statement

The Company and the Board are committed to achieving compliance with all the best practice recommendations released by the Australian Securities Exchange Corporate Governance Council. This statement outlines the main corporate governance practices in place throughout the financial year, with specific references made to any departures from the best practice recommendations.

### Role of the Board

The role of Coote Industrial's Board of Directors is to protect and promote the interests of the Company and to represent its shareholders whilst considering the interests of other stakeholders including employees, customers, suppliers, wider communities and the environment. It does this according to the principles of good corporate governance intending to fulfil the Company's responsibilities as a corporate citizen.

The Board operates under a Board Charter; which describes the processes used by the Board to:

- appoint and review the performance of the Managing Director;
- approve key strategic decisions including, but not limited to, acquisitions and divestments;
- approve annual revenue, operating expenditure, and capital budgets;
- approve significant changes in organisational structure;
- determine and approve the remuneration of the Managing Director;
- approve the remuneration of executive management; and
- formally adopt any communication to regulators and shareholders as may be required by the Company constitution, statute, or other regulation.

The Board may change by resolution any power reserved to itself.

### Executive Delegation

Other than those matters reserved by the Board to itself, the Board delegates to the Managing Director all authority to achieve the Company's objectives consistent with this governance charter, the Company constitution, statute or other regulation.

The Managing Director prepares a one year operational and financial plan for approval by the Board.

### Board Structure

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed later in this report.

#### The names of the independent directors of the Company are:

D Hector

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of Company shares are held by the director and any other entity or individual directly or indirectly associated with the director;
- no sales are made to, or purchases made from, any entity or individual directly or indirectly associated with the director; and
- none of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

The Board reviews the independence of its directors in light of the information provided to it.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the Company's expense. Written approval must be obtained from the Board prior to incurring any expense on behalf of the Company.



## Meetings of the Board

The Board meets formally at least four times per year and on other occasions as required. On the invitation of the Board, members of senior management attend and make presentations at Board meetings. In addition to the formal meetings the Board regularly meets to consider important issues affecting the Company.

The number of meetings held and attended by each of the directors for the financial year ended 30 June 2010 is set out in the Directors' Report.

## Board Membership

### Appointment

Board members are nominated by the Board and their appointment confirmed by a vote of shareholders. The Board will have a minimum of one non-executive director who will be free of material relationships with the Company and who would be reasonably considered by shareholders to be independent. This policy is not consistent with ASX Best Practice Recommendation 2.1 and the appointment of an additional independent, non-executive director is planned for FY2011.

The expectation of directors is that they will be of unquestioned integrity and honesty; will understand and behave to the highest standards of corporate governance and will be prepared to question, challenge, and critique matters of strategy.

Directors will be appointed according to the contribution they can make in meeting strategic skill requirements of the Company. Remuneration of directors will be transparent and reported in its entirety to shareholders.

Directors are expected to continue to develop their skills through ongoing education and training.

### Retirement and Re-election

The constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each annual general meeting. Directors who have been appointed by the Board are required to retire from office at the next following annual general meeting and are not taken into account in determining the number of directors to retire at that annual general meeting.

Directors cannot hold office for a period in excess of three years beyond the third annual general meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

### Board Access to Information and Independent Advice

All directors have unrestricted access to employees of the Group and, subject to the law, access to all Company records and information held by Group employees and external advisors. Each director may obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board committee. In such cases, the Chairman and Company Secretary must be advised and a copy of the advice made available to all directors.

### Conflicts of Interest

Directors are required to notify the Board of any real or perceived conflicts of interest that may occur from time to time. The Board has adopted the use of formal standing notices in which they disclose any material personal interests they have and the relationship with the affairs of the Company. Directors are required to provide an updated notice if they acquire any new material personal interests or if there is any change to the nature and extent of their previously disclosed interest.

### Performance Evaluation

To date a formal assessment of Board performance has not taken place due to recent significant changes in the composition of the Board.

### Reward and Remuneration

Reward and remuneration of directors and executives will be objectively linked to the achievement of Company goals and consistent with the financial performance of the Company.

There will be transparency to shareholders regarding reward and remuneration of Board members and senior executive management.



## Committees

Currently the Board of Coote Industrial has formed a separate Audit Committee to assist it in exercising its responsibilities. Given the size and stage of development of the Company the Board has not formed a Nomination or Remuneration Committee which is a departure from ASX Best Practice Recommendation 2.4 and 8.2.

The Audit Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting. The specific responsibilities set out in its charter include:

- in conjunction with the internal and external auditors, assure the integrity of financial statements;
- recommend to the Board appointment of and review the performance of the external auditor;
- determine the remuneration of the external auditor;
- oversee the integrity of the internal and external audit process, and
- ensure there is a process to identify the likelihood and impact of financial risk and that this process is actively managed.

### Audit Committee

The members of the Audit Committee at the date of this report are:

V De Santis  
D Hector

Senior staff and any other persons considered appropriate, attend meetings of the Audit Committee by invitation. Details of the number of meetings held and attended by the members of the Audit Committee can be found in the Director's Report. The Board has established a Terms of Reference to guide the activities of the committee. The Board recognise that the current composition of the audit committee does not meet ASX Best Practice Recommendation 4.3 and plans to review the composition of the Committee in FY2011.

## Financial Reporting

Consistent with ASX Best Practice Recommendation 4.1, and in accordance with section 295A of the Corporations Act 2001, the Company's financial report preparation and approval process for the year ended 30 June 2010, involved both the Managing Director and Chief Financial Officer providing a written statement to the Board that, in their opinion:

- the Company's financial report presents a true and fair view of the Company's financial condition and operating results and is in accordance with applicable accounting standards, and
- the Company's financial records for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001.

## Audit Governance and Independence

### External Auditors

Bentleys are the Company's current external auditors. The performance of the external auditor is reviewed annually by the Audit Committee. Bentleys were appointed as the external auditor in 2006. Company policy dictates that no non-audit services are provided by the external auditor to ensure independence is maintained. It is Bentley's policy to rotate audit engagement partners on listed companies at least every five years.

### Independence Declaration

The Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 ("CLERP 9") amendments to the Corporations Act 2001 require external auditors to make an annual independence declaration, addressed to the Board, declaring that the auditors have maintained their independence in accordance with CLERP 9 amendments and the rules of the professional accounting bodies.

Bentleys have provided such a declaration to the Board for the financial year ended 30 June 2010.





### **Attendance of External Auditors at Annual General Meetings**

In accordance with ASX Best Practice Recommendation 6.2 and Corporations Act 2001 the Company requires that Bentleys attend the Company's annual general meeting and are available to answer questions about the conduct of the audit and the preparation and content of the audit report. Shareholders are asked to submit written questions to the Company Secretary at least 5 days prior to the annual general meeting.

### **Risk Identification and Management**

Coote Industrial is in the process of implementing policies regarding risk identification and management which are consistent with ASX Principle 7.

### **Share Trading Policy**

The Company's share trading policy aims to reinforce the requirements of the Corporations Act 2001 in relation to insider trading. The policy states that all employees and directors of the Company and its related companies are prohibited from trading in the Company's securities if they are in possession of "inside information". Directors must not deal in any Coote Industrial Ltd securities without notifying the Board and receiving written approval from it to do so. The Chairman must seek written approval from an independent, non-executive director. Managers and other employees are also required to seek written approval of the Managing Director prior to trading in any shares in the Company.

### **Continuous Disclosure**

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange's securities market. The Company Secretary has responsibility for overseeing and co-ordinating the disclosure. Any disclosures are discussed with the Board and appropriate action is taken.

### **Communications with Shareholders**

The Board is committed to completely discharge its obligation to represent the interests of shareholders.

The Board will ensure that information is regularly communicated to shareholders, in particular, paying regard to the continuous disclosure requirements of the ASX. Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of the annual and interim financial statements. Shareholders are encouraged to attend and participate in the Annual General Meeting, to lodge questions to be responded by the Board, and are able to appoint proxies.



## Directors' Report

Your directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 30 June 2010.

### Principal Activities and Significant Changes in Nature of Activities

The principal activities of the Group during the financial year were:

- Engineering services
- Freight logistics
- Manufacturing and fabrication
- Personnel services
- Plant, equipment and component sales
- Project management
- Rail infrastructure services
- Rail operations
- Repair & maintenance services
- Rollingstock leasing

The following significant changes in the nature of the principal activities occurred during the financial year:

- The Group ceased its activities as an operator in the rail operations sector with the sale of South Spur Rail Services Pty Ltd.

### Operating Results and Review of Operations for the Year

#### Operating Results

Coote recorded a net loss of \$117.0 million after tax for the year ended 30 June 2010. Key contributors to this loss are recorded in the following table.

|                                             | FY2010<br>\$m | FY2009<br>\$m |
|---------------------------------------------|---------------|---------------|
| Revenue (including discontinued operations) | 227.7         | 317.4         |
| EBITDA                                      | (86.2)        | 21.9          |
| EBIT                                        | (99.9)        | 10.4          |
| Net profit / (loss) after tax               | (117.0)       | (4.5)         |
| NPAT after excluding one-off items          | (5.7)         | 2.5           |
| Net operating cash flow                     | 40.6          | 10.6          |
| Net assets *                                | 53.6          | 134.6         |
| Net debt                                    | 110.5         | 147.3         |

\* Net assets subsequently increased by \$42.6 million as a result of the capital raising concluded on 12 July 2010.

Most of the loss is non-cash and includes \$42.2 million in goodwill write-downs, with the Group's underlying trading operations delivering a \$5.7 million loss over this period. Revenue was well below expectations for a number of the businesses. In part this was due to difficult economic conditions and working capital constraints experienced for much of the year. A number of business operations were restructured or sold in the latter part of the year, including South Spur Rail Services, and action is under way to restructure other non-performing operational elements. The Company was also subject to a successful proportional takeover offer by its largest shareholder, Elph Pty Ltd, 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.

#### Financial Position

The Board has taken the view that under-performing asset classes within the Group were being carried at amounts in excess of their recoverable amount, and has undertaken an evaluation process which has resulted in significant write-downs so as to reflect realistic asset values on the balance sheet. Carrying values across major asset categories, including fixed assets, work in progress and inventories, were therefore assessed against their recoverable values resulting in unfavourable adjustments amounting to \$36.2 million. Locomotive related impairments of \$11.5 million and a \$10.2 million loss on the sale of South Spur Rail Services were also major items affecting the result.



Impairment of goodwill accounted for \$44.2 million of the loss. Cash flow forecasts used at mid-year to model business carrying values have been re-assessed, in part influenced by actual performance over the full year, with resultant write-downs of goodwill across a number of businesses. Major components of the goodwill write-down were attributable to the Gemco business (\$24.4 million) and quarantine and logistics business FCD (\$13.1 million).

The following table summarises the key elements of the result (before tax):

|                                                                        | FY2010<br>\$'000 |
|------------------------------------------------------------------------|------------------|
| Net operating loss                                                     | (9,955)          |
| Goodwill written off                                                   | (44,224)         |
| Impairment of property, plant and equipment                            | (11,491)         |
| Write-down of inventories / WIP and other one-off expenses             | (27,406)         |
| Loss on sale of Gemco locomotives to POTA                              | (6,000)          |
| Other one-off expenses (including bid-related advisory and legal fees) | (2,429)          |
| Total                                                                  | (101,505)        |

The Board is dissatisfied with the FY2010 operating result and the requirement to make these substantial asset write-downs and impairment charges. Nonetheless, the Board is confident of the future prospects of the key businesses and looks forward to a much improved underlying operating performance in FY2011 in terms of both revenue and profit.

### Significant Changes in State of Affairs

The following significant changes in the state of affairs of the Group occurred during the financial year:

- Two capital raisings – a placement combined with a share purchase plan which was completed in December 2009 raising \$35.2 million (gross) and a non-renounceable rights issue raising \$42.6 million (gross) commenced in June and concluded in July 2010.
- The refinancing of Coote's banking facilities was completed in early March 2010 resulting in the Group renewing its existing finance facilities until 28 February 2011.
- The sale of loss-making business, South Spur Rail Services was settled on 11 June 2010.
- The acquisition of an initial controlling interest in Greentrains Limited.
- Elphinstone Holdings Pty Ltd exercised its put option in Greentrains effectively reverting its \$6.5 million investment to Coote, taking Coote's controlling interest to 81%.
- A successful proportional takeover offer from Coote's largest shareholder, Elph Pty Ltd.
- Group borrowings have been significantly reduced with net debt of \$110.5 million as at 30 June 2010, compared with \$147.3 million as at 30 June 2009.

### Dividends Paid or Recommended

The Directors have decided not to declare a final dividend. This policy is expected to remain in place until debt levels are reduced, and the Company has returned to reasonable profitability.

### After Balance Date Events

A number of after balance date events have occurred since 30 June 2010. Further details can be found in Note 28 – Events Subsequent to Reporting Date.

### Future Developments, Prospects and Business Strategies

The Board reiterates its commitment to conducting a thorough strategic business review covering management, assets and key business capability and structure in order to fully evaluate operating performance, profitability and future prospects. The recalibration of the Group's balance sheet to reflect realistic asset values is seen as an important first step in assessing the current status of the Group in order to form a solid value base from which to invigorate and re-power the business. The Board is encouraged by the resilience of the underlying businesses and the good trading prospects evident within key parts of the business, both of which augur well for a successful year ahead.



## Environmental Issues

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

The Group uses practices that minimise adverse environmental impacts and provides appropriate feedback on the Group's environmental performance to ensure compliance.

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

## National Greenhouse and Energy Reporting Guidelines

The Group is not subject to the conditions imposed by the registration and reporting requirements of the National Greenhouse and Energy Reporting Act 2007, and is not registered with the Greenhouse and Energy Data Office.

The Group has not exceeded the corporate threshold and is therefore not required to report on total greenhouse gas emissions or energy consumption / production of the Group.

## Information on Directors

The composition of the Board at the time of release of this report is:

### Dale Elphinstone

Non-Executive Director (Chairman)

FAICD

|                                                                      |                                                                                                                                            |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Appointed:                                                           | 19 July 2010                                                                                                                               |
| Age:                                                                 | 59                                                                                                                                         |
| Directorships held in other listed entities in the past three years: | Non-executive Director, Queensland Gas Company Limited, 2002 – 2008<br>Non-executive Director, National Hire Group Limited, 2008 - present |
| Summary of current equity holdings:                                  | 235,914,636 ordinary shares                                                                                                                |

Mr Elphinstone is the Executive Chairman of the Elphinstone Group which he founded in 1975. Mr Elphinstone has considerable experience in the engineering, manufacturing and heavy machinery industries and among other things is one of the longest serving Caterpillar dealer principals in Australia having acquired the Caterpillar dealership in Victoria and Tasmania in 1987. He was a director of Caterpillar subsidiary, Caterpillar Underground Mining Pty Ltd until December 2008 and of the formerly publicly listed Queensland Gas Company Limited from October 2002 to November 2008. Mr Elphinstone is also a director of ASX listed National Hire Group Limited.

### Vincent De Santis

Managing Director

B.Com/LLB (Hons)

|                                                                      |                                                                                                                                    |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Appointed:                                                           | 19 July 2010                                                                                                                       |
| Age:                                                                 | 41                                                                                                                                 |
| Special Responsibilities:                                            | Member of Audit Committee                                                                                                          |
| Directorships held in other listed entities in the past three years: | Alternate Director, Queensland Gas Company Limited, 2002 – 2008<br>Alternate Director, National Hire Group Limited, 2008 - present |
| Summary of current equity holdings:                                  | 115,386 ordinary shares                                                                                                            |

Vince is the Managing Director of the Elphinstone Group which he joined in 2000 as the Group's Legal Counsel and Finance & Investment Manager. He is a director of various Elphinstone Group companies and the alternate director for Mr Elphinstone on the board of National Hire Group Limited. (He was also Mr Elphinstone's alternate on the board of Queensland Gas Company Limited). Immediately prior to joining the Elphinstone Group, Vince was a Senior Associate in the Energy Resources & Projects work group of national law firm Corrs Chambers Westgarth in Melbourne



**Donald Hector**

Non-Executive Director

BE (Chem), PhD, FAICD, FIEAust, FIChemE

|                                                                      |                             |
|----------------------------------------------------------------------|-----------------------------|
| Appointed:                                                           | 2 November 2006             |
| Age:                                                                 | 60                          |
| Special Responsibilities:                                            | Chairman of Audit Committee |
| Directorships held in other listed entities in the past three years: | None                        |
| Summary of current equity holdings:                                  | 72,342 ordinary shares      |

Don has 17 years' experience in senior executive management and CEO positions with industrial companies. He was Managing Director of Dow Corning Australia Pty Ltd, the Australian subsidiary of Dow Corning Corporation and was Managing Director of Asia Pacific Specialty Chemicals Ltd, an ASX-listed chemical Company. Don is a Non-Executive Chairman of SEMF Pty Ltd, a multidisciplinary engineering consulting firm. He is also on the board of Engineering Sydney at the University of Sydney and is a Council member of one of Sydney's leading independent schools. Don served as Non-Executive Chairman of Coote Industrial until 21 July 2010.

**Michael Coote**

BE (Mech), MAICD

Managing Director (resigned 22 July 2010)

|                                                                      |                                                      |
|----------------------------------------------------------------------|------------------------------------------------------|
| Appointed:                                                           | 28 June 2006                                         |
| Age:                                                                 | 47                                                   |
| Special Responsibilities:                                            | N/A                                                  |
| Directorships held in other listed entities in the past three years: | Previously non-executive director, Natural Fuels Ltd |
| Summary of current equity holdings:                                  | 42,840,411 ordinary shares                           |

Mike founded the Coote Industrial business in 1989 (then named Globe Turbocharger Specialties Australia) as a sole proprietor and led its direction and development over the next two decades. The direction of Coote Industrial closely reflects Mike's interests in heavy road and rail vehicles, diesel engines, and other power and propulsion equipment. Mike became the inaugural Managing Director in 2006 leading up to the listing of the Company on the ASX.

**Don Patterson**

Director and Chief Executive Officer (resigned 22 July 2010)

BBus, MAICD

|                                                                      |                           |
|----------------------------------------------------------------------|---------------------------|
| Appointed:                                                           | 28 June 2006              |
| Age:                                                                 | 52                        |
| Special Responsibilities:                                            | N/A                       |
| Directorships held in other listed entities in the past three years: | N/A                       |
| Summary of current equity holdings:                                  | 1,000,000 ordinary shares |

Don commenced with Coote Industrial in 2002, undertaking initially the Financial Controller role and subsequently serving as General Manager before becoming a founding director preceding the public listing of the business in 2006. Prior to joining Coote, Don was employed in accounting roles within the heavy engineering, commercial property development, finance, and retailing and hospitality industries.



**Glenn Parrett**

Executive Director (resigned 27 November 2009)  
BCom (Finance & Economics), MAICD

Appointed: 28 June 2006  
Age: 45  
Special Responsibilities: Member of Audit Committee  
Directorships held in other listed entities in the past three years: N/A  
Summary of current equity holdings: 201,654 ordinary shares

Glenn has more than 17 years experience delivering against total business plan responsibility, including General Manager and Managing Director roles with engineering sales and service businesses. Underpinned by Certificate studies in Mechanical Engineering, Glenn built experience in application engineering, technical sales and subsequently project and business management in the power and propulsion segment. Having completed a degree in Finance and Economics with High Distinction average, Glenn was awarded life membership of the Golden Key National Honour Society and has undertaken postgraduate studies in Business Law at Sydney University. After delivering key projects and acquisitions for Coote Industrial at corporate level, Glenn's focus from FY2009 is the integration, performance and development of the Group's power and propulsion businesses.

**Company Secretary**

**Roland Stampalia**

BCom, CPA, F Fin  
Company Secretary/Chief Financial Officer

Appointed: 30 November 2009  
Age: 48

Roland joined Coote Industrial in November 2009, following 18 years of financial management, analysis and accounting roles in the resources sector with companies including Iron Ore Company of Canada, North Limited and Robe River Mining Co Pty Ltd. His most recent role was with Rio Tinto Salt where he served as the Manager Financial Reporting / Company Secretary.

The following employees also served in the capacity of Company Secretary during the financial year:

Mustapha Darwish, 1 July 2009 – 5 October 2009

Kevin Pallas, 6 October 2009 – 29 November 2009

**Meetings of Directors**

During the financial year, 16 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

|             | Director's Meetings       |                 | Audit Committee Meetings  |                 |
|-------------|---------------------------|-----------------|---------------------------|-----------------|
|             | Number Eligible to attend | Number Attended | Number Eligible to attend | Number Attended |
| D Hector    | 14                        | 14              | 2                         | 2               |
| M Coote     | 14                        | 14              | -                         | -               |
| D Patterson | 14                        | 14              | -                         | -               |
| G Parrett   | 9                         | 9               | 2                         | 2               |

**Indemnifying Officers**

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

D Elphinstone, V De Santis, D Hector, M Coote, D Patterson, G Parrett



## Options

At the date of this report, the unissued ordinary shares of Coote Industrial Limited under option are as follows:

| Grant Date | Exercise Date | Date of Expiry | Exercise Price \$ | No. Under Option |
|------------|---------------|----------------|-------------------|------------------|
| 29 Feb 08  | 29 Aug 08     | 29 Feb 11      | 3.00              | 1,000,000        |
| 29 Feb 08  | 29 Feb 09     | 29 Aug 11      | 3.50              | 1,000,000        |
| 29 Feb 08  | 29 Aug 09     | 29 Feb 12      | 4.00              | 1,000,000        |
|            |               |                |                   | <u>3,000,000</u> |

During the year ended 30 June 2010, no ordinary shares of Coote Industrial Limited were issued on the exercise of options granted.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

A total of 4,150,000 options lapsed during the year – further details can be found in Note 27 – Share Based Payments.

## Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## Non-audit Services

There were no non-audit services provided by the Company's external auditor.

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 15 of the Directors' Report.

## Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

## Remuneration Report

### Remuneration Policy

This report details the nature and amount of remuneration for each director of Coote Industrial Limited, and other key executives (including the most highly remunerated executives) who have strategic commercial impact upon Coote Industrial Limited's activities.

The remuneration policy of Coote Industrial Limited is intended to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated Group's financial results. The Board of Coote Industrial Limited believes the approach to remunerating to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Consolidated Group.

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

- All executive directors and key executives receive a salary package comprised of a base salary, superannuation and fringe benefits. In future, it is intended that packages will also include equity-based incentives.
- The Board will review executive packages annually by reference to the Consolidated Group's performance, executive performance and comparable information from industry sectors.



- The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Consolidated Group's profits, which are aligned with shareholder value. The developing remuneration policy will be designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.
- The executive directors and other key executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.
- All remuneration paid to directors and executives is valued at cost to the Company and expensed. Shares granted to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the binomial option valuation methodology.
- The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.
- To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

### **Performance Conditions Linked to Remuneration**

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the Company. The contracts for service between the Company and key management personnel are on a continuing basis.

Some of the key businesses emphasise payment for results by providing various cash bonus reward schemes based on internal KPIs both financial and non-financial targets. The objective of the reward scheme is to both reinforce the short- and long-term goals of the key business and to provide a common interest between all staff. The basis of the bonus scheme is being developed across all entities of the Group; it may be displaced by an employee share and option plan.

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

### **Changes in Directors and Executives Subsequent to Year End**

On 19 July 2010 Mr D Elphinstone was appointed as a Director, and subsequently Chairman on 21 July 2010.

On 19 July 2010 Mr V De Santis was appointed as a Director (and subsequently interim Managing Director on 22 July 2010).

On 21 July 2010 Mr D Hector resigned as Chairman (but remains on the Board as a Director).

On 22 July 2010 both Mr M Coote and Mr D Patterson resigned as Directors.

On 4 August 2010 Mr P Crosswell resigned as the Chief Executive Officer of Industrial Powertrain Pty Ltd.





**Remuneration Details for Year Ended 30 June 2010**

The Board determines the proportion of fixed and variable compensation for key management personnel - refer to table below:

|                                   |      | Short-Term Benefits                    |                                    |                                   | Post Employment Benefits  |                               | Total<br>\$ |
|-----------------------------------|------|----------------------------------------|------------------------------------|-----------------------------------|---------------------------|-------------------------------|-------------|
|                                   |      | Cash,<br>Salary &<br>Commissions<br>\$ | Non-<br>Monetary<br>Benefits<br>\$ | Profit Share<br>and Bonuses<br>\$ | Super-<br>annuation<br>\$ | Termination<br>Benefits<br>\$ |             |
| <b>EXECUTIVE DIRECTORS</b>        |      |                                        |                                    |                                   |                           |                               |             |
| M Coote                           | 2010 | 475,000                                | -                                  | -                                 | 50,000                    | -                             | 525,000     |
| Managing Director                 | 2009 | 475,000                                | -                                  | -                                 | 50,000                    | -                             | 525,000     |
| D Patterson                       | 2010 | 458,173                                | 25,835                             | -                                 | 41,236                    | -                             | 525,244     |
| Chief Executive Officer           | 2009 | 414,905                                | 25,835                             | * 150,000                         | 37,371                    | -                             | 628,111     |
| P Wilson (8 Jan 09)               | 2010 | -                                      | -                                  | -                                 | -                         | -                             | -           |
| Director                          | 2009 | 177,719                                | -                                  | -                                 | 12,150                    | 454,018                       | 643,887     |
| SUB – TOTAL                       | 2010 | 933,173                                | 25,835                             | -                                 | 91,236                    | -                             | 1,050,244   |
|                                   | 2009 | 1,067,624                              | 25,835                             | 150,000                           | 99,521                    | 454,018                       | 1,796,998   |
| <b>NON EXECUTIVE DIRECTORS</b>    |      |                                        |                                    |                                   |                           |                               |             |
| D Hector                          | 2010 | 127,530                                | -                                  | -                                 | -                         | -                             | 127,530     |
| Chairman                          | 2009 | 118,353                                | -                                  | -                                 | -                         | -                             | 118,353     |
| SUB – TOTAL                       | 2010 | 127,530                                | -                                  | -                                 | -                         | -                             | 127,530     |
|                                   | 2009 | 118,353                                | -                                  | -                                 | -                         | -                             | 118,353     |
| <b>OTHER KEY MANAGEMENT</b>       |      |                                        |                                    |                                   |                           |                               |             |
| K Pallas                          | 2010 | 185,427                                | -                                  | -                                 | 16,688                    | -                             | 202,115     |
| Chief Operating Officer           | 2009 | 185,001                                | -                                  | -                                 | 14,850                    | -                             | 199,851     |
| R Stampalia (appointed 30 Nov 09) | 2010 | 121,600                                | 11,086                             | -                                 | 11,909                    | -                             | 144,595     |
| CFO /Company Secretary            | 2009 | -                                      | -                                  | -                                 | -                         | -                             | -           |
| M Darwish (resigned 5 Oct 09)     | 2010 | 44,491                                 | -                                  | -                                 | 2,919                     | -                             | 47,410      |
| CFO /Company Secretary            | 2009 | 143,799                                | -                                  | -                                 | 11,160                    | -                             | 154,959     |
| R Mathers (appointed 26 Oct 09)   | 2010 | 123,500                                | 3,780                              | -                                 | 11,115                    | -                             | 138,395     |
| Chief Commercial Officer          | 2009 | -                                      | -                                  | -                                 | -                         | -                             | -           |
| W Manners (appointed 12 Oct 09)   | 2010 | 232,521                                | -                                  | -                                 | 20,926                    | -                             | 253,447     |
| CEO – Gemco Rail                  | 2009 | -                                      | -                                  | -                                 | -                         | -                             | -           |
| S Bassan (resigned 20 Sep 09)     | 2010 | 72,005                                 | 5,937                              | -                                 | 20,491                    | 68,324                        | 166,757     |
| CEO – Gemco Rail                  | 2009 | 240,723                                | 19,492                             | 62,771                            | 40,435                    | -                             | 363,421     |
| G Parrett                         | 2010 | 339,592                                | 31,338                             | -                                 | 30,797                    | -                             | 401,727     |
| CEO – Drivetrain                  | 2009 | 359,799                                | 30,946                             | -                                 | 25,214                    | -                             | 415,959     |
| T Symons (resigned 11 Jun 10)     | 2010 | 185,574                                | 23,640                             | -                                 | 17,667                    | -                             | 226,881     |
| CEO – South Spur Logistics        | 2009 | 208,161                                | 21,749                             | -                                 | 17,714                    | -                             | 247,624     |
| J Wilson (resigned 1 Aug 09)      | 2010 | -                                      | -                                  | -                                 | -                         | -                             | -           |
| CEO – South Spur Rail Services    | 2009 | 47,960                                 | -                                  | -                                 | 15,508                    | 271,842                       | 335,310     |
| A Marsh (resigned 18 Jun 10)      | 2010 | 268,408                                | -                                  | -                                 | 18,921                    | -                             | 287,329     |
| CEO – Momentum                    | 2009 | 229,350                                | -                                  | -                                 | 20,650                    | -                             | 250,000     |
| P Swann                           | 2010 | 135,975                                | 47,615                             | -                                 | 21,698                    | -                             | 205,288     |
| CEO – Convair                     | 2009 | 151,479                                | 51,042                             | -                                 | 17,943                    | -                             | 220,464     |
| P Crosswell                       | 2010 | 175,307                                | -                                  | -                                 | 15,480                    | -                             | 190,787     |
| CEO – Industrial Powertrain       | 2009 | 170,677                                | -                                  | -                                 | 15,361                    | -                             | 186,038     |
| SUB – TOTAL                       | 2010 | 1,884,400                              | 123,396                            | -                                 | 188,611                   | 68,324                        | 2,264,731   |
|                                   | 2009 | 1,736,949                              | 123,229                            | 62,771                            | 178,835                   | 271,842                       | 2,373,626   |
| TOTAL                             | 2010 | 2,945,103                              | 149,231                            | -                                 | 279,847                   | 68,324                        | 3,442,505   |
|                                   | 2009 | 2,922,926                              | 149,064                            | 212,771                           | 278,356                   | 725,860                       | 4,288,977   |

\* Remuneration for Mr D Patterson was incorrectly stated in the FY2009 Annual Report and is corrected in this table.

There have been no amounts paid in relation to other short-term, other post employment, or long-term benefits, equity-settled or cash-settled share-based payments during the current or prior year.



**Options and Rights Granted**

| <b>2009</b>             | Balance<br>1 Jul 08 | Options<br>granted as<br>part of<br>remuneration | Options<br>exercised | Options<br>lapsed | Balance<br>30 Jun 09 | Total<br>Vested<br>30 Jun 09 | Total<br>Exercisable<br>30 Jun 09 |
|-------------------------|---------------------|--------------------------------------------------|----------------------|-------------------|----------------------|------------------------------|-----------------------------------|
| NON EXECUTIVE DIRECTORS |                     |                                                  |                      |                   |                      |                              |                                   |
| D Hector                | 300,000             | -                                                | -                    | -                 | 300,000              | 300,000                      | 300,000                           |
| EXECUTIVE DIRECTORS     |                     |                                                  |                      |                   |                      |                              |                                   |
| D Patterson             | 2,000,000           | -                                                | -                    | -                 | 2,000,000            | 2,000,000                    | 2,000,000                         |
| G Parrett               | 250,000             | -                                                | -                    | -                 | 250,000              | 250,000                      | 250,000                           |
| P Wilson                | 250,000             | -                                                | -                    | (250,000)         | -                    | -                            | -                                 |
| OTHER KEY MANAGEMENT    |                     |                                                  |                      |                   |                      |                              |                                   |
| M Darwish               | 100,000             | -                                                | -                    | -                 | 100,000              | 100,000                      | 100,000                           |
| <b>TOTALS</b>           | <b>2,900,000</b>    | <b>-</b>                                         | <b>-</b>             | <b>(250,000)</b>  | <b>2,650,000</b>     | <b>2,650,000</b>             | <b>2,650,000</b>                  |

| <b>2010</b>             | Balance<br>1 Jul 09 | Options<br>granted as<br>part of<br>remuneration | Options<br>exercised | Options<br>lapsed  | Balance<br>30 Jun 10 | Total<br>Vested<br>30 Jun 10 | Total<br>Exercisable<br>30 Jun 10 |
|-------------------------|---------------------|--------------------------------------------------|----------------------|--------------------|----------------------|------------------------------|-----------------------------------|
| NON EXECUTIVE DIRECTORS |                     |                                                  |                      |                    |                      |                              |                                   |
| D Hector                | 300,000             | -                                                | -                    | (300,000)          | -                    | -                            | -                                 |
| EXECUTIVE DIRECTORS     |                     |                                                  |                      |                    |                      |                              |                                   |
| D Patterson             | 2,000,000           | -                                                | -                    | (2,000,000)        | -                    | -                            | -                                 |
| G Parrett               | 250,000             | -                                                | -                    | (250,000)          | -                    | -                            | -                                 |
| OTHER KEY MANAGEMENT    |                     |                                                  |                      |                    |                      |                              |                                   |
| M Darwish               | 100,000             | -                                                | -                    | (100,000)          | -                    | -                            | -                                 |
| <b>TOTALS</b>           | <b>2,650,000</b>    | <b>-</b>                                         | <b>-</b>             | <b>(2,650,000)</b> | <b>-</b>             | <b>-</b>                     | <b>-</b>                          |

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



**Vincent De Santis**  
 Managing Director

Dated this 30th Day of September 2010



## **Directors' Declaration**

The Directors of the Company declare that:

- (a) the financial statements and notes, as set out in pages 18 to 71 are in accordance with the *Corporations Act 2001* and:
  - i. comply with Accounting Standards and the Corporations Regulations 2001;
  - ii. are in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board; and
  - iii. give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date;
- (b) the Managing Director, in the capacity of Chief Executive Officer, and Chief Financial Officer have each declared that:
  - i. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - ii. the financial statements and notes for the financial year comply with Accounting Standards; and
  - iii. the financial statements and notes for the financial year give a true and fair view; and
- (c) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**Vincent De Santis**  
Managing Director

Dated this 30th Day of September 2010





**Bentleys Audit  
& Corporate (WA) Pty Ltd**  
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To The Board of Directors

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

This declaration is made in connection with our audit of the financial report of Coote Industrial Limited and Controlled Entities for the year ended 30 June 2010 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
- no contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to the audit.

Yours faithfully

  
**BENTLEYS**  
Chartered Accountants

  
**RANKO MATIC CA**  
Director

DATED at PERTH this 30th day of September 2010



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## Independent Auditor's Report

### To the Members of Coote Industrial Limited

We have audited the accompanying financial report of Coote Industrial Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors Responsibility for the Financial Report

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

#### Auditor's Responsibility

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

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

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

#### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



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**Independent Auditor's Report**  
To the Members of Coote Industrial Limited (Continued)



**Auditor's Opinion**

In our opinion:

- a. The financial report of Coote Industrial Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company and the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Emphasis of Matter**

Without qualification to the opinion expressed above, we draw your attention to note 30 and the reclassification of long-term debt facilities to current liabilities. As noted in Note 30 (b), at the date of this report, the Consolidated Entity is in default of its lending covenants. In addition, the facilities are due to expire within 12 months of the date of this report.

The result of these matters is a working capital deficiency in the consolidated entity of \$55.997M, on the basis that none of the debt facilities are rolled over. Management are confident that the Consolidated Entity will be able to renegotiate facility extensions for any remaining balances outstanding. However, as at the date of this report, we believe there is an inherent uncertainty regarding the timing, execution and ultimate success of such renegotiations. The outcome of these matters cannot currently be determined with regard to their effect upon required working capital available for the Consolidated Entity and the performance of its key businesses.

**Report on the Remuneration Report**

We have audited the Remuneration Report included within the report of the directors for the year ended 30 June 2010. The directors of Coote Industrial Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

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

**BENTLEYS**  
Chartered Accountants

**RANKO MATIĆ CA**  
Director

DATED at PERTH this 30th day of September 2010



**Consolidated Statement of Comprehensive Income**

for the year ended 30 June 2010

|                                                               | Note  | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------------------------------------|-------|----------------|----------------|
| Revenue                                                       | 2     | 188,679        | 317,187        |
| Other income                                                  | 2     | 3,380          | 175            |
| Changes in inventories of finished goods and work in progress |       | (18,707)       | (2,945)        |
| Raw materials and consumables used                            |       | (77,607)       | (153,080)      |
| Employee benefits expense                                     |       | (67,191)       | (85,715)       |
| Depreciation and amortisation expense                         |       | (13,059)       | (10,455)       |
| Goodwill write-downs                                          | 17(a) | (44,224)       | -              |
| Impairment of property, plant and equipment                   | 16(b) | (11,491)       | (1,060)        |
| Finance costs                                                 |       | (15,622)       | (14,779)       |
| Subcontract freight                                           |       | (1,949)        | (2,616)        |
| Repairs and maintenance                                       |       | (8,645)        | (6,353)        |
| Insurances                                                    |       | (3,254)        | (3,850)        |
| Rent and outgoing                                             |       | (10,822)       | (10,612)       |
| Vehicle expenses                                              |       | (1,247)        | (1,908)        |
| Fuel                                                          |       | (6,955)        | (8,445)        |
| Foreign exchange movements                                    |       | (182)          | (2,615)        |
| Other expenses                                                |       | (12,609)       | (15,819)       |
| LOSS BEFORE INCOME TAX                                        | 3     | (101,505)      | (2,890)        |
| Income tax expense                                            | 4     | (5,259)        | (1,651)        |
| LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS                |       | (106,764)      | (4,541)        |
| Loss from discontinued operations after tax                   | 5     | (10,232)       | -              |
| LOSS FOR THE PERIOD                                           |       | (116,996)      | (4,541)        |
| OTHER COMPREHENSIVE INCOME                                    |       |                |                |
| Foreign exchange reserve movement                             |       | (875)          | (700)          |
| Other comprehensive income for the period, net of tax         |       | (875)          | (700)          |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD                     |       | (117,871)      | (5,241)        |
| Loss attributable to:                                         |       |                |                |
| Members of the parent entity                                  |       | (116,470)      | (4,541)        |
| Non-controlling interest                                      |       | (526)          | -              |
|                                                               |       | (116,996)      | (4,541)        |
| Total comprehensive income attributable to:                   |       |                |                |
| Members of the parent entity                                  |       | (117,345)      | (5,241)        |
| Non-controlling interest                                      |       | (526)          | -              |
|                                                               |       | (117,871)      | (5,241)        |
| EARNINGS PER SHARE                                            |       | ¢              | ¢              |
| From continuing and discontinuing operations:                 |       |                |                |
| Basic earnings per share (cents per share)                    | 10    | (58.35)        | (3.87)         |
| Diluted earnings per share (cents per share)                  | 10    | N/A            | N/A            |
| From continuing operations:                                   |       |                |                |
| Basic earnings per share (cents per share)                    | 10    | (53.23)        | (3.87)         |
| Diluted earnings per share (cents per share)                  | 10    | N/A            | N/A            |
| From discontinuing operations:                                |       |                |                |
| Basic earnings per share (cents per share)                    | 10    | (5.13)         | -              |
| Diluted earnings per share (cents per share)                  | 10    | N/A            | N/A            |



## **Consolidated Statement of Financial Position**

as at 30 June 2010

|                                          | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                            |      |                |                |
| <b>CURRENT ASSETS</b>                    |      |                |                |
| Cash and cash equivalents                | 11   | 2,727          | 1,946          |
| Trade and other receivables              | 12   | 44,424         | 150,020        |
| Inventories                              | 13   | 44,751         | 51,771         |
| Other current assets                     | 18   | 2,359          | 1,998          |
| <b>TOTAL CURRENT ASSETS</b>              |      | <b>94,261</b>  | <b>205,735</b> |
| <b>NON-CURRENT ASSETS</b>                |      |                |                |
| Trade and other receivables              | 12   | 2,255          | 3,173          |
| Inventories                              | 13   | 5,921          | 17,608         |
| Financial assets                         | 14   | 157            | 127            |
| Property, plant and equipment            | 16   | 82,459         | 46,324         |
| Deferred tax assets                      | 21   | 4,915          | 3,967          |
| Intangible assets                        | 17   | 52,295         | 102,748        |
| <b>TOTAL NON-CURRENT ASSETS</b>          |      | <b>148,002</b> | <b>173,947</b> |
| <b>TOTAL ASSETS</b>                      |      | <b>242,263</b> | <b>379,682</b> |
| <b>CURRENT LIABILITIES</b>               |      |                |                |
| Trade and other payables                 | 19   | 56,381         | 72,652         |
| Financial liabilities                    | 20   | 81,070         | 128,958        |
| Current tax liabilities                  | 21   | 2,860          | 9,290          |
| Short-term provisions                    | 22   | 9,947          | 9,961          |
| <b>TOTAL CURRENT LIABILITIES</b>         |      | <b>150,258</b> | <b>220,861</b> |
| <b>NON-CURRENT LIABILITIES</b>           |      |                |                |
| Financial liabilities                    | 20   | 32,113         | 20,326         |
| Other long-term provisions               | 22   | 1,950          | 1,934          |
| Deferred tax liabilities                 | 21   | 4,311          | 1,930          |
| <b>TOTAL NON-CURRENT LIABILITIES</b>     |      | <b>38,374</b>  | <b>24,190</b>  |
| <b>TOTAL LIABILITIES</b>                 |      | <b>188,632</b> | <b>245,051</b> |
| <b>NET ASSETS</b>                        |      | <b>53,631</b>  | <b>134,631</b> |
| <b>EQUITY</b>                            |      |                |                |
| Issued capital                           | 23   | 152,808        | 119,222        |
| Reserves                                 |      | (882)          | 697            |
| Non-controlling interest                 |      | 2,759          | -              |
| (Accumulated losses) / retained earnings |      | (101,054)      | 14,712         |
| <b>TOTAL EQUITY</b>                      |      | <b>53,631</b>  | <b>134,631</b> |





**Consolidated Statement of Changes in Equity**

for the year ended 30 June 2010

|                                                       | Note  | Issued<br>Capital<br>Ordinary<br>\$'000 | Retained<br>Earnings /<br>(Accum.<br>Losses)<br>\$'000 | Non-<br>controlling<br>Interest<br>\$'000 | Foreign<br>Currency<br>Translation<br>Reserve<br>\$'000 | Option<br>Reserves<br>\$'000 | Total<br>\$'000 |
|-------------------------------------------------------|-------|-----------------------------------------|--------------------------------------------------------|-------------------------------------------|---------------------------------------------------------|------------------------------|-----------------|
| BALANCE AT 1 JULY 2008                                |       | 117,632                                 | 25,054                                                 | -                                         | 501                                                     | 828                          | 144,015         |
| Shares issued during the year                         |       | 1,590                                   | -                                                      | -                                         | -                                                       | -                            | 1,590           |
| Transaction costs                                     |       | -                                       | -                                                      | -                                         | -                                                       | -                            | -               |
| Prior year adjustment                                 |       | -                                       | -                                                      | -                                         | -                                                       | -                            | -               |
| Total comprehensive income for the period             |       | -                                       | (4,541)                                                | -                                         | (700)                                                   | -                            | (5,241)         |
| Option reserve on recognition of options issued       |       | -                                       | -                                                      | -                                         | -                                                       | 68                           | 68              |
| <b>SUB-TOTAL</b>                                      |       | <b>119,222</b>                          | <b>20,513</b>                                          | <b>-</b>                                  | <b>(199)</b>                                            | <b>896</b>                   | <b>140,432</b>  |
| Dividends paid or provided for                        | 9     | -                                       | (5,801)                                                | -                                         | -                                                       | -                            | (5,801)         |
| <b>BALANCE AT 30 JUNE 2009</b>                        |       | <b>119,222</b>                          | <b>14,712</b>                                          | <b>-</b>                                  | <b>(199)</b>                                            | <b>896</b>                   | <b>134,631</b>  |
| BALANCE AT 1 JULY 2009                                |       | 119,222                                 | 14,712                                                 | -                                         | (199)                                                   | 896                          | 134,631         |
| Shares issued during the year                         |       | 35,175                                  | -                                                      | -                                         | -                                                       | -                            | 35,175          |
| Transaction costs                                     |       | (1,589)                                 | -                                                      | -                                         | -                                                       | -                            | (1,589)         |
| Non-controlling interest on acquisition of subsidiary | 26(b) | -                                       | -                                                      | 3,285                                     | -                                                       | -                            | 3,285           |
| Total comprehensive income for the period             |       | -                                       | (116,470)                                              | (526)                                     | (875)                                                   | -                            | (117,871)       |
| Option reserve on recognition of options lapsed       |       | -                                       | 704                                                    | -                                         | -                                                       | (704)                        | -               |
| <b>SUB-TOTAL</b>                                      |       | <b>152,808</b>                          | <b>(101,054)</b>                                       | <b>2,759</b>                              | <b>(1,074)</b>                                          | <b>192</b>                   | <b>53,631</b>   |
| Dividends paid or provided for                        | 9     | -                                       | -                                                      | -                                         | -                                                       | -                            | -               |
| <b>BALANCE AT 30 JUNE 2010</b>                        |       | <b>152,808</b>                          | <b>(101,054)</b>                                       | <b>2,759</b>                              | <b>(1,074)</b>                                          | <b>192</b>                   | <b>53,631</b>   |



## **Consolidated Statement of Cash Flows**

for the year ended 30 June 2010

|                                                            | Note         | 2010<br>\$'000  | 2009<br>\$'000  |
|------------------------------------------------------------|--------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |              |                 |                 |
| Receipts from customers                                    |              | 309,767         | 311,886         |
| Payments to suppliers and employees                        |              | (249,079)       | (292,836)       |
| Interest received                                          |              | 324             | 4,039           |
| Finance costs                                              |              | (12,575)        | (11,280)        |
| Income tax paid                                            |              | (7,809)         | (1,248)         |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b> | <b>26(a)</b> | <b>40,628</b>   | <b>10,561</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |              |                 |                 |
| Proceeds from sale of property, plant and equipment        |              | 6,622           | 1,663           |
| Proceeds from disposal of entities, net of cash            | 26(c)        | 8,086           | -               |
| Purchase of non-current assets                             |              | (19,413)        | (12,945)        |
| Payment for subsidiary, net of cash acquired               | 26(b)        | (9,998)         | (6,658)         |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b> |              | <b>(14,703)</b> | <b>(17,940)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |              |                 |                 |
| Proceeds from issue of shares                              |              | 33,585          | 1,320           |
| Proceeds from borrowings                                   |              | 15,342          | 3,647           |
| Repayment of borrowings                                    |              | (64,373)        | (2,443)         |
| Dividends paid by parent entity                            |              | -               | (5,532)         |
| <b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b> |              | <b>(15,446)</b> | <b>(3,008)</b>  |
| Net increase/ (decrease) in cash held                      |              | 10,479          | (10,387)        |
| Cash at beginning of financial year                        | 11           | (22,102)        | (11,715)        |
| <b>CASH AT END OF FINANCIAL YEAR</b>                       | <b>11</b>    | <b>(11,623)</b> | <b>(22,102)</b> |



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## Notes to the Consolidated Financial Statements

for the year ended 30 June 2010

### Note 1 – Statement of Significant Accounting Policies

This financial report includes the consolidated financial statements and notes of Coote Industrial Ltd and controlled entities ('Consolidated Group' or 'Group').

#### Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Coote Industrial Ltd at the end of the reporting period. A controlled entity is any entity over which Coote Industrial Ltd has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 15 – Controlled Entities. All controlled entities have a June financial year-end.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Consolidated Group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share in equity since that date.

#### Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.



## Note 1 – Statement of Significant Accounting Policies (cont'd)

The acquisition may result in the recognition of goodwill - refer to Note 1(i) - or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

### (b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.



**Note 1 – Statement of Significant Accounting Policies (cont'd)****Tax consolidation**

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

**(c) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of finished goods includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Costs are assigned on the basis of weighted average costs.

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

A review of inventory was completed at year end to identify items to be classed as non-current. Non current inventory is defined as inventory not expected to be utilised in the next financial year. The majority of items identified were long life locomotive spares which require refurbishment prior to use.

**(d) Construction Contracts and Work in Progress**

Construction work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts, and those that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

Construction profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date as compared to expected actual costs. Where losses are anticipated they are provided for in full.

Construction revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

Work in progress is valued at cost. Cost includes both variable and fixed costs relating to specific projects, and those that are attributable to the project activity in general and that can be allocated on a reasonable basis.

**(e) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less accumulated depreciation and, where applicable, any impairment losses.

**Property**

Freehold land and buildings are shown at their cost (being the consideration paid plus any additional direct costs), less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.



**Note 1 – Statement of Significant Accounting Policies (cont'd)****Plant and equipment**

Plant and equipment are measured on the cost basis less depreciation and, where applicable, any impairment losses. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a diminishing value over their useful lives to the Consolidated Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

| <b>Class of Fixed Asset</b> | <b>Depreciation Rate</b> |
|-----------------------------|--------------------------|
| Leasehold improvements      | 40% - 67%                |
| Plant and equipment         | 10% - 67%                |
| Leased plant and equipment  | 30% - 67%                |
| Buildings                   | 2.50%                    |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**(f) Leases**

Lease of fixed assets where substantially all the risks and benefits incidental to the ownership of the assets, but not the legal ownership that is transferred to entities in the Consolidated Group, are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a diminishing value basis over their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**(g) Financial Instruments****Initial recognition and measurement**

Financial assets and liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).



## Note 1 – Statement of Significant Accounting Policies (cont'd)

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

### **Classification and subsequent measurement**

Financial instruments are subsequently measured at their fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. When quoted prices are available in an active market they are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (1) the amount at which the financial asset or financial liability is measured at initial recognition;
- (2) less principal repayments;
- (3) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method, and
- (4) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

### **Financial assets at fair value through profit and loss**

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non current assets.)

### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

### **Financial liabilities**

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.





## Note 1 – Statement of Significant Accounting Policies (cont'd)

### **Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### **Impairment**

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

### **Financial guarantees**

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

### **Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

### **(h) Impairment of Assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed at least annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### **(i) Intangibles**

#### **Goodwill**

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (1) the consideration transferred;
- (2) any non-controlling interest; and
- (3) the acquisition date fair value of any previously held equity interest over the acquisition date fair value of net identifiable assets acquired.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest measures the non-controlling interest in the acquiree using the proportionate interest method.



## **Note 1 – Statement of Significant Accounting Policies (cont'd)**

Refer to Note 17 – Intangible Assets for information on the goodwill policy adopted by the Group for acquisitions.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

### **Customer related intangibles**

Customer related intangibles are stated at cost less accumulated amortisation and, where applicable, any impairment losses.

### **Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and, where applicable, any impairment losses. Patents and trademarks are amortised over their useful life.

### **Other identifiable intangibles**

Other intangibles are stated at cost less accumulated amortisation and, where applicable, any impairment losses. At balance date the amount in other identifiable intangibles can be attributed to the value applied to Rail Access on acquisition.

### **Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

## **(j) Foreign Currency Transactions and Balances**

### **Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

### **Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.



## Note 1 – Statement of Significant Accounting Policies (cont'd)

### Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period, and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of comprehensive income. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

### (k) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

### (l) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### (m) Provision for Warranties

Provision is made in respect of the Consolidated Group's estimated liability on all products and services under warranty at balance date. The future cash flows have been estimated by reference to the Consolidated Group's history of warranty claims.

### (n) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

### (o) Revenue and Other Income

Revenue is measured at fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue from the sale of goods is recognised at the point of delivery or as contractually negotiated as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at reporting date and where the outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Revenue relating to construction activities is detailed in Note 1 (d).

Interest revenue is recognised as it accrues using the effective interest rate method.

All revenue is stated net of the amount of goods and services tax (GST).

### (p) Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability.



## Note 1 – Statement of Significant Accounting Policies (cont'd)

### (q) Borrowing Costs

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

All other borrowing costs are recognised in income in the period in which they are incurred.

### (r) Goods and Services Tax (GST)

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

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

### (s) Comparative Figures

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

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

### (t) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

### (u) Critical accounting estimates and judgments

#### *Goodwill and intangibles*

Significant judgments are made with respect to identifying and valuing intangible assets on acquisitions of new businesses. The Group assesses impairment of intangibles at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates which can be found in Note 17 – Intangible Assets.

#### *Income tax*

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors' understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, pending an assessment by the Australian Taxation Office. Further details can be found in Note 4 – Income Tax Expense and Note 21 – Tax.

#### *Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

With respect to cash flow projections for the impairment testing of goodwill, growth rates of between 0% and 1% have been factored into valuation models for the next five years on the basis of management's expectations of market growth and the Group's ability to capture market share from competitors. Additional allowance for inflation has been factored into all valuation models. Pre-tax discount rates of 20% have been used in all models.

Impairment has been recognised in respect of goodwill at the end of the reporting period and disclosed in Note 17 – Intangible Assets.



## Note 1 – Statement of Significant Accounting Policies (cont'd)

Property, plant and equipment was assessed for impairment with reference to fair value less cost to sell. This is reflected in Note 16 – Property, Plant and Equipment.

### **Net realisable value – inventory and WIP**

Inventory and WIP value was determined using the net realisable value, where cost was in excess of this value. This is reflected in Note 13 – Inventories.

### **Environmental issues**

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation, and the directors understanding thereof. At the current stage of the Company's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

### **(v) Adoption of New and Revised Accounting Standards**

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the Consolidated Group.

#### **AASB 3: Business Combinations**

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009. The following is an overview of the key changes and the impact on the Group's financial statements in relation to the acquisition of an ownership interest in Greentrains Limited.

##### *Recognition and measurement impact*

**Recognition of acquisition costs** – The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

**Measurement of contingent considerations** – AASB 3 (revised) requires that contingent considerations associated with a business combination be included as part of the cost of the business combination. They are recognised at the fair value of the payment calculated having regard to probability of settlement. Any subsequent changes in the fair value or probability of payment are recognised in the statement of comprehensive income except to the extent where they relate to conditions or events existing at acquisition date, in which case the consideration paid is adjusted. The previous version of AASB 3 allowed such changes to be recognised as a cost of the combination impacting goodwill.

**Measurement of non-controlling interest** – For each business combination, the acquirer must measure any non-controlling interest in the acquiree either at the fair value of the non-controlling interest (the full goodwill method) or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Under the previous version of AASB 3 only the latter option was permitted.

**Recognition of contingencies** – The revised AASB 3 prohibits entities from recognising contingencies associated with a business combination, unless they meet the definition of a liability.

There were no contingencies associated with the acquisition of an ownership interest in Greentrains Limited.

**Business combinations achieved in stages** – The revised AASB 3 requires that where a business combination is achieved in stages, any previously held equity interest is to be remeasured to fair value and the resulting gain or loss, being the difference between fair value and historical cost, is to be recognised in the statement of comprehensive income. The previous version of AASB 3 accounted for each exchange transaction separately, using cost and fair value information at the date of each exchange to determine the amount of any goodwill associated with the acquisition. It was therefore possible to compare the cost of each individual investment with the fair value of identifiable net assets acquired at each step.



**Note 1 – Statement of Significant Accounting Policies (cont'd)***Disclosure impact*

The revised AASB 3 contains a number of additional disclosure requirements not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

**AASB 8: Operating Segments**

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

*Measurement impact*

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior year.

Under AASB 8, operating segments are determined based on management reports using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total Group operations, as this is how they are reviewed by the chief operating decision maker.

*Impairment testing of the segment's goodwill*

AASB 136: Impairment of Assets, paragraph 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's cash generating units, or group of cash generating units that are expected to benefit from the synergies of the combination. Each cash generating unit which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a cash generating unit which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined the implementation of AASB 8 has not impacted the cash generating units of each operating segment.

*Disclosure impact*

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

**AASB 101: Presentation of Financial Statements**

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

*Disclosure impact*

Terminology changes – the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.



**Note 1 – Statement of Significant Accounting Policies (cont'd)**

Reporting changes in equity – the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income – the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

Other comprehensive income – The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

**(w) New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
  - (a) the objective of the entity's business model for managing the financial assets; and
  - (b) the characteristics of the contractual cash flows.
- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).



**Note 1 – Statement of Significant Accounting Policies (cont'd)**

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB 2009–8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–9: Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

The financial statements were authorised for issue on 30 September 2010 by the Board of Directors.





## Note 2 – Revenue and Other Income

|                                                   | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------------------------|------|----------------|----------------|
| <b>SALES REVENUE</b>                              |      |                |                |
| Sales of goods and services                       |      | 186,330        | 308,549        |
| <b>TOTAL SALES REVENUE</b>                        |      | <b>186,330</b> | <b>308,549</b> |
| <b>OTHER REVENUE</b>                              |      |                |                |
| Dividends received                                |      | -              | -              |
| Interest received                                 | (a)  | 324            | 6,506          |
| Fuel rebates                                      |      | 2,025          | 2,132          |
| <b>TOTAL OTHER REVENUE</b>                        |      | <b>2,349</b>   | <b>8,638</b>   |
| <b>TOTAL SALES REVENUE AND OTHER REVENUE</b>      |      | <b>188,679</b> | <b>317,187</b> |
| <b>OTHER INCOME</b>                               |      |                |                |
| Gain on disposal of property, plant and equipment |      | 857            | 175            |
| Gains on foreign exchange                         |      | 2,523          | -              |
| <b>TOTAL OTHER INCOME</b>                         |      | <b>3,380</b>   | <b>175</b>     |
| <i>a. Interest revenue from:</i>                  |      |                |                |
| Other persons                                     |      | 324            | 6,506          |
| <b>TOTAL INTEREST REVENUE</b>                     |      | <b>324</b>     | <b>6,506</b>   |

## Note 3 – Loss for the Year

|                                                                                                                  | 2010<br>\$'000  | 2009<br>\$'000 |
|------------------------------------------------------------------------------------------------------------------|-----------------|----------------|
| <b>(a) EXPENSES</b>                                                                                              |                 |                |
| Cost of sales                                                                                                    | 134,978         | 241,047        |
| <i>Finance costs:</i>                                                                                            |                 |                |
| Interest – external                                                                                              | 13,122          | 13,275         |
| Other finance costs                                                                                              | 2,500           | 1,504          |
| <b>TOTAL FINANCE COSTS</b>                                                                                       | <b>15,622</b>   | <b>14,779</b>  |
| <b>EMPLOYEE SUPERANNUATION EXPENSE</b>                                                                           |                 |                |
| Defined contribution plan                                                                                        | 5,511           | 5,877          |
| <b>TOTAL EMPLOYEE SUPERANNUATION EXPENSE</b>                                                                     | <b>5,511</b>    | <b>5,877</b>   |
| <b>BAD AND DOUBTFUL DEBTS</b>                                                                                    |                 |                |
| Trade receivables                                                                                                | 248             | 209            |
| <b>TOTAL BAD AND DOUBTFUL DEBTS</b>                                                                              | <b>248</b>      | <b>209</b>     |
| <b>RENTAL EXPENSE ON OPERATING LEASES</b>                                                                        |                 |                |
| Minimum lease payments                                                                                           | 9,731           | 8,773          |
| <b>TOTAL RENTAL EXPENSE ON OPERATING LEASES</b>                                                                  | <b>9,731</b>    | <b>8,773</b>   |
| Impairment of property, plant and equipment                                                                      | 11,491          | -              |
| Write-down of inventories to net realisable value                                                                | 12,575          | -              |
| Write-off obsolete stock                                                                                         | 5,199           | -              |
| Loss on sale of locomotives to P&O Trans Australia                                                               | 6,000           | -              |
| <b>(b) SIGNIFICANT REVENUE AND EXPENSES</b>                                                                      |                 |                |
| <i>The following significant revenue and expense items are relevant in explaining the financial performance:</i> |                 |                |
| Consideration on discontinuation of rail logistics services segment                                              | 6,761           | -              |
| Carrying amount of net assets sold                                                                               | (16,993)        | -              |
| <b>NET LOSS ON THE DISPOSAL OF SOUTH SPUR RAIL SERVICES PTY LTD</b>                                              | <b>(10,232)</b> | <b>-</b>       |



## Note 4 – Income Tax Expense

|                                                                                                                                                                     | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|----------------|----------------|
| (a) The components of tax expense comprise:                                                                                                                         |      |                |                |
| Current income tax                                                                                                                                                  |      |                |                |
| - Current income tax charge                                                                                                                                         |      | 4,032          | 1,963          |
| Deferred income tax                                                                                                                                                 |      |                |                |
| - Relating to origination and reversal of temporary differences                                                                                                     | 21   | 1,227          | (526)          |
| Under provision in respect of prior years                                                                                                                           |      | -              | 214            |
| Income tax expense reported in the statement of comprehensive income                                                                                                |      | 5,259          | 1,651          |
| (b) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: |      |                |                |
| Accounting profit (loss) before tax from continuing operations                                                                                                      |      | (101,505)      | (2,890)        |
| - Loss before tax from discontinued operations                                                                                                                      |      | (11,683)       | -              |
| - Total accounting profit (loss) before income tax                                                                                                                  |      | (113,188)      | (2,890)        |
| At the Parent Entity's statutory income tax rate of 30% (2009:30%)                                                                                                  |      | (33,956)       | (867)          |
| Add (Less) tax effect of:                                                                                                                                           |      |                |                |
| - non-deductible depreciation and amortisation                                                                                                                      |      | 13,727         | -              |
| - write-downs to recoverable amounts                                                                                                                                |      | 6,801          | -              |
| - other non-allowable items                                                                                                                                         |      | 3,071          | 1,150          |
| - foreign tax rate adjustment                                                                                                                                       |      | 1,828          | 1,154          |
| - losses for which no deferred tax asset is recognised                                                                                                              |      | 12,337         | -              |
| - under provision for income tax in prior year                                                                                                                      |      | -              | 214            |
| Weighted average income tax expense                                                                                                                                 |      | 3,808          | 1,651          |
| Weighted average income tax expense is attributable to:                                                                                                             |      |                |                |
| Continuing operations                                                                                                                                               |      | 5,259          | 1,651          |
| Discontinued operations                                                                                                                                             | 5    | (1,451)        | -              |
|                                                                                                                                                                     |      | 3,808          | 1,651          |



**Note 5 – Discontinued Operations**

On 11 June 2010, the Consolidated Group announced its decision to dispose of its rail services entity, South Spur Rail Services Pty Ltd, thereby discontinuing its operations in this business segment.

Financial information relating to the discontinued operation to the date of disposal is set out below.

The financial performance of the discontinued operation to the date of sale which is included in the loss from the discontinued operations per the statement of comprehensive income is as follows:

|                                                                 | 2010<br>\$'000 |
|-----------------------------------------------------------------|----------------|
| Revenue                                                         | 35,652         |
| Other income                                                    | -              |
| Changes in inventories of finished goods and work in progress   | -              |
| Raw materials and consumables used                              | -              |
| Employee benefits expense                                       | (12,778)       |
| Depreciation and amortisation expense                           | (639)          |
| Impairment of property, plant and equipment                     | -              |
| Finance costs                                                   | (225)          |
| Subcontract freight                                             | -              |
| Repairs and maintenance                                         | -              |
| Insurances                                                      | (1,179)        |
| Rent and outgoing                                               | (1,102)        |
| Vehicle expenses                                                | (334)          |
| Fuel                                                            | (183)          |
| Foreign exchange movements                                      | -              |
| Other expenses                                                  | (24,072)       |
| LOSS BEFORE INCOME TAX                                          | (4,860)        |
| Income tax expense                                              | 1,451          |
| LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY               | (3,409)        |
| Loss on sale before income tax                                  | (6,823)        |
| Income tax expense                                              | -              |
| LOSS ON SALE AFTER INCOME TAX                                   | (6,823)        |
| TOTAL LOSS AFTER TAX ATTRIBUTABLE TO THE DISCONTINUED OPERATION | (10,232)       |



## **Note 6 – Key Management Personnel**

### **(a) Directors**

The following persons were directors of Coote Industrial Ltd during the financial year:

| <b>Name</b> | <b>Position</b>                                                    |
|-------------|--------------------------------------------------------------------|
| M Coote     | Managing Director (resigned 22 July 2010)                          |
| D Patterson | Chief Executive Officer/Executive Director (resigned 22 July 2010) |
| G Parrett   | Executive Director (resigned 27 November 2009)                     |
| D Hector    | Non-executive Chairman                                             |

### **(b) Other Key management personnel**

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| <b>Name</b> | <b>Position</b>                                                          |
|-------------|--------------------------------------------------------------------------|
| K Pallas    | Chief Operating Officer                                                  |
| R Stampalia | Company Secretary / Chief Financial Officer (appointed 30 November 2009) |
| M Darwish   | Company Secretary / Chief Financial Officer (resigned 5 October 2009)    |
| R Mathers   | Chief Commercial Officer (appointed 26 October 2009)                     |
| G Parrett   | CEO – Drivetrain Power and Propulsion                                    |
| W Manners   | CEO – Gemco Rail (appointed 12 October 2009)                             |
| S Bassan    | CEO – Gemco Rail (resigned 20 September 2009)                            |
| T Symons    | CEO – South Spur Rail Services (resigned 11 June 2010)                   |
| A Marsh     | CEO – Momentum (resigned 18 Jun 2010)                                    |
| P Swann     | CEO – Convair                                                            |
| P Crosswell | CEO – Industrial Powertrain (resigned 4 August 2010)                     |

### **(c) Key management personnel compensation**

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The totals of remuneration paid to key management personnel during the year are as follows:

|                              | 2010<br>\$'000 | 2009<br>\$'000 |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 3,095          | 3,285*         |
| Post-employment benefits     | 280            | 278            |
| Other long-term benefits     | -              | -              |
| Termination benefits         | 68             | 726            |
| Share-based payments         | -              | -              |
| <b>Total</b>                 | <b>3,443</b>   | <b>4,289</b>   |

\* Remuneration for Mr D Patterson was incorrectly stated in the FY2009 Annual Report and is corrected in this table. There was no consequential effect to reported profits or losses for that period.



**Note 6 – Key Management Personnel (cont'd)****(d) Equity instrument disclosures relating to key management personnel****Options**

The table below details the number of options currently on issue to key management personnel across the Group. No additional share options were issued during this financial year.

| <b>2009</b> | Balance<br>1 July 2008 | Granted as<br>Compensation | Options<br>Lapsed | Balance<br>30 June 2009 | Total<br>Vested<br>30 June 2009 | Total<br>Exercisable<br>30 June 2009 | Total<br>Unexercisable<br>30 June 2009 |
|-------------|------------------------|----------------------------|-------------------|-------------------------|---------------------------------|--------------------------------------|----------------------------------------|
| D Patterson | 2,000,000              | -                          | -                 | 2,000,000               | 2,000,000                       | 2,000,000                            | -                                      |
| P Wilson    | 250,000                | -                          | (250,000)         | -                       | -                               | -                                    | -                                      |
| G Parrett   | 250,000                | -                          | -                 | 250,000                 | 250,000                         | 250,000                              | -                                      |
| D Hector    | 300,000                | -                          | -                 | 300,000                 | 300,000                         | 300,000                              | -                                      |
| M Darwish   | 100,000                | -                          | -                 | 100,000                 | 100,000                         | 100,000                              | -                                      |

| <b>2010</b> | Balance<br>1 July 2009 | Granted as<br>Compensation | Options<br>Lapsed | Balance<br>30 June 2010 | Total<br>Vested<br>30 June 2010 | Total<br>Exercisable<br>30 June 2010 | Total<br>Unexercisable<br>30 June 2010 |
|-------------|------------------------|----------------------------|-------------------|-------------------------|---------------------------------|--------------------------------------|----------------------------------------|
| D Patterson | 2,000,000              | -                          | (2,000,000)       | -                       | -                               | -                                    | -                                      |
| P Wilson    | -                      | -                          | -                 | -                       | -                               | -                                    | -                                      |
| G Parrett   | 250,000                | -                          | (250,000)         | -                       | -                               | -                                    | -                                      |
| D Hector    | 300,000                | -                          | (300,000)         | -                       | -                               | -                                    | -                                      |
| M Darwish   | 100,000                | -                          | (100,000)         | -                       | -                               | -                                    | -                                      |

**(e) Shareholdings**

Number of shares held by Key Management Personnel at 30 June 2010:

| <b>2010</b> | Balance<br>1 July 2009 | Received as<br>compensation | Options<br>exercised | Net change<br>other* | Balance<br>30 June 2010 |
|-------------|------------------------|-----------------------------|----------------------|----------------------|-------------------------|
| M Coote     | 42,811,164             | -                           | -                    | -                    | 42,811,164              |
| D Patterson | 1,757,787              | -                           | -                    | (335,001)            | 1,422,786               |
| G Parrett   | 247,507                | -                           | -                    | (45,853)             | 201,654                 |
| A Marsh     | 230,309                | -                           | -                    | (80,609)             | 149,700                 |
| W Manners   | -                      | -                           | -                    | 62,693               | 62,693                  |
| K Pallas    | 50,000                 | -                           | -                    | -                    | 50,000                  |
| P Swann     | 53,520                 | -                           | -                    | -                    | 53,520                  |
| D Hector    | 55,650                 | -                           | -                    | (19,479)             | 36,171                  |
| M Darwish   | 13,500                 | -                           | -                    | -                    | 13,500                  |
| S Bassan    | 13,500                 | -                           | -                    | (13,500)             | -                       |
| P Crosswell | 11,007                 | -                           | -                    | -                    | 11,007                  |

\* Refers to shares purchased/sold independently during the financial year.

**(f) Other Key Management Personnel transactions**

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with Key Management Personnel, refer to Note 29 – Related Party Transactions.



## Note 7 – Parent Entity Disclosures

|                                   | 2010<br>\$'000  | 2009<br>\$'000 |
|-----------------------------------|-----------------|----------------|
| (a) Financial Position            |                 |                |
| ASSETS                            |                 |                |
| Current assets                    | 4,650           | 947            |
| Non-current assets                | 140,140         | 219,352        |
| <b>TOTAL ASSETS</b>               | <b>144,790</b>  | <b>220,299</b> |
| LIABILITIES                       |                 |                |
| Current liabilities               | 68,083          | 86,423         |
| Non-current liabilities           | 3,539           | 13,026         |
| <b>TOTAL LIABILITIES</b>          | <b>71,622</b>   | <b>99,449</b>  |
| EQUITY                            |                 |                |
| Issued capital                    | 152,808         | 119,222        |
| Reserves:                         |                 |                |
| - Option reserves                 | 192             | 896            |
| Retained profits                  | (79,832)        | 732            |
| <b>TOTAL EQUITY</b>               | <b>73,168</b>   | <b>120,850</b> |
| (b) Financial Performance         |                 |                |
| COMPREHENSIVE INCOME              |                 |                |
| Profit (Loss) for the year        | (89,037)        | 6,827          |
| Other comprehensive income        | -               | -              |
| <b>TOTAL COMPREHENSIVE INCOME</b> | <b>(89,037)</b> | <b>6,827</b>   |

## Note 8 – Auditor's Remuneration

|                                                              | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------------------------------------------------|----------------|----------------|
| Remuneration of the auditor of the parent for:               |                |                |
| - auditing or reviewing the financial report                 | 622            | 572            |
| Remuneration of other auditors of subsidiaries for:          |                |                |
| - auditing or reviewing the financial report of subsidiaries | 44             | 155            |



## Note 9 – Dividends

The Directors have decided not to declare a final dividend.

|                                                                                                                     | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| (a) DECLARED AND PAID                                                                                               |                |                |
| Final fully franked ordinary dividend of nil (2009: nil) cents per share franked at the tax rate of 30% (2009: 30%) | -              | 5,801          |
|                                                                                                                     | -              | 5,801          |
| (b) FRANKING CREDIT BALANCE                                                                                         |                |                |
| <i>The amount of franking credits available for the subsequent financial year are:</i>                              |                |                |
| – Franking account balance as at the end of the financial year at 30% (2009: 30%)                                   | 9,274          | 2,122          |
| – Franking credits that will arise from the payment of income tax payable as at the end of the financial year       | -              | -              |
| – Franking debits that will arise from the payment of dividends as at the end of the financial year                 | -              | -              |
| – Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date    | -              | -              |
| – Franking credits that the entity may be prevented from distributing in the subsequent financial year              | -              | -              |
|                                                                                                                     | 9,274          | 2,122          |

## Note 10 – Earnings Per Share

|                                                                                                          | 2010<br>\$'000 | 2009<br>\$'000 |
|----------------------------------------------------------------------------------------------------------|----------------|----------------|
| (a) RECONCILIATION OF EARNINGS TO PROFIT OR LOSS                                                         |                |                |
| Profit                                                                                                   | (116,996)      | (4,541)        |
| Profit attributable to non-controlling equity interest                                                   | 526            | -              |
| Earnings used to calculate basic EPS                                                                     | (116,470)      | (4,541)        |
| Earnings used in the calculation of dilutive EPS                                                         | (116,470)      | (4,541)        |
| (b) RECONCILIATION OF EARNINGS TO PROFIT OR LOSS FROM CONTINUING OPERATIONS                              |                |                |
| Profit from continuing operations                                                                        | (106,764)      | (4,541)        |
| Profit attributable to non-controlling equity interest in respect of continuing operations               | 526            | -              |
| Earnings used to calculate basic EPS from continuing operations                                          | (106,238)      | (4,541)        |
| Earnings used in the calculation of dilutive EPS from continuing operations                              | (106,238)      | (4,541)        |
| (c) RECONCILIATION OF EARNINGS TO PROFIT OR LOSS FROM DISCONTINUING OPERATIONS                           |                |                |
| Profit from discontinuing operations                                                                     | (10,232)       | -              |
| Profit attributable to non-controlling equity interest from discontinuing operations                     | -              | -              |
| Earnings used to calculate basic EPS from discontinuing operations                                       | (10,232)       | -              |
| Earnings used in the calculation of dilutive EPS from discontinuing operations                           | (10,232)       | -              |
| (d) WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING DURING THE YEAR USED IN CALCULATING BASIC EPS | <b>No.</b>     | <b>No.</b>     |
|                                                                                                          | 199,595        | 117,355        |
| Weighted average number of options outstanding                                                           | 5,062          | 7,400          |
| Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS  | 204,657        | 124,755        |



## Note 11 – Cash and Cash Equivalents

| Note                                                                                                                                     | 2010<br>\$'000 | 2009<br>\$'000 |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| CASH AT BANK AND IN HAND                                                                                                                 | 2,727          | 1,946          |
|                                                                                                                                          | 2,727          | 1,946          |
| RECONCILIATION OF CASH                                                                                                                   |                |                |
| <i>Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:</i> |                |                |
| Cash and cash equivalents                                                                                                                | 2,727          | 1,946          |
| Bank overdrafts                                                                                                                          | (14,350)       | (24,048)       |
|                                                                                                                                          | (11,623)       | (22,102)       |

## Note 12 – Trade and Other Receivables

| Note                                          | 2010<br>\$'000   | 2009<br>\$'000 |
|-----------------------------------------------|------------------|----------------|
| CURRENT                                       |                  |                |
| Trade receivables                             | 39,820           | 131,163        |
| Provision for impairment of receivables       | (b) (70)         | -              |
| Total trade receivables                       | 39,750           | 131,163        |
| Other receivables                             |                  | -              |
| Accrued income                                | 4,350            | 18,496         |
| Fuel rebate receivables                       | 324              | 361            |
| Total other receivables                       | 4,674            | 18,857         |
| TOTAL CURRENT TRADE AND OTHER RECEIVABLES     | 44,424           | 150,020        |
| NON-CURRENT                                   |                  |                |
| Amounts receivable from:                      |                  |                |
| - Wholly-owned entities                       | -                | -              |
| - External parties                            | -                | 918            |
| - Key management personnel                    | (a), 28(d) 2,255 | 2,255          |
| TOTAL NON-CURRENT TRADE AND OTHER RECEIVABLES | 2,255            | 3,173          |

### (a) Key management personnel

|      | Balance at<br>Beginning<br>of Year<br>\$'000 | Interest<br>Charged<br>\$'000 | Interest<br>Not Charged<br>\$'000 | Provision for<br>Impairment<br>\$'000 | Balance at<br>End<br>of Year<br>\$'000 | Number of<br>Individuals |
|------|----------------------------------------------|-------------------------------|-----------------------------------|---------------------------------------|----------------------------------------|--------------------------|
| 2010 | 2,255                                        | -                             | 135                               | -                                     | 2,255                                  | 5                        |
| 2009 | 2,255                                        | -                             | 180                               | -                                     | 2,255                                  | 5                        |

### Individuals with loans above \$100,000 in reporting period:

|             | Balance at<br>Beginning<br>of Year<br>\$'000 | Interest<br>Charged<br>\$'000 | Interest Not<br>Charged<br>\$'000 | Provision for<br>Impairment<br>\$'000 | Balance at<br>End<br>of Year<br>\$'000 | Highest<br>Balance<br>During Period<br>\$'000 |
|-------------|----------------------------------------------|-------------------------------|-----------------------------------|---------------------------------------|----------------------------------------|-----------------------------------------------|
| D Patterson | 1743                                         | -                             | 105                               | -                                     | 1,743                                  | 1,743                                         |
| G Parrett   | 206                                          | -                             | 12                                | -                                     | 206                                    | 206                                           |
| K Pallas    | 102                                          | -                             | 6                                 | -                                     | 102                                    | 102                                           |
| J Hickey    | 102                                          | -                             | 6                                 | -                                     | 102                                    | 102                                           |
| A Butters   | 102                                          | -                             | 6                                 | -                                     | 102                                    | 102                                           |

All amounts advanced to employees and directors are secured interest free limited recourse loans for the purchase of shares in Coote Industrial.





**Note 12 – Trade and Other Receivables (cont'd)**

The amounts shown for interest not charged in the tables above represent the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's length basis.

**(b) Provision for impairment of receivables**

Current trade and term receivables are non-interest bearing loans and generally on 30 day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

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

|                                | Opening<br>Balance<br>1 Jul 08<br>\$'000 | Charge<br>for the<br>Year<br>\$'000 | Amounts<br>Written<br>Off<br>\$'000 | Closing<br>Balance<br>30 Jun 09<br>\$'000 |
|--------------------------------|------------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------------|
| <b>2009</b>                    |                                          |                                     |                                     |                                           |
| (i) Current trade receivables  | (222)                                    | -                                   | 111                                 | (111)                                     |
|                                | (222)                                    | -                                   | 111                                 | (111)                                     |
|                                |                                          |                                     |                                     |                                           |
|                                | Opening<br>Balance<br>1 Jul 09<br>\$'000 | Charge<br>for the<br>Year<br>\$'000 | Amounts<br>Written<br>Off<br>\$'000 | Closing<br>Balance<br>30 Jun 10<br>\$'000 |
| <b>2010</b>                    |                                          |                                     |                                     |                                           |
| (ii) Current trade receivables | (111)                                    | (60)                                | 101                                 | (70)                                      |
|                                | (111)                                    | (60)                                | 101                                 | (70)                                      |

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

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

|                            | Gross<br>Amount<br>\$'000 | Past Due<br>and<br>Impaired<br>\$'000 | Past due but not impaired |                        |                        |                     | Within<br>initial trade<br>terms<br>\$'000 |
|----------------------------|---------------------------|---------------------------------------|---------------------------|------------------------|------------------------|---------------------|--------------------------------------------|
|                            |                           |                                       | < 30 days<br>\$'000       | 31 – 60 days<br>\$'000 | 61 – 90 days<br>\$'000 | > 90 days<br>\$'000 |                                            |
| <b>2010</b>                |                           |                                       |                           |                        |                        |                     |                                            |
| Trade and term receivables | 39,820                    | 70                                    | 18,587                    | 4,113                  | 3,582                  | 1,929               | 11,539                                     |
| Other receivables          | 4,674                     | -                                     | 4,350                     | -                      | -                      | -                   | 324                                        |
| Total                      | 44,494                    | 70                                    | 22,937                    | 4,113                  | 3,582                  | 1,929               | 11,863                                     |
| <b>2009</b>                |                           |                                       |                           |                        |                        |                     |                                            |
| Trade and term receivables | 131,274                   | 111                                   | 10,747                    | 2,218                  | 1,589                  | 66,674              | 49,935                                     |
| Other receivables          | 18,857                    | -                                     | 18,496                    | -                      | -                      | -                   | 361                                        |
| Total                      | 150,131                   | 111                                   | 29,243                    | 2,218                  | 1,589                  | 66,674              | 50,296                                     |

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

Trade and term receivables in 2009 included a gross amount of \$82.7 million owed by Greentrains Ltd in relation to the purchase of rail rollingstock, which was subsequently settled in July 2009.



## Note 13 – Inventories

|                                 | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------|----------------|----------------|
| <b>CURRENT</b>                  |                |                |
| <i>At cost:</i>                 |                |                |
| - Raw materials and stores      | 1,132          | 516            |
| - Work in progress              | 5,543          | 19,973         |
| - Finished goods                | 37,565         | 31,282         |
|                                 | <u>44,240</u>  | <u>51,771</u>  |
| <i>At net realisable value:</i> |                |                |
| - Finished goods                | 511            | -              |
|                                 | <u>511</u>     | <u>-</u>       |
|                                 | <u>44,751</u>  | <u>51,771</u>  |
| <b>NON CURRENT</b>              |                |                |
| <i>At cost:</i>                 |                |                |
| - Work in progress              | 3,095          | 17,608         |
|                                 | <u>3,095</u>   | <u>17,608</u>  |
| <i>At net realisable value:</i> |                |                |
| - Finished goods                | 2,826          | -              |
|                                 | <u>2,826</u>   | <u>-</u>       |
|                                 | <u>5,921</u>   | <u>17,608</u>  |

## Note 14 – Financial Assets

|                                           | 2010<br>\$'000 | 2009<br>\$'000 |
|-------------------------------------------|----------------|----------------|
| <b>NON CURRENT</b>                        |                |                |
| <i>Available for sale:</i>                |                |                |
| - Shares in listed companies              | 147            | 118            |
| - Loans receivable                        | 10             | 9              |
| Total available-for-sale financial assets | <u>157</u>     | <u>127</u>     |
| Total financial assets                    | <u>157</u>     | <u>127</u>     |



## Note 15 – Controlled Entities

| Note: Subsidiaries are indented beneath their parent entity            | Country of Incorporation | Date of Control | Percentage Owned 2010 | Percentage Owned 2009 |
|------------------------------------------------------------------------|--------------------------|-----------------|-----------------------|-----------------------|
| Coote Industrial Ltd                                                   | Australia                |                 |                       |                       |
| ▪ Convair Engineering Pty Ltd                                          | Australia                | 1 Jul 06        | 100                   | 100                   |
| ▪ Coote Logistics Pty Ltd                                              | Australia                | 1 Jul 06        | 100                   | 100                   |
| • Asset Kinetics Pty Ltd                                               | Australia                | 1 Jul 06        | 100                   | 100                   |
| • FCD Logistics Pty LTD atf Fremantle Container Depot(1996) Unit Trust | Australia                | 1 Jul 07        | 100                   | 100                   |
| ▪ Coote Investments Pty Ltd                                            | Australia                | 18 Apr 07       | 100                   | 100                   |
| • Australian Rail Mining Services Pty Ltd                              | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Centre for Excellence in Rail Training Pty Ltd                       | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Midland Railway Company Pty Ltd                                      | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Momentum Rail (VIC) Pty Ltd                                          | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Momentum Rail (WA) Pty Ltd                                           | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Southern Rail Engineering Pty Ltd                                    | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Southern Rail Engineering (NSW) Pty Ltd                              | Australia                | 30 Apr 07       | 100                   | 100                   |
| • Sydney Railway Company Pty Ltd                                       | Australia                | 30 Apr 07       | 100                   | 100                   |
| ▪ Drivetrain Australia Pty Ltd                                         | Australia                | 1 Jul 06        | 100                   | 100                   |
| • Drivetrain Philippines Inc                                           | Philippines              | 1 Jul 07        | 100                   | 100                   |
| • Drivetrain Singapore Pte Ltd                                         | Singapore                | 1 Jul 07        | 100                   | 100                   |
| • Drivetrain Limited                                                   | New Zealand              | 1 Jul 07        | 100                   | 100                   |
| • Drivetrain USA Inc                                                   | USA                      | 31 Dec 08       | 100                   | 100                   |
| * Hyradix Inc                                                          | USA                      | 31 Dec 08       | 100                   | 100                   |
| * Eden Cryogenics LLC                                                  | USA                      | 31 Dec 08       | 100                   | 100                   |
| ▪ Drivetrain Power and Propulsion Pty Ltd                              | Australia                | 1 Jul 06        | 100                   | 100                   |
| • Hedemora Investments AB                                              | Sweden                   | 1 Jul 06        | 100                   | 100                   |
| * Hedemora Diesel AB                                                   | Sweden                   | 1 Jul 06        | 100                   | 100                   |
| ▪ Gemco Rail Pty Ltd                                                   | Australia                | 1 Jul 07        | 100                   | 100                   |
| • Railway Bearings Refurbishment Services Pty Ltd                      | Australia                | 1 Jul 07        | 100                   | 100                   |
| • New RTS Pty Ltd                                                      | Australia                | 3 Dec 08        | 100                   | 100                   |
| ▪ Greentrains Ltd                                                      | Australia                | 17 Jul 09       | 81                    | 0                     |
| • Greentrains Leasing Pty Ltd <sup>1</sup>                             | Australia                | 18 Jun 08       | 81                    | 100                   |
| ▪ Hedemora Pty Ltd                                                     | Australia                | 1 Jul 06        | 100                   | 100                   |
| ▪ Industrial Powertrain Pty Ltd                                        | Australia                | 1 Jul 07        | 100                   | 100                   |
| • P C Diesel Pty Ltd                                                   | Australia                | 1 Jul 06        | 100                   | 100                   |
| ▪ South Spur Rail Services Pty Ltd                                     | Australia                | 30 Apr 07       | 0                     | 100                   |
| ▪ Total Momentum Pty Ltd                                               | Australia                | 30 Apr 07       | 100                   | 100                   |

1 Formerly known as Gemco Leasing Pty Ltd and owned by Gemco Rail Pty Ltd during FY2009.



## Note 16 – Property, Plant and Equipment

|                                            | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------------------------------|----------------|----------------|
| <b>LAND AND BUILDINGS</b>                  |                |                |
| Freehold land:                             |                |                |
| - at cost                                  | 53             | 53             |
| Total Land                                 | 53             | 53             |
| Buildings:                                 |                |                |
| - at cost                                  | 739            | 739            |
| - Less accumulated depreciation            | (455)          | (454)          |
| Total Buildings                            | 284            | 285            |
| <b>TOTAL LAND AND BUILDINGS</b>            | <b>337</b>     | <b>338</b>     |
| <b>PLANT AND EQUIPMENT</b>                 |                |                |
| Plant and equipment:                       |                |                |
| - At cost                                  | 103,168        | 38,679         |
| - Accumulated depreciation                 | (26,025)       | (17,002)       |
| - Accumulated impairment losses            | (3,191)        | -              |
| Total plant and equipment                  | 73,952         | 21,677         |
| Leasehold improvements:                    |                |                |
| - At cost                                  | 3,302          | 3,408          |
| - Accumulated amortisation                 | (1,075)        | (892)          |
| - Accumulated impairment losses            | (17)           | -              |
| Total Leasehold Improvements               | 2,210          | 2,516          |
| Leased plant and equipment:                |                |                |
| - Capitalised leased assets                | 19,268         | 28,412         |
| - Accumulated depreciation                 | (4,166)        | (5,759)        |
| - Accumulated impairment losses            | (9,142)        | (860)          |
| Total Leased plant and equipment           | 5,960          | 21,793         |
| <b>TOTAL PLANT AND EQUIPMENT</b>           | <b>82,122</b>  | <b>45,986</b>  |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b> | <b>82,459</b>  | <b>46,324</b>  |



**Note 16 – Property, Plant and Equipment (cont'd)****(a) Movements in Carrying Amounts**

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

|                                              | Freehold<br>Land<br>\$'000 | Buildings<br>\$'000 | Leasehold<br>Improvements<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Leased<br>Plant and<br>Equipment<br>\$'000 | Total<br>\$'000 |
|----------------------------------------------|----------------------------|---------------------|-------------------------------------|----------------------------------|--------------------------------------------|-----------------|
| BALANCE AT 1 JULY 2008                       | 53                         | 282                 | 2,374                               | 19,757                           | 12,206                                     | 34,672          |
| Additions                                    | -                          | 4                   | 586                                 | 4,883                            | 15,485                                     | 20,958          |
| Disposals                                    | -                          | -                   | (53)                                | (861)                            | (2,373)                                    | (3,287)         |
| Additions through acquisition of entity      | -                          | -                   | -                                   | 2,392                            | -                                          | 2,392           |
| Revaluation increments/ (decrements)         | -                          | -                   | -                                   | -                                | (860)                                      | (860)           |
| Depreciation expense                         | -                          | (1)                 | (391)                               | (4,494)                          | (2,665)                                    | (7,551)         |
| Capitalised borrowing costs and depreciation | -                          | -                   | -                                   | -                                | -                                          | -               |
| BALANCE AT 1 JULY 2009                       | 53                         | 285                 | 2,516                               | 21,677                           | 21,793                                     | 46,324          |
| Additions                                    | -                          | -                   | 1,120                               | 6,019                            | 244                                        | 7,383           |
| Disposals                                    | -                          | -                   | (1,070)                             | (11,777)                         | (5,541)                                    | (18,388)        |
| Additions through acquisition of entity      | -                          | -                   | -                                   | 73,116                           | -                                          | 73,116          |
| Revaluation increments/ (decrements)         | -                          | -                   | (17)                                | (3,192)                          | (8,282)                                    | (11,491)        |
| Depreciation expense                         | -                          | (1)                 | (276)                               | (9,496)                          | (2,034)                                    | (11,807)        |
| Capitalised borrowing costs and depreciation | -                          | -                   | -                                   | -                                | -                                          | -               |
| Disposals of assets on sale of subsidiary    | -                          | -                   | (63)                                | (2,395)                          | (220)                                      | (2,678)         |
| BALANCE AT 30 JUNE 2010                      | 53                         | 284                 | 2,210                               | 73,952                           | 5,960                                      | 82,459          |

**(b) Impairment Losses**

A total impairment loss for property, plant and equipment of \$11.5 million was recognised in the statement of comprehensive income. The majority of this loss was related to locomotives which were revalued by comparison with market values for similar equipment of a similar age and reference to external valuations where applicable.



## Note 17 – Intangible Assets

|                                                      | 2010<br>\$'000 | 2009<br>\$'000 |
|------------------------------------------------------|----------------|----------------|
| <b>GOODWILL</b>                                      |                |                |
| Cost:                                                |                |                |
| Opening balance                                      | 86,525         | 80,841         |
| Additional costs on previously acquired subsidiaries | 1,080          | -              |
| Divestment through subsidiaries sold                 | (4,958)        | -              |
| Acquisition through subsidiaries acquired            | 660            | 5,684          |
| Closing balance                                      | 83,307         | 86,525         |
| Accumulated amortisation:                            |                |                |
| Opening balance                                      | (1,806)        | (436)          |
| Impairment for the year                              | (44,224)       | (1,370)        |
| Closing balance                                      | (46,030)       | (1,806)        |
| Net book value                                       | 37,277         | 84,719         |
| <b>CUSTOMER RELATED INTANGIBLES</b>                  |                |                |
| Cost:                                                |                |                |
| Opening balance                                      | 15,614         | 14,493         |
| Additions                                            | 1              | -              |
| Acquisitions through subsidiaries acquired           | (1,121)        | 1,121          |
| Closing balance                                      | 14,494         | 15,614         |
| Accumulated amortisation:                            |                |                |
| Opening balance                                      | (2,917)        | (1,383)        |
| Amortisation for the year                            | (1,534)        | (1,534)        |
| Closing balance                                      | (4,451)        | (2,917)        |
| Net book value                                       | 10,043         | 12,697         |
| <b>PATENTS AND TRADEMARKS</b>                        |                |                |
| Cost:                                                |                |                |
| Opening balance                                      | 1,227          | -              |
| Additions                                            | -              | -              |
| Acquisitions through subsidiaries acquired           | -              | 1,227          |
| Foreign exchange movement                            | -              | -              |
| Closing balance                                      | 1,227          | 1,227          |
| Accumulated amortisation:                            |                |                |
| Opening balance                                      | -              | -              |
| Amortisation for the year                            | (357)          | -              |
| Closing balance                                      | (357)          | -              |
| Net book value                                       | 870            | 1,227          |
| <b>OTHER IDENTIFIABLE INTANGIBLES</b>                |                |                |
| Cost:                                                |                |                |
| Opening balance                                      | 4,105          | -              |
| Additions                                            | -              | -              |
| Acquisitions through subsidiaries acquired           | -              | 4,105          |
| Closing balance                                      | 4,105          | 4,105          |
| <b>TOTAL INTANGIBLE ASSETS</b>                       |                |                |
| At cost                                              | 103,133        | 107,471        |
| Accumulated amortisation                             | (4,808)        | (2,917)        |
| Impairment                                           | (46,030)       | (1,806)        |
| Net book value                                       | 52,295         | 102,748        |

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the income statement. Goodwill has an infinite useful life.



**Note 17 – Intangible Assets (cont'd)****(a) Impairment Disclosures**

Impairment of goodwill for the financial year was \$44.2 million.

Cash flow forecast models used to estimate business carrying values were assessed at the end of the reporting period using value-in-use calculations. Contributing factors leading to write-down of goodwill across a number of businesses included actual performance over the full year and, partially offset by forecast future results.

Major components of the goodwill write-down were attributable to the following cash generating units: Gemco (\$24.4 million), FCD (\$13.1 million), Industrial Powertrain (\$3.3 million), Convair (\$0.8 million) and Momentum (\$2.6 million).

**(b) Impairment Tests for Cash Generating Units containing Goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's key businesses which represent the lowest level within the Group at which goodwill is monitored for internal management purposes as follows:

|                                      | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------------------------|----------------|----------------|
| GOODWILL                             |                |                |
| Convair                              | 1,889          | 2,720          |
| Drivetrain                           | 18,316         | 18,316         |
| Drivetrain USA                       | 1,005          | -              |
| Gemco Rail                           | 3,813          | 28,245         |
| Greentrains                          | 660            | -              |
| Industrial Powertrain                | 469            | 3,821          |
| Momentum                             | 11,125         | 13,573         |
| South Spur Logistics (including FCD) | -              | 18,044         |
| TOTAL GOODWILL                       | 37,277         | 84,719         |

The recoverable amount of the cash generating unit is based on value in use calculations. The calculations use cash flow projections based largely on historical performance and the following year's budget and plan, extended over a period of 5 years using a growth factor relevant to the sector and business plan. A pre-tax discount rate is applied adjusted for the risk of the industry in which each unit operates.

**(c) Key Assumptions used for Value-In-Use Calculations**

A growth rate of between 0% and 1% has been applied to extrapolate cash flows.

A pre-tax discount rate of 20.0% has been applied to discount the forecast future attributable pre-tax cash flows. The discount rate reflects specific risks relating to the relevant cash generating units in their country of operation.

In cases where the recoverable amount of each cash-generating unit did not exceed the carrying amount of the gross assets of that unit, the amount of the shortfall represented the magnitude of the goodwill write-down for that cash-generating unit.

**(d) Sensitivity Analysis**

With respect to cash flow projections, growth rates of between 0% and 1% have been factored into valuation models for the next five years on the basis of management's expectations of market growth and the Group's ability to capture market share from competitors. Based on sensitivities to the resulting EBIT projections, the following table represents potential incremental impairment of goodwill, based on 5% and 10% reductions to projected EBIT.

| Cash Generating Unit | Goodwill Impairment |                  |
|----------------------|---------------------|------------------|
|                      | -5 % EBIT<br>\$     | -10 % EBIT<br>\$ |
| Convair              | 202,080             | 404,161          |
| Drivetrain           | 0                   | 0                |
| Gemco                | 1,467,268           | 2,934,535        |
| IPT                  | 105,695             | 211,391          |
| Momentum             | 573,687             | 1,147,374        |
| Total                | 2,348,730           | 4,697,460        |



## Note 18 – Other Assets

|                      | 2010<br>\$'000 | 2009<br>\$'000 |
|----------------------|----------------|----------------|
| CURRENT              |                |                |
| Other Current Assets | 791            | 517            |
| Prepayments          | 1,568          | 1,481          |
|                      | <u>2,359</u>   | <u>1,998</u>   |

## Note 19 – Trade and Other Payables

|                                      | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------------------------|----------------|----------------|
| CURRENT                              |                |                |
| Unsecured liabilities:               |                |                |
| Trade payables                       | 38,327         | 50,776         |
| Australian Taxation Office payables  | 15,592         | 16,991         |
| Sundry payables and accrued expenses | 9              | 4,885          |
| Deferred Income                      | 2,453          | -              |
|                                      | <u>56,381</u>  | <u>72,652</u>  |

## Note 20 – Financial Liabilities

|                             | Note  | 2010<br>\$'000 | 2009<br>\$'000 |
|-----------------------------|-------|----------------|----------------|
| CURRENT                     |       |                |                |
| <i>Secured liabilities:</i> |       |                |                |
| Bank overdrafts             | 11    | 14,350         | 24,048         |
| Lease liability             |       | 3,160          | 5,788          |
| Other loans                 |       | 21             | 2              |
| Loans from related parties  | 29(e) | 14,992         | -              |
| Bank loans                  |       | 48,547         | 99,120         |
|                             |       | <u>81,070</u>  | <u>128,958</u> |
| NON-CURRENT                 |       |                |                |
| <i>Secured liabilities:</i> |       |                |                |
| Bank loans                  |       | 26,711         | 6,628          |
| Other loans                 |       | 35             | -              |
| Lease liability             |       | 5,367          | 13,698         |
|                             |       | <u>32,113</u>  | <u>20,326</u>  |

### (a) Total current and non-current secured liabilities

|                            | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|----------------------------|------|----------------|----------------|
| Bank overdraft             |      | 14,350         | 24,048         |
| Bank loan                  |      | 75,258         | 105,748        |
| Other loans                |      | 56             | 2              |
| Loans from related parties |      | 14,992         | -              |
| Lease liability            | 24   | 8,527          | 19,486         |
|                            |      | <u>113,183</u> | <u>149,284</u> |





**Note 20 – Financial Liabilities (cont'd)****(b) Collateral provided**

The bank debt is secured by first registered fixed and floating charges over assets owned by Coote Industrial Limited and other Group members.

Financial covenants imposed by the bank are:

- i. minimum net worth of \$100 million;
- ii. annual leverage of less than 3.5 times (total leverage of the Group less cash, divided by the annual EBITDA of the Group); and
- iii. net annual interest cover of greater than 3 times (annual EBITDA of the Group divided by, the Group's annual interest cost less interest income).

Lease liabilities are secured by underlying leased assets.

**(c) Loan facilities**

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

|                           | 2010   | 2009    | Maturity Dates | Interest Basis |
|---------------------------|--------|---------|----------------|----------------|
| Cash advance facility     | 40,500 | 73,000  | Feb 11         | Floating       |
| Equipment loan facility * | -      | 24,175  | Jul 09         | Fixed          |
| Swedish loan facility     | 6,540  | 8,573   | Feb 12         | Floating       |
| Greentrains loan facility | 28,218 | -       | July 12        | Floating       |
|                           | 75,258 | 105,748 |                |                |

\* The equipment loan was repaid on 17 July 2009.

The Greentrains loan facility is a Cash Advance Facility obtained from the Commonwealth Bank of Australia for the purpose of acquiring Tranche 1 rollingstock from Gemco Rail Pty Limited. The facility of \$34 million was drawn down on 17 July 2009 and is a three year facility amortising at \$1,362,500 per quarter. Further, the facility is secured by a fixed and floating charge over the Tranche 1 rollingstock referred to above.



## Note 21 – Tax

|                    | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------|----------------|----------------|
| CURRENT            |                |                |
| Income tax payable | 2,860          | 9,290          |
| Total              | 2,860          | 9,290          |

|                                   | Opening<br>Balance<br>\$'000 | Balance<br>Acquired<br>\$'000 | Charged to<br>Income<br>\$'000 | Charged<br>directly to<br>Equity<br>\$'000 | Changes in<br>Tax rate<br>\$'000 | Exchange<br>Differences<br>\$'000 | Closing<br>Balance<br>\$'000 |
|-----------------------------------|------------------------------|-------------------------------|--------------------------------|--------------------------------------------|----------------------------------|-----------------------------------|------------------------------|
| <b>NON-CURRENT</b>                |                              |                               |                                |                                            |                                  |                                   |                              |
| <i>Deferred tax liability</i>     |                              |                               |                                |                                            |                                  |                                   |                              |
| Other                             | 288                          | -                             | 1,642                          | -                                          | -                                | -                                 | 1,930                        |
| Balance at 30 June 2009           | 288                          | -                             | 1,642                          | -                                          | -                                | -                                 | 1,930                        |
| Other                             | 1,930                        | 763                           | 1,618                          | -                                          | -                                | -                                 | 4,311                        |
| Balance at 30 June 2010           | 1,930                        | 763                           | 1,618                          | -                                          | -                                | -                                 | 4,311                        |
| <i>Deferred tax assets</i>        |                              |                               |                                |                                            |                                  |                                   |                              |
| Provisions                        | 1,591                        | -                             | 705                            | -                                          | -                                | -                                 | 2,296                        |
| Transaction costs on equity issue | 754                          | -                             | -                              | (209)                                      | -                                | -                                 | 545                          |
| Losses                            | 470                          | -                             | 216                            | -                                          | -                                | -                                 | 686                          |
| Other                             | 377                          | -                             | 63                             | -                                          | -                                | -                                 | 440                          |
| Balance at 30 June 2009           | 3,192                        | -                             | 984                            | (209)                                      | -                                | -                                 | 3,967                        |
| Provisions                        | 2,296                        | 1,160                         | (585)                          | -                                          | -                                | -                                 | 2,871                        |
| Transaction costs on equity issue | 545                          | -                             | -                              | 179                                        | -                                | -                                 | 724                          |
| Losses                            | 686                          | -                             | 177                            | -                                          | -                                | -                                 | 863                          |
| Other                             | 440                          | -                             | 17                             | -                                          | -                                | -                                 | 457                          |
| Balance at 30 June 2010           | 3,967                        | 1,160                         | (391)                          | 179                                        | -                                | -                                 | 4,915                        |

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:

- tax losses: operating losses \$15.4 million (2009: Nil)
- tax losses: capital losses \$6.8 million (2009: Nil)

The ability to utilise these losses in future periods will be subject to satisfying relevant eligibility criteria for the recoupment of carry forward tax losses.



**Note 22 – Provisions**

|                                                     | Long Service<br>Leave<br>Employee<br>Benefits<br>\$'000 | Annual Leave<br>Employee<br>Benefits<br>\$'000 | Other<br>\$'000 | Total<br>\$'000 |
|-----------------------------------------------------|---------------------------------------------------------|------------------------------------------------|-----------------|-----------------|
| OPENING BALANCE AT 1 July 2009                      | 1,934                                                   | 5,118                                          | 4,843           | 11,895          |
| Additional provisions                               | 635                                                     | 4,537                                          | 2,976           | 8,148           |
| Amounts used                                        | (355)                                                   | (4,743)                                        | (1,983)         | (7,081)         |
| Decrease in provisions from divestment of entity    | (264)                                                   | (801)                                          | -               | (1,065)         |
| Additional provisions through acquisition of entity | -                                                       | -                                              | -               | -               |
| BALANCE AT 30 JUNE 2010                             | 1,950                                                   | 4,111                                          | 5,836           | 11,897          |

|                                     | 2010<br>\$'000 | 2009<br>\$'000 |
|-------------------------------------|----------------|----------------|
| <b>Analysis of Total Provisions</b> |                |                |
| Current                             | 9,947          | 9,961          |
| Non-current                         | 1,950          | 1,934          |
|                                     | 11,897         | 11,895         |

**Turbomeca Provision**

A provision of \$4.7 million recognised in FY2009 for the balance of the purchase price payable to the previous owner of Turbomeca has subsequently been reduced during FY2010 by a payment of \$1.9 million on achieving a targeted level of sales. At balance date the provision for the balance payable has been provided on the expectation of meeting future sales targets.

**Future Lease Obligations**

A provision of \$0.7 million has been recognised for future lease obligations in respect to discontinued use of storage and handling facilities formerly utilised by the Coote Logistics operating segment.

**Site Restoration Provision**

A provision of \$1.4 million has been recognised for future costs in meeting property restoration obligations under the lease agreement supporting the Coote Logistics operating segment.

**Provision for Long-term Employee Benefits**

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 – Statement of Significant Accounting Policies.



## Note 23 – Issued Capital

|                                                                              | 2010<br>\$'000 | 2009<br>\$'000 |
|------------------------------------------------------------------------------|----------------|----------------|
| 266,438,788 (2009: 123,075,146) fully paid ordinary shares with no par value | 152,808        | 119,222        |
|                                                                              | 152,808        | 119,222        |

### (a) Ordinary Shares

|                                  | No.         | No.         |
|----------------------------------|-------------|-------------|
| At beginning of reporting period | 123,075,146 | 116,025,252 |
| Shares issued during year        |             |             |
| 2009: 31 Oct 08                  |             | 449,894     |
| 2009: 6 May 09                   |             | 6,600,000   |
| 2010: 24 Nov 09                  | 115,384,615 |             |
| 2010: 9 Dec 09                   | 23,328,894  |             |
| 2010: 29 Dec 09                  | 4,650,133   |             |
| At reporting date                | 266,438,788 | 123,075,146 |

| Date      | No.         | Price  | Description                                                                          |
|-----------|-------------|--------|--------------------------------------------------------------------------------------|
| 24 Nov 09 | 115,384,615 | \$0.26 | Shares issued as part of capital raising to sophisticated investors                  |
| 9 Dec 09  | 23,328,894  | \$0.17 | Conversion of convertible notes held by Elph Pty Ltd into fully paid ordinary shares |
| 29 Dec 09 | 4,650,133   | \$0.26 | Shares issued as part of capital raising to existing retail shareholders             |

All of these shares were eligible to participate in dividends from the date of issue.

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

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

### (b) Options

At 30 June 2010 3,000,000 (2009: 7,150,000) options were on issue. 4,150,000 options lapsed during this financial year. Further details of the options currently on issue can be found in Note 27 – Share Based Payments.

### (c) Capital Management

The Group's debt and capital includes ordinary shares and financial liabilities. The gearing ratios for the year ended 30 June 2010 are as follows:

|                  | 2010<br>\$'000 | 2009<br>\$'000 |
|------------------|----------------|----------------|
| Total Borrowings | 113,183        | 149,284        |
| Net Debt         | 110,456        | 147,338        |
| Total Equity     | 53,631         | 134,631        |
| Total Capital    | 164,087        | 281,969        |
| Gearing Ratio    | 206%           | 109%           |

Subsequent to the reporting date, \$42.6 million was raised through a rights issue which was concluded on 14 July 2010. The proceeds of the rights issue were primarily used to provide working capital, meet outstanding tax liabilities, and settle \$15 million of debt to Elph relating to the Greentrains put option and a subordinated loan. Further details of liquidity risk management can be found at Note 30 – Financial Risk Management paragraph (b).



**Note 24 – Capital and Leasing Commitments**

|                                                                                                 | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|-------------------------------------------------------------------------------------------------|------|----------------|----------------|
| (a) FINANCE LEASE COMMITMENTS                                                                   |      |                |                |
| Payable – minimum lease payments:                                                               |      |                |                |
| - not later than 12 months                                                                      |      | 3,777          | 7,187          |
| - between 12 months and 5 years                                                                 |      | 4,928          | 11,781         |
| - greater than 5 years                                                                          |      | 1,440          | 2,563          |
| Minimum lease payments                                                                          |      | 10,145         | 21,531         |
| Future finance charges                                                                          |      | (1,618)        | (2,045)        |
| Present value of minimum lease payments                                                         | 20   | 8,527          | 19,486         |
| (b) OPERATING LEASE COMMITMENTS                                                                 |      |                |                |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements |      |                |                |
| Payable – minimum lease payments                                                                |      |                |                |
| - not later than 12 months                                                                      |      | 6,206          | 6,283          |
| - between 12 months and 5 years                                                                 |      | 14,696         | 16,702         |
| - greater than 5 years                                                                          |      | 2,987          | 4,768          |
|                                                                                                 |      | 23,889         | 27,753         |

**Note 25 – Operating Segments****Segment Information***Identification of Reportable Segments*

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

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

*Types of Products and Services by Segment*

The chief operating decision makers consider the business from a Business Line perspective and have identified seven (7) reportable segments as follows:

## (a) Convair

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

## (b) Drivetrain Power and Propulsion

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

## (c) Gemco

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



## Note 25 – Operating Segments (cont'd)

### (d) Industrial Powertrain

Industrial Powertrain specialises in the repair and overhaul of powertrain and drive-line equipment for heavy industrial vehicles used in surface and underground mining, materials handling, and agricultural applications. This business is also the approved sales and service centre for EMD marine and stationary power generation in Australia, South East Asia and Pacific Island territories.

### (e) Momentum

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

### (f) Coote Logistics

Coote Logistics provides specialised road transportation and port logistics services, primarily for mine-site inputs and outputs, agricultural and industrial equipment. The business also provides customs accredited inspection and quarantine facilities, storage and redistribution of both containerised and bulk freight services, and road freight transportation services.

### (g) Coote Investments

This segment comprises miscellaneous investments and shareholdings.

## *Basis of Accounting for Purposes of Reporting by Operating Segments*

### (a) Accounting policies adopted

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

### (b) Inter-segment transactions

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

### (c) Segment assets

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

### (d) Segment liabilities

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

### (e) Unallocated items

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

- Finance costs
- Depreciation and amortisation (Corporate)
- Goodwill impairment
- Other Corporate overheads
- Deferred tax assets and liabilities
- Other Corporate assets and liabilities

### (f) Comparative information

This is the first reporting period in which AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this standard.



## Note 25 – Operating Segments (cont'd)

## (i) Segment Performance

## Year ended 30 June 2010

| Primary Reporting:<br>Business Segments                                        | Drivetrain<br>Power &<br>Propulsion<br>\$'000 | Industrial<br>Powertrain<br>\$'000 | Convair<br>\$'000 | Coote<br>Logistics<br>\$'000 | Momentum<br>\$'000 | Gemco<br>Rail<br>\$'000 | Coote<br>Investments<br>\$'000 | Consol.<br>Group<br>\$'000 |
|--------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------|-------------------|------------------------------|--------------------|-------------------------|--------------------------------|----------------------------|
| <b>REVENUE</b>                                                                 |                                               |                                    |                   |                              |                    |                         |                                |                            |
| External sales                                                                 | 90,484                                        | 10,168                             | 8,552             | 12,676                       | 23,402             | 38,228                  | 4,845                          | 188,355                    |
| Inter-segment sales                                                            | 2,497                                         | 25                                 | -                 | 454                          | 672                | 10,719                  | 108                            | 14,475                     |
| Interest revenue                                                               | 29                                            | -                                  | 4                 | -                            | -                  | 291                     | -                              | 324                        |
| <b>TOTAL SEGMENT REVENUE</b>                                                   | <b>93,010</b>                                 | <b>10,193</b>                      | <b>8,556</b>      | <b>13,130</b>                | <b>24,074</b>      | <b>49,238</b>           | <b>4,953</b>                   | <b>203,154</b>             |
| <i>Reconciliation of segment revenue to Group revenue:</i>                     |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Inter-segment elimination                                                      |                                               |                                    |                   |                              |                    |                         |                                | (14,475)                   |
| <b>TOTAL GROUP REVENUE</b>                                                     |                                               |                                    |                   |                              |                    |                         |                                | <b>188,679</b>             |
| <b>RESULT</b>                                                                  |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Segment net profit/(loss) before tax                                           | 4,961                                         | 3,567                              | 877               | (10,641)                     | 2,131              | (10,098)                | 107                            | (9,096)                    |
| <i>Reconciliation of segment result to Group net profit/(loss) before tax:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| <i>Amounts not included in segment result but reviewed by Board:</i>           |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Depreciation and amortisation                                                  | (2,403)                                       | (173)                              | (103)             | (1,279)                      | (557)              | (6,161)                 | (203)                          | (10,879)                   |
| Impairment of property, plant and equipment                                    | 860                                           | -                                  | -                 | (460)                        | -                  | (11,591)                | (300)                          | (11,491)                   |
| <i>Unallocated items:</i>                                                      |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Finance costs                                                                  |                                               |                                    |                   |                              |                    |                         |                                | (15,622)                   |
| Depreciation and amortisation                                                  |                                               |                                    |                   |                              |                    |                         |                                | (2,180)                    |
| Goodwill write-down                                                            |                                               |                                    |                   |                              |                    |                         |                                | (44,224)                   |
| Other                                                                          |                                               |                                    |                   |                              |                    |                         |                                | (8,013)                    |
| <b>NET LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>                          |                                               |                                    |                   |                              |                    |                         |                                | <b>(101,505)</b>           |



**Note 25 – Operating Segments (cont'd)**

**Year ended 30 June 2009**

| Primary Reporting:<br>Business Segments                                      | Drivetrain<br>Power &<br>Propulsion<br>\$'000 | Industrial<br>Powertrain<br>\$'000 | Convair<br>\$'000 | Coote<br>Logistics<br>\$'000 | Momentum<br>\$'000 | Gemco<br>Rail<br>\$'000 | Coote<br>Investments<br>\$'000 | Consol.<br>Group<br>\$'000 |
|------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------|-------------------|------------------------------|--------------------|-------------------------|--------------------------------|----------------------------|
| <b>REVENUE</b>                                                               |                                               |                                    |                   |                              |                    |                         |                                |                            |
| External sales                                                               | 89,783                                        | 8,579                              | 15,979            | 58,781                       | 26,185             | 108,577                 | 2,829                          | 310,713                    |
| Inter-segment sales                                                          | 4,448                                         | 46                                 | -                 | 10,015                       | 2,442              | 5,537                   | 1                              | 22,489                     |
| Interest revenue                                                             | 81                                            | 1                                  | 4                 | 43                           | 2                  | 6,343                   | -                              | 6,474                      |
| <b>TOTAL SEGMENT REVENUE</b>                                                 | <b>94,312</b>                                 | <b>8,626</b>                       | <b>15,983</b>     | <b>68,839</b>                | <b>28,629</b>      | <b>120,457</b>          | <b>2,830</b>                   | <b>339,676</b>             |
| <i>Reconciliation of segment<br/>revenue to Group revenue:</i>               |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Inter-segment elimination                                                    |                                               |                                    |                   |                              |                    |                         |                                | (22,489)                   |
| <b>TOTAL GROUP REVENUE</b>                                                   |                                               |                                    |                   |                              |                    |                         |                                | <b>317,187</b>             |
| <b>RESULT</b>                                                                |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Segment net profit / (loss)<br>before tax                                    | 7,075                                         | 1,739                              | 1,015             | 2,528                        | 2,444              | 18,560                  | (2,228)                        | 31,133                     |
| <i>Reconciliation of segment<br/>Group net profit/(loss) before<br/>tax:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| <i>Amounts not included in<br/>segment result but reviewed by<br/>Board:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Depreciation and amortisation                                                | (2,734)                                       | (209)                              | (122)             | (2,228)                      | (498)              | (1,219)                 | (1,325)                        | (8,335)                    |
| Goodwill write-down                                                          | -                                             | -                                  | -                 | -                            | -                  | -                       | -                              | -                          |
| Impairment of property, plant<br>and equipment                               | (1,060)                                       | -                                  | -                 | -                            | -                  | -                       | -                              | (1,060)                    |
| <i>Unallocated items:</i>                                                    |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Finance costs                                                                |                                               |                                    |                   |                              |                    |                         |                                | (14,779)                   |
| Depreciation and amortisation                                                |                                               |                                    |                   |                              |                    |                         |                                | (2,120)                    |
| Goodwill write-down                                                          |                                               |                                    |                   |                              |                    |                         |                                | -                          |
| Other                                                                        |                                               |                                    |                   |                              |                    |                         |                                | (7,729)                    |
| <b>NET LOSS BEFORE TAX FROM<br/>CONTINUING OPERATIONS</b>                    |                                               |                                    |                   |                              |                    |                         |                                | <b>(2,890)</b>             |





## Note 25 – Operating Segments (cont'd)

## (ii) Segment Assets

## As at 30 June 2010

| Primary Reporting:<br>Business Segments                  | Drivetrain<br>Power &<br>Propulsion<br>\$'000 | Industrial<br>Powertrain<br>\$'000 | Convair<br>\$'000 | Coote<br>Logistics<br>\$'000 | Momentum<br>\$'000 | Gemco<br>Rail<br>\$'000 | Coote<br>Investments<br>\$'000 | Consol.<br>Group<br>\$'000 |
|----------------------------------------------------------|-----------------------------------------------|------------------------------------|-------------------|------------------------------|--------------------|-------------------------|--------------------------------|----------------------------|
| SEGMENT ASSETS                                           | 81,246                                        | 9,201                              | 1,981             | 5,411                        | 8,625              | 110,231                 | 28,069                         | 244,764                    |
| <i>Segment asset increases for the period:</i>           |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Capital expenditure                                      | 1,550                                         | 38                                 | 107               | 1,109                        | 79                 | 2,528                   | 23                             | 5,434                      |
| Acquisitions                                             | -                                             | -                                  | -                 | -                            | -                  | 86,110                  | -                              | 86,110                     |
|                                                          | 1,550                                         | 38                                 | 107               | 1,109                        | 79                 | 88,638                  | 23                             | 91,544                     |
| <i>Reconciliation of segment assets to Group assets:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Inter-segment eliminations                               |                                               |                                    |                   |                              |                    |                         |                                | (166,172)                  |
| <i>Unallocated items:</i>                                |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Deferred tax assets                                      |                                               |                                    |                   |                              |                    |                         |                                | 4,915                      |
| Other assets                                             |                                               |                                    |                   |                              |                    |                         |                                | 158,756                    |
| TOTAL GROUP ASSETS FROM CONTINUING OPERATIONS            |                                               |                                    |                   |                              |                    |                         |                                | 242,263                    |

## As at 30 June 2009

| Primary Reporting:<br>Business Segments                  | Drivetrain<br>Power &<br>Propulsion<br>\$'000 | Industrial<br>Powertrain<br>\$'000 | Convair<br>\$'000 | Coote<br>Logistics<br>\$'000 | Momentum<br>\$'000 | Gemco<br>Rail<br>\$'000 | Coote<br>Investments<br>\$'000 | Consol.<br>Group<br>\$'000 |
|----------------------------------------------------------|-----------------------------------------------|------------------------------------|-------------------|------------------------------|--------------------|-------------------------|--------------------------------|----------------------------|
| SEGMENT ASSETS                                           | 101,210                                       | 9,458                              | 5,471             | 33,724                       | 9,657              | 174,041                 | 1,341                          | 334,902                    |
| <i>Segment asset increases for the period:</i>           |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Capital expenditure                                      | 1,299                                         | 315                                | 245               | 1,236                        | 954                | 15,575                  | 203                            | 19,827                     |
| Acquisitions                                             | 23,108                                        | -                                  | -                 | -                            | -                  | 8,241                   | -                              | 31,349                     |
|                                                          | 24,407                                        | 315                                | 245               | 1,236                        | 954                | 23,816                  | 203                            | 51,176                     |
| <i>Reconciliation of segment assets to Group assets:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Inter-segment eliminations                               |                                               |                                    |                   |                              |                    |                         |                                | (24,243)                   |
| <i>Unallocated items:</i>                                |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Deferred tax assets                                      |                                               |                                    |                   |                              |                    |                         |                                | 3,967                      |
| Other assets                                             |                                               |                                    |                   |                              |                    |                         |                                | 65,056                     |
| TOTAL GROUP ASSETS FROM CONTINUING OPERATIONS            |                                               |                                    |                   |                              |                    |                         |                                | 379,682                    |



Note 25 – Operating Segments (cont'd)

(iii) Segment Liabilities

As at 30 June 2010

| Primary Reporting:<br>Business Segments                                | Drivetrain<br>Power &<br>Propulsion<br>\$'000 | Industrial<br>Powertrain<br>\$'000 | Convair<br>\$'000 | Coote<br>Logistics<br>\$'000 | Momentum<br>\$'000 | Gemco<br>Rail<br>\$'000 | Coote<br>Investments<br>\$'000 | Consol.<br>Group<br>\$'000 |
|------------------------------------------------------------------------|-----------------------------------------------|------------------------------------|-------------------|------------------------------|--------------------|-------------------------|--------------------------------|----------------------------|
| SEGMENT LIABILITIES                                                    | 86,575                                        | 9,393                              | 2,632             | 28,035                       | 7,664              | 106,409                 | 33,771                         | 274,479                    |
| <i>Reconciliation of segment liabilities<br/>to Group liabilities:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Inter-segment eliminations                                             |                                               |                                    |                   |                              |                    |                         |                                | (160,579)                  |
| <i>Unallocated items:</i>                                              |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Deferred tax liabilities                                               |                                               |                                    |                   |                              |                    |                         |                                | 4,311                      |
| Other liabilities                                                      |                                               |                                    |                   |                              |                    |                         |                                | 70,421                     |
| TOTAL GROUP LIABILITIES FROM<br>CONTINUING OPERATIONS                  |                                               |                                    |                   |                              |                    |                         |                                | 188,632                    |

As at 30 June 2009

| Primary Reporting:<br>Business Segments                                | Drivetrain<br>Power &<br>Propulsion<br>\$'000 | Industrial<br>Powertrain<br>\$'000 | Convair<br>\$'000 | Coote<br>Logistics<br>\$'000 | Momentum<br>\$'000 | Gemco<br>Rail<br>\$'000 | Coote<br>Investments<br>\$'000 | Consol.<br>Group<br>\$'000 |
|------------------------------------------------------------------------|-----------------------------------------------|------------------------------------|-------------------|------------------------------|--------------------|-------------------------|--------------------------------|----------------------------|
| SEGMENT LIABILITIES                                                    | 102,529                                       | 5,681                              | 5,124             | 28,717                       | 1,640              | 160,552                 | 6,171                          | 310,414                    |
| <i>Reconciliation of segment liabilities<br/>to Group liabilities:</i> |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Inter-segment eliminations                                             |                                               |                                    |                   |                              |                    |                         |                                | (13,666)                   |
| <i>Unallocated items:</i>                                              |                                               |                                    |                   |                              |                    |                         |                                |                            |
| Deferred tax liabilities                                               |                                               |                                    |                   |                              |                    |                         |                                | 1,930                      |
| Other liabilities                                                      |                                               |                                    |                   |                              |                    |                         |                                | (53,627)                   |
| TOTAL GROUP LIABILITIES FROM<br>CONTINUING OPERATIONS                  |                                               |                                    |                   |                              |                    |                         |                                | 245,051                    |

(iv) Revenue by geographical region

|                                                                                                                       | Year<br>ended<br>30 Jun 10<br>\$'000 | Year<br>ended<br>30 Jun 09<br>\$'000 |
|-----------------------------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| <i>Revenue attributable to external customers is disclosed below, based on the location of the external customer:</i> |                                      |                                      |
| Australasia                                                                                                           | 157,363                              | 297,877                              |
| North America                                                                                                         | 13,123                               | 6,189                                |
| Europe                                                                                                                | 18,193                               | 13,121                               |
| TOTAL REVENUE                                                                                                         | 188,679                              | 317,187                              |



**Note 25 – Operating Segments (cont'd)****(v) Assets by geographical region**

|                                                                                                  | Year<br>ended<br>30 Jun 10<br>\$'000 | Year<br>ended<br>30 Jun 09<br>\$'000 |
|--------------------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------|
| <i>The location of segment assets is disclosed below by geographical location of the assets:</i> |                                      |                                      |
| Australasia                                                                                      | 207,953                              | 335,754                              |
| North America                                                                                    | 7,234                                | 13,795                               |
| Europe                                                                                           | 27,076                               | 30,133                               |
| Total Assets                                                                                     | 242,263                              | 379,682                              |

**(vi) Major customers**

The Group has a large and diverse customer base. No individual customer has contributed in excess of 5% to overall Group revenue.

**Note 26 – Cash Flow Information****(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax**

|                                                                                                 | 2010<br>\$'000 | 2009<br>\$'000 |
|-------------------------------------------------------------------------------------------------|----------------|----------------|
| Profit (loss) after income tax                                                                  | (116,996)      | (4,541)        |
| Non-cash flows in profit:                                                                       |                |                |
| - Amortisation / impairment                                                                     | 13,382         | 3,962          |
| - Goodwill write-down                                                                           | 44,224         | -              |
| - Depreciation                                                                                  | 11,807         | 7,553          |
| - Net gain (loss) on disposal of property, plant and equipment                                  | (647)          | 17             |
| - Share options expensed                                                                        | -              | 68             |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: |                |                |
| - (Increase)/decrease in trade and term receivables                                             | 66,944         | 2,846          |
| - (Increase)/decrease in prepayments                                                            | (87)           | 276            |
| - (Increase)/decrease in inventories                                                            | 18,708         | 2,944          |
| - Increase/(decrease) in trade payables and accruals                                            | 14,340         | (13,463)       |
| - Increase/(decrease) in income taxes payable                                                   | (5,433)        | 804            |
| - Increase/(decrease) in deferred taxes payable                                                 | 1,433          | (402)          |
| - Increase/(decrease) in provisions                                                             | (7,047)        | 10,497         |
| Cash flow from operations                                                                       | 40,628         | 10,561         |



**Note 26 – Cash Flow Information (cont'd)**

**(b) Acquisition of Entities**

**Greentrains Ltd**

On 17 July 2009, Coote Investments Pty Ltd (a 100% subsidiary of Coote Industrial Ltd) acquired a controlling interest in Greentrains Ltd. Further to this on 11 June 2010, a Put Option was exercised by Elphinstone Holdings Pty Ltd which resulted in Coote's shareholding increasing to 81%. Details of this transaction are provided below.

| <b>Goodwill on acquisition</b>                   | \$'000        |
|--------------------------------------------------|---------------|
| <b>PURCHASE CONSIDERATION:</b>                   |               |
| Cash paid                                        | 3,500         |
| Conversion of debt                               | 16,548        |
| Put Option exercised                             | 6,500         |
| Liability to vendor                              | -             |
| Other costs directly attributable to acquisition | -             |
| <b>TOTAL PURCHASE CONSIDERATION</b>              | <b>26,548</b> |

| <b>Assets and liabilities held at acquisition date</b>    | Fair Value<br>\$'000 |
|-----------------------------------------------------------|----------------------|
| Cash                                                      | 2                    |
| Receivables                                               | 3,827                |
| Inventories / WIP                                         | -                    |
| Property, plant and equipment                             | 73,116               |
| Identifiable intangibles                                  | -                    |
| Other assets                                              | 1,517                |
| Payables                                                  | (185)                |
| Loans to related parties                                  | (12,068)             |
| Loans payable                                             | (34,000)             |
| Employee benefit liabilities including superannuation     | -                    |
| Other liabilities                                         | (426)                |
| Minority equity interest                                  | (3,285)              |
| <b>Sub total</b>                                          | <b>28,498</b>        |
| Fair value of previously held interest in Greentrains Ltd | (2,610)              |
| <b>Sub total</b>                                          | <b>25,888</b>        |
| <b>GOODWILL ON CONSIDERATION</b>                          | <b>660</b>           |

**(c) Disposal of Entities**

**South Spur Rail Services Pty Ltd**

On 11 June 2010 the sale of controlled entity South Spur Rail Services Pty Ltd was settled. Aggregate details of this transaction are:

| <b>Disposal of entity</b>       | \$'000       |
|---------------------------------|--------------|
| <b>DISPOSAL PRICE:</b>          |              |
| Cash received                   | 9,266        |
| Final consideration adjustment  | (3,031)      |
| <b>TOTAL SALE CONSIDERATION</b> | <b>6,235</b> |



**Note 26 – Cash Flow Information (cont'd)**

| Assets and Liabilities held at acquisition date       | Fair Value<br>\$'000 |
|-------------------------------------------------------|----------------------|
| Cash                                                  | 1,180                |
| Goodwill                                              | 4,958                |
| Revaluation reserve reversal                          | 7,648                |
| Receivables                                           | 6,440                |
| Inventories / WIP                                     | 1,407                |
| Property, plant and equipment                         | 2,679                |
| Payables                                              | (6,780)              |
| Employee benefit liabilities including superannuation | (1,065)              |
| Sub total                                             | 16,467               |
| NET GAIN / (LOSS) ON DISPOSAL                         | (10,232)             |

**(d) Non-cash Financing and Investing**

During the year the Coote Investments Pty Ltd ultimately acquired an 81% interest in Greentrains Ltd. Part settlement of the initial 61% interest in Greentrains Ltd was settled by the conversion of debt of \$16.55 million to equity. The increase in interest to 81% was achieved by Elphinstone Holdings Pty Ltd exercising a put option. Details of these transactions are included in note 26(b).

**(e) Unused facilities**

The group had unused bank credit facilities of \$4.7 million as at 30 June 2010.

**Note 27 – Share Based Payments**

The following share-based payment arrangements existed at 30 June 2010:

- On 14 December 2006, 2,650,000 share options were granted to the directors and Company Secretary to accept ordinary shares at an exercise price of \$1.00. These options expired on 14 December 2009.
- On 14 December 2006, 1,500,000 share options were granted to Patersons Securities to accept ordinary shares at an exercise price of \$1.00. These options expired on 14 December 2009.
- On 29 February 2008, 3,000,000 share options were granted to Azure Capital to accept ordinary shares. The options were issued on the following basis:

| Grant Date | Exercise Date | Date of Expiry | Exercise Price \$ | No. Under Option |
|------------|---------------|----------------|-------------------|------------------|
| 29 Feb 08  | 29 Aug 08     | 29 Feb 11      | 3.00              | 1,000,000        |
| 29 Feb 08  | 29 Feb 09     | 29 Aug 11      | 3.50              | 1,000,000        |
| 29 Feb 08  | 29 Aug 09     | 29 Feb 12      | 4.00              | 1,000,000        |
|            |               |                |                   | 3,000,000        |

|                                          | 2010              |                                    | 2009              |                                    |
|------------------------------------------|-------------------|------------------------------------|-------------------|------------------------------------|
|                                          | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at the beginning of the year | 7,150,000         | 2.01                               | 7,400,000         | 2.01                               |
| Granted                                  | -                 | -                                  | -                 | -                                  |
| Forfeited                                | -                 | -                                  | (250,000)         | 1.00                               |
| Exercised                                | -                 | -                                  | -                 | -                                  |
| Expired                                  | (4,150,000)       | 1.00                               | -                 | -                                  |
| Outstanding at year-end                  | 3,000,000         | 3.50                               | 7,150,000         | 2.01                               |
| Exercisable at year-end                  | 3,000,000         | 3.50                               | 6,150,000         | 2.01                               |



No options were issued or exercised during the reporting period.

## **Note 28 – Events Subsequent to Reporting Date**

### **(a) Rights Issue**

A rights issue completed on 11 July 2010 was successful in raising \$42.6 million in equity.

### **(b) Satisfaction of Material Obligations**

Loans totalling \$15 million provided by Elph Pty Ltd to Coote were repaid in full on 11 July 2010 from the proceeds of the Rights Issue. A further \$9.3 million from the proceeds of the Rights Issue was used to pay down outstanding obligations to the Australian Taxation Office.

### **(c) Changes to Board Composition**

A number of Board changes occurred subsequent to the end date of the reporting period as follows:

- Mr Dale Elphinstone was elected as a Non-Executive Director on 19 July 2010 and was subsequently appointed as Chairman.
- Mr Vince De Santis was elected as a Non-Executive Director on 19 July 2010 and was subsequently appointed as (interim) Managing Director.
- Dr Donald Hector stepped down as Chairman on 21 July 2010, but remains a Non-Executive Director.
- Mr Michael Coote resigned as an Executive Director and Managing Director on 22 July 2010.
- Mr Don Patterson resigned as an Executive Director and Chief Executive Officer on 22 July 2010.

### **(d) Extinguishment of Employee Share Loan**

Under the Employee Remuneration Policy “All amounts advanced to employees and directors are secured interest free limited recourse loans for the purchase of shares in Coote Industrial issued under the Company's share and option plan”. Mr D Patterson, upon resignation, settled his loan with the Company through the surrender of 750,000 shares acquired under this scheme. Consequently his loan was extinguished, and shares subsequently cancelled.

## **Note 29 – Related Party Transactions**

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties.

### **(a) Lease agreements with related parties**

| Property Address                        | Tenant                  | Lessor  | Term    | Options | Start Date | Current Rent p.a. | Completion Date |
|-----------------------------------------|-------------------------|---------|---------|---------|------------|-------------------|-----------------|
| U1/15 Colin Jamieson Drive Welshpool WA | PC Diesel               | Ganesha | Monthly | Nil     | 1 Sep 05   | \$50,000          | Monthly         |
| 627 - 635 Bickley Road Maddington WA    | Various                 | OGB     | 5 years | 5       | 1 Jul 08   | \$803,494         | 30 Jun 13       |
| 6 Sandhill Street Wedgefield WA         | Coote Logistics Pty Ltd | OGB     | 5 years | 5       | 1 Jul 08   | \$216,274         | 31 Dec 13       |
| Unit 3, 9 Masters Way South Hedland WA  | Total Momentum Pty Ltd  | OGB     | 2 years | 2       | 3 Oct 09   | \$70,200          | 2 Oct 11        |
| 28 Weaver Place South Hedland WA        | Coote Logistics Pty Ltd | OGB     | 5 years | 5       | 3 Nov 08   | \$52,000          | 1 Oct 13        |

Ganesha Nominees Pty Ltd acts as trustee for the Ganesha Family Trust. Michael Coote is both a director of Ganesha Nominees Pty Ltd and a beneficiary of the Ganesha Family Trust.

Michael Coote currently acts as director for Orange Grove Brickworks Pty Ltd which acts as trustee for the Orange Grove Brickworks Family Trust. He does not hold any shares in Orange Grove Brickworks Pty Ltd and is not a beneficiary of the family trust.



**Note 29 – Related Party Transactions (cont'd)****(b) Other transactions**

Michael Coote is a Director of Orange Grove Brickworks Pty Ltd which acts as trustee for the Orange Grove Brickworks Family Trust, a minor shareholder of Greentrains Limited, but Mr Coote does not hold any shares in the trustee Company nor is he a beneficiary of the trust.

**(c) Transactions with subsidiaries**

The following transactions occurred with related parties:

| Related Party Transaction                                               | 2010<br>\$'000 | 2009<br>\$'000 |
|-------------------------------------------------------------------------|----------------|----------------|
| <i>Tax consolidation legislation:</i>                                   |                |                |
| Current tax payable assumed from wholly-owned tax consolidated entities | 1,197          | 8,966          |
| <i>Dividend revenue:</i>                                                |                |                |
| Subsidiaries                                                            | -              | 10,000         |
| <i>Interest revenue:</i>                                                |                |                |
| Subsidiaries                                                            | 12,474         | 14,252         |

**(d) Outstanding balances arising from sales/purchases of goods and services**

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

| Related Party Transaction | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------|----------------|----------------|
| CURRENT RECEIVABLES       |                |                |
| Wholly-owned entities     | 82             | 602            |

**(e) Loans to/from related parties**

| Related Party Transaction                   | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------------------|----------------|----------------|
| <i>Loans to/from subsidiaries:</i>          |                |                |
| Loans to subsidiaries (1)                   | 148,881        | 154,053        |
| Loans from subsidiaries (1)                 | (3,020)        | (12,392)       |
| <i>Loans to/from other related parties:</i> |                |                |
| Loans from Elph Pty Ltd (2)                 | (14,992)       | -              |

- (1) The inter-company loans extended from Coote Industrial Ltd to its wholly owned subsidiaries are extended on the following terms:

Term: Revolving facility repayable on demand.

Rate: Fixed rate reviewable quarterly

- (2) Terms of Elph loans

Loans from Elph to the company were made for the purposes of funding working capital and to fund settlement of the Greentrains put option, as referred to in Note 26 – Cash Flow Information paragraph (b). These loans were repaid in full upon the completion of the rights issue in July 2010. The loans were short term variable rate loans secured by second ranking fixed and floating charges over the group's assets.



## Note 30 – Financial Risk Management

The Group's financial instruments consist mainly of short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

The totals for each category of financial instrument measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows:

|                                            | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------------------------------|------|----------------|----------------|
| <b>FINANCIAL ASSETS</b>                    |      |                |                |
| Cash and Cash equivalents                  | 11   | 2,727          | 1,946          |
| Available-for-sale financial assets        |      |                |                |
| - Shares in listed companies at fair value | 14   | 147            | 118            |
| Other investments                          |      |                |                |
| - Shares in subsidiaries at cost           |      | -              | -              |
| Loans and Receivables                      | 12   | 46,679         | 153,193        |
|                                            |      | <u>49,553</u>  | <u>155,257</u> |
| <b>FINANCIAL LIABILITIES</b>               |      |                |                |
| Financial Liabilities at amortised cost    |      |                |                |
| - Trade and other payables                 | 19   | 56,381         | 72,652         |
| - Borrowings                               | 20   | 113,183        | 149,284        |
|                                            |      | <u>169,564</u> | <u>221,936</u> |

### Financial Risk Management Policies

Management consisting of senior executives of the Group discusses and monitors financial risk exposure and evaluates treasury management strategies in the context of current economic conditions and forecasts.

Management's overall risk management strategy seeks to assist the Consolidated Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Management operates under the supervision of members of the Board of Directors. Risk management transactions are approved by senior management personnel. This includes the use of hedging derivative instruments and decisions in relation to sources of future funding.

### Specific Financial Risk Exposures and Management

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

#### a. Interest Rate Risk

Exposure to interest rate risk arises on financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

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

|                                  | Note | 2010<br>\$'000 | 2009<br>\$'000 |
|----------------------------------|------|----------------|----------------|
| <b>FLOATING RATE INSTRUMENTS</b> |      |                |                |
| Bank overdrafts                  | 20   | 14,350         | 24,048         |
| Cash advance facility            | 20   | 40,500         | 73,000         |
| Swedish loan facility            | 20   | 6,540          | 8,575          |
| Greentrains loan facilities      | 20   | 28,218         | -              |
| Total                            |      | <u>89,608</u>  | <u>105,623</u> |





**Note 30 – Financial Risk Management (cont'd)****b. Liquidity Risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- obtaining funding from a variety of sources
- managing credit risk related to financial assets
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The Group's long-term debt facility is due to expire in Feb 2011. At this stage this facility has been treated as current due to its expiry within the next 12 months.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank Overdrafts have been deducted in the analysis (with the exception of \$10 million which was repaid on 17 July 2009) as management does not consider that there is sufficient risk that the bank will terminate such facilities. The bank however maintains the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months. The Group intends to pursue the extension of its long-term debt facility due to expire in February 2011. The facility has been treated as current in this analysis and in the remainder of the accounts due to its expiry within the next 12 months.

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

**Defaults and Breaches**

As a consequence of the poor earnings result for the reporting period the Group was operating outside each of its financial covenants in respect to its facilities with the Commonwealth Bank of Australia as at 30 June 2010.

**Financial Liability and Financial Asset Maturity Analysis**

|                                                             | Within 1 Year   |                 | 1 to 5 Years    |                 | Over 5 Years   |                 | Total            |                 |
|-------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|------------------|-----------------|
|                                                             | 2010<br>\$'000  | 2009<br>\$'000  | 2010<br>\$'000  | 2009<br>\$'000  | 2010<br>\$'000 | 2009<br>\$'000  | 2010<br>\$'000   | 2009<br>\$'000  |
| <b>FINANCIAL LIABILITIES DUE FOR PAYMENT</b>                |                 |                 |                 |                 |                |                 |                  |                 |
| Bank overdrafts and loans                                   | 57,633          | 109,122         | 32,031          | 6,628           | -              | 14,048          | 89,664           | 129,798         |
| Trade and other payables (excluding estimated annual leave) | 56,381          | 72,652          | -               | -               | -              | -               | 56,381           | 72,652          |
| Finance lease liabilities                                   | 3,160           | 5,788           | 4,322           | 13,698          | 1,045          | -               | 8,527            | 19,486          |
| <b>Total Expected Outflows</b>                              | <b>117,174</b>  | <b>187,562</b>  | <b>36,353</b>   | <b>20,326</b>   | <b>1,045</b>   | <b>14,048</b>   | <b>154,572</b>   | <b>221,936</b>  |
| <b>FINANCIAL ASSETS – CASH FLOW REALISABLE</b>              |                 |                 |                 |                 |                |                 |                  |                 |
| Cash and cash equivalents                                   | 2,727           | 1,946           | -               | -               | -              | -               | 2,727            | 1,946           |
| Trade, term and loans receivables                           | 44,424          | 150,020         | 2,255           | 3,173           | -              | -               | 46,679           | 153,193         |
| Investments available for sale                              | 157             | 127             | -               | -               | -              | -               | 157              | 127             |
| <b>Total Anticipated Inflows</b>                            | <b>47,308</b>   | <b>152,093</b>  | <b>2,255</b>    | <b>3,173</b>    | <b>-</b>       | <b>-</b>        | <b>49,563</b>    | <b>155,266</b>  |
| <b>Net (Outflow)/Inflow on Financial Instruments</b>        | <b>(69,866)</b> | <b>(35,469)</b> | <b>(34,098)</b> | <b>(17,153)</b> | <b>(1,045)</b> | <b>(14,048)</b> | <b>(105,009)</b> | <b>(66,670)</b> |

The Company's Board and management are, at the time of writing this report, undertaking a review of the Group's activities. Outcomes of the review are expected to deliver a focussed business strategy aimed at streamlining structure and integrating business processes, and are expected to deliver sustainable value to shareholders.



### Note 30 – Financial Risk Management (cont'd)

#### c. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the Australian dollar functional currency of the Group.

The Group currently does not hedge against the potential impact of this risk on its operations.

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

#### d. Credit risk

Exposure to credit risk relating to financial assets arises from potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include monitoring of exposures, payment cycles and monitoring of the financial stability of significant customers and counter parties) ensuring to the extent possible, that customers and counter parties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

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

#### Credit Risk Exposures

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

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 12 – Trade and Other Receivables.

### Net Fair Values

#### Fair Value estimation

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

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



## Note 30 – Financial Risk Management (cont'd)

|                                                   | 2010<br>Net Carrying<br>Value<br>\$'000 | 2010<br>Net Fair<br>Value<br>\$'000 | 2009<br>Net Carrying<br>Value<br>\$'000 | 2009<br>Net Fair<br>Value<br>\$'000 |
|---------------------------------------------------|-----------------------------------------|-------------------------------------|-----------------------------------------|-------------------------------------|
| <b>FINANCIAL ASSETS</b>                           |                                         |                                     |                                         |                                     |
| Cash and Cash Equivalents                         | 2,727                                   | 2,727                               | 1,946                                   | 1,946                               |
| Trade and Other Receivables                       | 46,679                                  | 46,679                              | 153,193                                 | 153,193                             |
| Available-for-sale financial assets at fair value | 157                                     | 157                                 | 127                                     | 127                                 |
|                                                   | <b>49,563</b>                           | <b>49,563</b>                       | <b>155,266</b>                          | <b>155,266</b>                      |
| <b>FINANCIAL LIABILITIES</b>                      |                                         |                                     |                                         |                                     |
| Trade and Other Payables                          | 56,381                                  | 56,381                              | 72,652                                  | 72,652                              |
| Lease Liability                                   | 8,527                                   | 8,527                               | 19,486                                  | 19,486                              |
| Bank Debt                                         | 89,608                                  | 89,608                              | 105,748                                 | 105,748                             |
|                                                   | <b>154,516</b>                          | <b>154,516</b>                      | <b>197,886</b>                          | <b>197,886</b>                      |

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

- Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables exclude amounts provided for relating to annual leave which is not considered a financial instrument.
- Loans and receivables have carrying values equivalent to fair value. The majority of these facilities have floating rates and those that are fixed are expected to be held to maturity and as such when discounted bear little resemblance to the carrying value.
- For listed available-for sale financial assets, closing quoted bid prices at reporting date are used.

**Sensitivity Analysis***a. Interest Rate Risk and Foreign Currency Risk*

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

*b. Interest Rate Sensitivity Analysis*

At 30 June 2010, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

|                                                  | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------------------------------------|----------------|----------------|
| <b>CHANGE IN LOSS</b>                            |                |                |
| - Increase in interest rates by 100 basis points | (799)          | (1,056)        |
| - Decrease in interest rates by 100 basis points | 799            | 1,056          |
| <b>CHANGE IN EQUITY</b>                          |                |                |
| - Increase in interest rates by 100 basis points | (799)          | (1,056)        |
| - Decrease in interest rates by 100 basis points | 799            | 1,056          |



### **Note 30 – Financial Risk Management (cont'd)**

#### *c. Foreign Currency Risk Sensitivity Analysis*

At 30 June 2010, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the Swedish Krona and US Dollar, with all other variables remaining constant, is as follows:

|                                   | 2010<br>\$'000 | 2009<br>\$'000 |
|-----------------------------------|----------------|----------------|
| CHANGE IN LOSS                    |                |                |
| - Improvement in AUD to SEK by 5% | (266)          | (86)           |
| - Decline in AUD to SEK by 5%     | 266            | 86             |
| - Improvement in AUD to USD by 5% | 442            | 56             |
| - Decline in AUD to USD by 5%     | (442)          | (56)           |
| CHANGE IN EQUITY                  |                |                |
| - Improvement in AUD to SEK by 5% | (541)          | (419)          |
| - Decline in AUD to SEK by 5%     | 541            | 419            |
| - Improvement in AUD to USD by 5% | 551            | 99             |
| - Decline in AUD to USD by 5%     | (551)          | (99)           |

The Group does not hedge against foreign exchange movements against the net assets of its Swedish or US subsidiaries.

### **Note 31 – Reserves**

#### **(a) Foreign Currency Translation Reserve**

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

#### **(b) Option Reserve**

The option reserve records items recognised as expenses on valuation of share options.

### **Note 32 – Company Details**

#### **(a) The address of the principal registered office in Australia is:**

Level 1, 10 Kings Park Road, West Perth WA 6005

#### **(b) The address of the principal administrative office in Australia is:**

627 – 635 Bickley Road, Maddington WA 6109 – T: (08) 9251 8000

#### **(c) A register of securities is held at the following address:**

770 Canning Highway, Applecross, WA 6153 – T: (08) 9315 2333



## Shareholder Information

### Additional Information for Listed Companies at 28 September 2010

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

#### 1. Shareholding

##### (a) Distribution of Shareholdings

| Category (size of holding) | No. of shareholders | %             | No. Ordinary Shares |
|----------------------------|---------------------|---------------|---------------------|
| 1 – 1,000                  | 111                 | 5.64          | 53,043              |
| 1,001 – 5,000              | 480                 | 24.39         | 1,554,668           |
| 5,001 – 10,000             | 320                 | 16.26         | 2,589,840           |
| 10,001 – 100,000           | 796                 | 40.45         | 29,925,777          |
| 100,001 – and over         | 261                 | 13.26         | 497,904,248         |
|                            | <b>1,968</b>        | <b>100.00</b> | <b>532,027,576</b>  |

(b) The number of shares in less than marketable parcels (less than \$500 in value, i.e. 2,500 shares @ 20 cents per share) was 269.

##### (c) 20 Largest Shareholders – Ordinary Shares

| Position | Name                                           | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|----------|------------------------------------------------|-------------------------------------------|-----------------------------------|
| 1        | Elph Pty Ltd                                   | 235,914,636                               | 44.34%                            |
| 2        | Equity Trustees Ltd (SGH PI Smaller Co's Fund) | 39,920,639                                | 7.50%                             |
| 3        | Ganesha Nominees Pty Ltd                       | 35,700,411                                | 6.71%                             |
| 4        | UBS Nominees Pty Ltd                           | 24,947,241                                | 4.69%                             |
| 5        | ANZ Nominees Ltd                               | 20,737,902                                | 3.90%                             |
| 6        | RAC & JD Brice Superannuation Pty Ltd          | 12,416,340                                | 2.33%                             |
| 7        | Equity Trustees Limited (SGH Tiger A/C)        | 8,094,094                                 | 1.52%                             |
| 8        | Mr Michael Charles Coote                       | 7,100,000                                 | 1.33%                             |
| 9        | Sandhurst Trustees Limited                     | 4,225,000                                 | 0.79%                             |
| 10       | Marford Group Pty Ltd                          | 3,692,496                                 | 0.69%                             |
| 11       | Mr Neville Leslie Esler                        | 3,275,836                                 | 0.62%                             |
| 12       | Albers Custodian Company Pty Ltd               | 2,960,669                                 | 0.56%                             |
| 13       | Rubi Holdings Pty Ltd                          | 2,666,668                                 | 0.50%                             |
| 14       | WJ Coote Pty Ltd                               | 2,546,355                                 | 0.48%                             |
| 15       | Gemac Investments Pty Ltd                      | 2,342,692                                 | 0.44%                             |
| 16       | Chemco Super Fund                              | 2,312,500                                 | 0.44%                             |
| 17       | Sacrosanct Pty Ltd                             | 2,218,635                                 | 0.42%                             |
| 18       | CGFH Holdings Pty Ltd                          | 2,125,627                                 | 0.40%                             |
| 19       | Citicorp Nominees Pty Ltd                      | 2,112,801                                 | 0.40%                             |
| 20       | J J N A Super Pty Ltd                          | 2,000,000                                 | 0.38%                             |
|          |                                                | <b>417,310,542</b>                        | <b>78.44%</b>                     |

(d) A single shareholder holding in excess of 10% of issued capital was listed in the holding Company's register as follows:

| Shareholder  | No. Ordinary Shares | %      |
|--------------|---------------------|--------|
| Elph Pty Ltd | 235,914,636         | 44.27% |

##### (e) Voting Rights

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



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

Roland Stampalia

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

Level 1, 10 Kings Park Road, West Perth WA 6005

**4. The address of the principal administrative office in Australia is:**

627 – 635 Bickley Road, Maddington WA 6109, Tel: (08) 9251 8000

**5. A register of securities is held at the following address:**

770 Canning Highway, Applecross, WA 6153

**6. Securities Exchange Listing**

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Securities Exchange Limited.

**7. Unquoted Securities**

A total of 3,000,000 options are on issue to Azure Capital.

**8. Other Disclosures**

There were no restricted securities at this date.

